

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

NEPR

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**IN RE: PUERTO RICO ELECTRIC
POWER AUTHORITY RATE REVIEW**

CASE NO.: NEPR-AP-2023-0003

**SUBJECT: LUMA's Informative
Motion Regarding Revisions to Prefiled
Testimony, Supporting Exhibits, and
Relevant Schedules**

**LUMA'S INFORMATIVE MOTION REGARDING REVISIONS TO PREFILED
TESTIMONY, SUPPORTING EXHIBITS, AND RELEVANT SCHEDULES**

**TO THE HONORABLE PUERTO RICO ENERGY BUREAU, AND ITS HEARING
EXAMINER, SCOTT HEMPLING:**

**COME NOW LUMA Energy, LLC ("ManagementCo"), and LUMA Energy ServCo,
LLC ("ServCo")** (jointly, "LUMA"), and respectfully state and request the following:

1. On September 29, 2025, the Hearing Examiner, Scott Hempling, convened a Virtual Conference with the aim of addressing a variety of logistical considerations in anticipation of the upcoming evidentiary hearing. Principally, the Hearing Examiner discussed Appendix A to the September 29th Order,¹ which established an Accion Discovery Platform-based process for numbering, uploading, and admitting exhibits, prior to and during the approaching evidentiary hearing. Moreover, during the September 29th Conference, and in what is here pertinent, the Hearing Examiner and counsel for LUMA discussed what would be the procedure for correcting prefiled testimonies and associated schedules, and submitting revised versions of same onto the Accion Discovery Platform.²

¹ See *Hearing Examiner's Order Establishing (a) Agenda for the September 29 Conference, and (b) Certain Procedures for the Evidentiary Hearing*. Available at <https://energia.pr.gov/wp-content/uploads/sites/7/2025/09/20250929-AP20230003-HE-Order-on-Agenda-and-Procedures.pdf>.

² See <https://www.youtube.com/watch?v=IS0hdK7SYBA&t=3s>, at 43:50.

2. A streamlined approach was agreed upon for corrections: only the corrected version of a document being proffered as evidence was to be uploaded to the Accion Discovery Platform (as opposed to the original plus a separate errata), with all corrections clearly indicated.³ The Hearing Examiner also posited that, if parties wished to see the extent of revisions to these corrected documents, they may request the original version and details informally to the filing party rather than through a formal filing.

3. On October 16, 2025, the Hearing Examiner issued an *Order Setting Agenda for Conference of October 16, 2025* (“October 16th Order”). Therein, the Hearing Examiner published a revised version of Appendix A to the September 29th Order with the following language regarding the timing of uploading exhibits to the Accion Discovery Platform:

Our current plan is to have the Accion platform available by October 7, 2025, to receive documents to be marked for identification. **For materials submitted through October 10, parties must upload them no later than October 22.** For later-filed materials, parties must upload them within 24 hours of submitting the document to the case file.

See October 16th Order, Appendix A, p. 4 (emphasis ours).

4. In compliance with the above, on October 22, 2025, LUMA uploaded portions of its documentary evidence for identification onto the Accion Discovery Platform.

5. Given limitations of the Accion Discovery Platform concerning uploading multiple files, the Hearing Examiner extended the deadline to upload materials to be marked as identification to October 27, 2025.

6. Today, October 27, 2025, LUMA uploaded additional documents as identification.

³ As for clarity with regards to outlining revisions, the Hearing Examiner suggested the following: i) numerical changes in testimonies and PDFs should be shown in bold and italics; ii) where formulas in Excel are corrected and cannot be bold/italicized, the change should be flagged by yellow highlighting and a bottom-of-sheet note; iii) if an entire schedule is being substituted, the file name should include the revised date to distinguish it from the earlier version.

7. As LUMA anticipated during the September 29th Conference, in the ordinary course of responding to the extensive ROIs propounded by the Energy Bureau's consultants, participants, and intervenors, various LUMA witnesses identified certain clarifications, corrections, and updates to discrete portions of their previously submitted July 3rd pre-filed testimonies, relevant exhibits and supporting schedules. These changes arise from the iterative nature of the discovery process, including the incorporation of data refinements, the correction of inadvertent errors, and the alignment of testimony with information produced in response to ROIs.

8. Accordingly, by way of the present Motion, LUMA respectfully informs the Energy Bureau that revised versions of the relevant pre-filed testimonies have been uploaded onto the Accion Discovery Platform, pursuant to the understandings reached during the September 29th Conference.

9. In the interest of transparency and a clear administrative record, LUMA is hereby submitting a table summarizing the hallmarks of these revisions and corrections in order to facilitate ease of reference by all interested stakeholders. *See* Exhibit 1. The attached table includes a delineation of the identified revisions, including the affected witness, testimony section, and a concise description of the modification. The accompanying materials reflect the changes in a manner that preserves the integrity of the record and avoids unnecessary duplication, while ensuring that the most accurate and current information is available for the Energy Bureau's consideration.

10. Moreover, to assist the Energy Bureau, its consultants, participants, intervenors, and the public at large, LUMA also submits, and attaches hereto, redlined versions of the revised

testimonies to maintain a clear audit trail of updates and to support the orderly progression of this proceeding.⁴ See Exhibits 2-8.

11. As for revisions to exhibits filed in support of the July 3rd prefiled testimonies, LUMA hereby informs the Energy Bureau that revised versions of Exhibits 5.01 (*Range of Reliability Improvements*),⁵ 5.15 (*NFC Breakdown between Capital Programs and Operations*), 6.15 (*same*), and 6.01 (*Tools Repair & Management Program Brief (PBOP5) (FY2026)*) have been uploaded to the Accion Discovery Platform. For ease of reference, LUMA is also attaching the revised versions of these exhibits hereto. See Exhibits 9-12.

12. Lastly, in order to maintain the Energy Bureau apprised of data refinements that underlie the testimony revisions and to ensure that the administrative record accurately reflects corrections to the relevant schedules, LUMA informs the Energy Bureau that updated iterations of LUMA's rate design schedules are being filed on Accion Discovery Platform, in alignment with responses to discovery requests and previous corrective motions to those ends.⁶

WHEREFORE, LUMA respectfully requests that the Energy Bureau and its Hearing Examiner **take notice** of the aforementioned; **accept** the redlined versions of the corrected pre-

⁴ LUMA respectfully submits that providing redlined versions of the revised testimonies was a good-faith effort to maximize clarity, transparency, and ease of reference by identifying every correction in a single, consolidated view, thereby maintaining a clear audit trail for all stakeholders. While the Hearing Examiner directed that corrections be indicated by bold and italics in PDFs, reliance on typography alone can lend itself to confusion because bolding and italics are already used throughout testimonies for headings, defined terms, citations, and emphasis. Redlines reduce the risk of mistaking ordinary emphasis for a correction and help readers quickly identify the precise textual and numerical edits, furthering the orderly progression of this proceeding.

⁵ Revisions to Exhibit 5.01 were made pursuant to LUMA's response to NPFGC-of-LUMA-CAPEX-12, filed on August 25, 2025, through the Accion Discovery Platform.

⁶ See LUMA's response to PC-of-LUMA-COST_ALL-9, filed on August 13, 2025, through the Accion Discovery Platform. See also *Motion to Submitting Revised Version of Schedule O-1*, and *Motion Submitting Supplement to Schedule M-1 and Amended Schedules M-6, M-7 and M-8*; filed on July 24, 2025 and August 8, 2025, respectively.

filed testimonies and the summary table submitted herewith, and the revised versions of relevant exhibits outlined above; and **grant** such other and further relief as deemed just and proper.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 27th day of October, 2025.

WE HEREBY CERTIFY that this Motion was filed using was filed using the electronic filing system of this Energy Bureau and that electronic copies of this Notice will be notified to Hearing Examiner, Scott Hempling, shempling@scotthemplinglaw.com; and to the attorneys of the parties of record. To wit, to the **Puerto Rico Electric Power Authority**, through: Mirelis Valle-Cancel, mvalle@gmlex.net; Juan González, jgonzalez@gmlex.net; Alexis G. Rivera Medina, arivera@gmlex.net; Juan Martínez, jmartinez@gmlex.net; and Natalia Zayas Godoy, nzayas@gmlex.net; and to **Genera PR, LLC**, through: Jorge Fernández-Reboredo, jfr@sbgblaw.com; Giuliano Vilanova-Feliberti, gvilanova@vvlawpr.com; Maraliz Vázquez-Marrero, mvazquez@vvlawpr.com; ratecase@genera-pr.com; regulatory@genera-pr.com; and legal@genera-pr.com; **Co-counsel for Oficina Independiente de Protección al Consumidor**, hrivera@jrsp.pr.gov; contratistas@jrsp.pr.gov; pvazquez.oipc@avlawpr.com; **Co-counsel for Instituto de Competitividad y Sustentabilidad Económica**, jpouroman@outlook.com; agraitfe@agraitlawpr.com; **Co-counsel for National Public Finance Guarantee Corporation**, epo@amgprlaw.com; loliver@amgprlaw.com; acasellas@amgprlaw.com; matt.barr@weil.com; robert.berezin@weil.com; Gabriel.morgan@weil.com; Corey.Brady@weil.com; alexis.ramsey@weil.com; **Co-counsel for GoldenTree Asset Management LP**, lramos@ramoscruzlegal.com; tlauria@whitecase.com; gkurtz@whitecase.com; ccolumbres@whitecase.com; iglassman@whitecase.com; tmacwright@whitecase.com; jcunningham@whitecase.com; mshepherd@whitecase.com; jgreen@whitecase.com; **Co-counsel for Assured Guaranty, Inc.**, hburgos@cabprlaw.com; dperez@cabprlaw.com; mmcgill@gibsondunn.com; lshelfer@gibsondunn.com; howard.hawkins@cwt.com; mark.ellenberg@cwt.com; casey.servais@cwt.com; bill.natbony@cwt.com; thomas.curtin@cwt.com; **Co-counsel for Syncora Guarantee, Inc.**, escalera@reichardescalera.com; arizmendis@reichardescalera.com; riverac@reichardescalera.com; susheelkirpalani@quinnemanuel.com; erickay@quinnemanuel.com; **Co-Counsel for the PREPA Ad Hoc Group**, dmonserrate@msglawpr.com; fgierbolini@msglawpr.com; rschell@msglawpr.com; eric.brunstad@dechert.com; Stephen.zide@dechert.com; david.herman@dechert.com; michael.doluisio@dechert.com; stuart.steinberg@dechert.com; **Sistema de Retiro de los Empleados de la Autoridad de Energía Eléctrica**, nancy@emmanuelli.law; rafael.ortiz.mendoza@gmail.com; rolando@emmanuelli.law; monica@emmanuelli.law; cristian@emmanuelli.law; lgnq2021@gmail.com; **Official Committee of Unsecured Creditors of PREPA**, jcasillas@cstlawpr.com; jnieves@cstlawpr.com; **Solar and Energy Storage Association of Puerto Rico**, Cfl@mcvpr.com; apc@mcvpr.com; javrua@sesapr.org; mrrios@arroyorioslaw.com; ccordero@arroyorioslaw.com; **Wal-Mart Puerto Rico, Inc.**, Cfl@mcvpr.com; apc@mcvpr.com; **Solar United Neighbors**, ramonluisnieves@rlnlegal.com; **Mr. Victor González**, victorluisgonzalez@yahoo.com; and **the Energy Bureau's Consultants**, Josh.Llamas@fticonsulting.com; Anu.Sen@fticonsulting.com; Ellen.Smith@fticonsulting.com; Intisarul.Islam@weil.com; jorge@maxetaenergy.com; rafael@maxetaenergy.com; RSmithLA@aol.com; msdady@gmail.com; mcranston29@gmail.com; dawn.bisdorf@gmail.com; ahopkins@synapse-energy.com; clane@synapse-energy.com; guy@maxetaenergy.com; Julia@londoneconomics.com; Brian@londoneconomics.com; luke@londoneconomics.com; kbailey@acciongroup.com; hjudd@acciongroup.com; zachary.ming@ethree.com; PREBconsultants@acciongroup.com; carl.pechman@keylogic.com; bernard.neenan@keylogic.com; tara.hamilton@ethree.com; aryeh.goldparker@ethree.com; roger@maxetaenergy.com; Shadi@acciongroup.com; Gerard.Gil@ankura.com;

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Exhibit 1
Table Outlining Corrections to Prefiled Testimony

Exhibit No.	Document	Section	Correction
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Cover Page	Identified testimony as the “revised” version of same. Changed testimony date from July 2, 2025 to October 23, 2025.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Page 4	Identified LUMA’s Bad Debt Proposal as Exhibit 1.08.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Page 11	Corrected system wide revenue requirement numbers for FY26-FY28.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Page 22	Correctly identified substitute witness, Ms. Sarah Hanley as sponsor of LUMA Ex. 7.0, as opposed to Ms. Jessica Laird.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Page 33	Correctly identified substitute witnesses, Ms. Sarah Hanley and Mr. Miguel Sosa Alvarado as sponsors of LUMA Ex. 7.0 and LUMA Ex. 17.0, as opposed to Ms. Jessica Laird and Mr. José Latorre González, respectively.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Page 39	Corrected system wide revenue requirement numbers for FY26-FY28.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Page 42	Inclusion of LUMA’s Bad Debt Proposal (LUMA Ex. 1.08).
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Pages 43-45 (Q. 54)	Inclusion of LUMA’s interim costs and expenses as part of LUMA’s revenue requirement.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Page 45, lines 855, 859; Page 77; line 1417 Pages 80-81, lines 1481-82	Correctly identified the Outage Event Reserve Account, per the T&D OMA, as opposed to the Outage Reserve Account.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Table 5, page 49	Correctly identified substitute witness, Ms. Sarah Hanley as sponsor of LUMA Ex. 7.0, as opposed to Ms. Jessica Laird.

Exhibit No.	Document	Section	Correction
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Table 5, page 50	Correctly identified substitute witness, Mr. Miguel Sosa Alvarado as sponsor of LUMA Ex. 17.0, as opposed to Mr. José Latorre González.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Page 69	Correction to the reduction in the regulatory department's professional services budget for FY26-FY28, under the constrained budget scenario.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Table 10, page 73	Conformed Table 10 to Table 2-1 within Exhibit 1 of LUMA's <i>Motion in Compliance with July 8th Order and Bench Orders entered during July 14th Virtual Conference</i> , as filed on July 18, 2025.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Page 74	Correctly identified substitute witnesses, Ms. Sarah Hanley and Mr. Miguel Sosa Alvarado as sponsors of LUMA Ex. 7.0 and LUMA Ex. 17.0, as opposed to Ms. Jessica Laird and Mr. José Latorre González, respectively.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Table 11, page 75	Correctly identified substitute witnesses, Ms. Sarah Hanley and Mr. Miguel Sosa Alvarado as sponsors of LUMA Ex. 7.0 and LUMA Ex. 17.0, as opposed to Ms. Jessica Laird and Mr. José Latorre González, respectively.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Table 12, pages 76-77	Conformed Table 12 to Attachment 1 to LUMA's Response to PC-of-LUMA-PROV-50.
LUMA Ex. 1.0	Direct Testimony of Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC	Page 93	Incorporated reference to Schedule O-4, containing the draft tariff sheet for the Major Storm Recovery Rider.
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Cover page	Identified testimony as amended on October 22, 2025.
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Page i	Remove solar policy references

Exhibit No.	Document	Section	Correction
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Page iii	Update Table of Content Page numbers
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Page 4, lines 83-87	Add Exhibits 2.05 and 2.06 that were submitted on the record on August 18, 2025 with the <i>Motion Submitting Revised ROI-LUMA-AP-2023-20250324-PREB-02 and LUMA's Long Term Investment Plan in Compliance with the August 15th Order</i> , revised response ROI-LUMA-AP-2023-0003-20250324-PREB-002 and in response to NPFGC-of-LUMA-CAPEX-18
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Pages 11-12, lines 225-244	Solar-related issues withdrawn, as stated in the Joint Motion on Agreements to Revise Testimonies on Solar Issues filed on October 21, 2025
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Page 14, lines 285, 287-289	Remove solar policy references
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Table 4, Page 15	Corrected PBUT1 name
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Table 5, page 66	Corrected Technical and Professional Services costs, Subtotal and Total for FY2026 to align with PC-of-LUMA-ACCTPAY-7
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Table 7, pages 80-81	Corrected Technical and Professional Services costs, Subtotal and Total for FY2026 to align with PC-of-LUMA-ACCTPAY-7
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Page 90, lines 1874 and 1875	Added reference to the Internal Audit Department
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Page 91	Added Table 9, Summary of Internal Audit Department Optimal Request for FY2026-2028 (\$ millions) to align with response to NPFCEG-of-LUMA-SUPPORT-2.1

Exhibit No.	Document	Section	Correction
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Pages 91-92, lines 1883-1890	Added language to refer to the Internal Audit Department
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Page 92, lines 1897 to 1900	Added Table 10 and language to present a summary of the Internal Audit Headcount
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Page 93, lines 1906-1916	Added a description of the Materials and Supplies and the Technical and Professional Services for the Internal Audit Department
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Pages 93-94	Added Table 12 to present a summary of the Internal Audit Department Constrained Budget for FY2026-2028 (\$ millions)
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Page 94, lines 1922-1923	Added language to specify that the question is related to the Chief of Corporate Services Officer
LUMA Ex. 2.0	Direct Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC	Page 94-95, lines 1928-1929, 1940-1946	Corrected language to explain that the question is for two additional departments
LUMA Ex. 3.0	Direct Testimony of Eduardo Balbis Partner, Guidehouse	Cover page	Changed testimony date from June 30, 2025 to October 21, 2025.
LUMA Ex. 3.0	Direct Testimony of Eduardo Balbis Partner, Guidehouse	Page ii (Summary)	Eliminated sixth paragraph regarding net metering, pursuant to Joint Motion on Agreements to Revise Testimonies on Solar Issues filed on October 21, 2025
LUMA Ex. 3.0	Direct Testimony of Eduardo Balbis Partner, Guidehouse	Page 7	Eliminated testimony proffered in lines 145 through 148, regarding net metering, pursuant to Joint Motion on Agreements to Revise Testimonies on Solar Issues filed on October 21, 2025
LUMA Ex. 3.0	Direct Testimony of Eduardo Balbis Partner, Guidehouse	Page 22	Eliminated portion of testimony proffered in line 471, regarding net metering, pursuant to Joint Motion on Agreements to Revise Testimonies on Solar Issues filed on October 21, 2025
LUMA Ex. 3.0	Direct Testimony of Eduardo Balbis Partner, Guidehouse	Questions 51 through 55, Pages 22 through 24	Eliminated testimony proffered regarding net metering, pursuant to Joint Motion on Agreements to Revise Testimonies on Solar Issues filed on October 21, 2025

Exhibit No.	Document	Section	Correction
LUMA Ex. 7.0	Direct Testimony of Sarah Hanley, Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC	Cover page	Identified testimony as that of Ms. Sarah Hanley, as opposed to Ms. Jessica Laird. Changed testimony date from July 2, 2025 to October 22, 2025.
LUMA Ex. 7.0	Direct Testimony of Sarah Hanley, Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC	Page i (Summary)	Generally, identifies substitute witness, Ms. Sarah Hanley, as sponsor of LUMA Ex. 7.0, as opposed to Ms. Jessica Laird.
LUMA Ex. 7.0	Direct Testimony of Sarah Hanley, Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC	Page 1	Identifies substitute witness, Ms. Sarah Hanley, as sponsor of LUMA Ex. 7.0, as opposed to Ms. Jessica Laird.
LUMA Ex. 7.0	Direct Testimony of Sarah Hanley, Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC	Page 2	Identifies the captioned proceedings technical conferences as a case before the PREB, in which Ms. Hanley has previously testified/participated.
LUMA Ex. 7.0	Direct Testimony of Sarah Hanley, Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC	Table 1, Page 20	Correction to the FY2025 Budget for the Customer Experience Department's Technical and Professional Outsourced Services, as well as Customer Experience FY2025 Budget Total (Optimal)
LUMA Ex. 7.0	Direct Testimony of Sarah Hanley, Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC	Page 21	Correction to the Department's O&M revenue requirement proposed to be funded by the EE rider. Correction to total base rate proposal for FY2026.
LUMA Ex. 7.0	Direct Testimony of Sarah Hanley, Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC	Table 3, Page 22	Correction to the Department's O&M revenue requirement proposed to be funded by the EE rider. Correction to total base rate proposal for FY2026.
LUMA Ex. 7.0	Direct Testimony of Sarah Hanley, Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC	Page 24	Eliminates testimony previously proffered in lines 479 through 483.
LUMA Ex. 7.0	Direct Testimony of Sarah Hanley, Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC	Table 4, Page 24	Corrections to Proposed New Hires for FY27 and FY28

Exhibit No.	Document	Section	Correction
	Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC		
LUMA Ex. 7.0	Direct Testimony of Sarah Hanley, Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC	Table 5, Page 28	Corrections to Customer Experience's Technical and Professional Outsourced Services Breakdown for the Optimal Budget, FY26-28.
LUMA Ex. 7.0	Direct Testimony of Sarah Hanley, Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC	Table 6, page 34	Correction to the FY2025 Budget for the Customer Experience Department's Technical and Professional Outsourced Services, as well as Customer Experience FY2025 Budget Total (Constrained)
LUMA Ex. 7.0	Direct Testimony of Sarah Hanley, Interim Senior Vice President, Customer Experience, LUMA Energy ServCo, LLC	Table 8, page 36	Corrections to the Breakdown of Funding Sources for O&M Revenue for FY2026 under Constrained scenario.
LUMA Ex. 14.0	Direct Testimony of Lorenzo López, Chief Communications and Stakeholder Engagement, LUMA Energy ServCo, LLC	Cover page	Identified testimony as amended on October 22, 2025.
LUMA Ex. 14.0	Direct Testimony of Lorenzo López, Chief Communications and Stakeholder Engagement, LUMA Energy ServCo, LLC	Table 1, Page 8	Reduced the FY2026, 2027 and 2028 Technical and Professional Services budget, Subtotals and Total lines by \$3 million each.
LUMA Ex. 14.0	Direct Testimony of Lorenzo López, Chief Communications and Stakeholder Engagement, LUMA Energy ServCo, LLC	Table 2, Page 16	Reduced the FY2026, 2027 and 2028 Technical and Professional Services budget, Subtotals and Total lines by \$3 million each.
LUMA Ex. 19.0	Direct Testimony of Branko Terzic, Expert Witness for LUMA Energy, LLC and LUMA Energy ServCo, LLC	Cover page	Changed testimony date to October 21, 2025
LUMA Ex. 19.0	Direct Testimony of Branko Terzic, Expert Witness for LUMA Energy, LLC and LUMA Energy ServCo, LLC	Page 10, lines 171 through 173	Eliminated reference to: Hempling, Scott, <i>Regulating Public Utility Performance</i> , American Bar Association, Chicago, 2021, p.2.
LUMA Ex. 19.0	Direct Testimony of Branko Terzic, Expert Witness for LUMA Energy, LLC and LUMA Energy ServCo, LLC	Page 10, FN 3	Added previously omitted reference: <i>Munn v. People of State of Illinois</i> , 94 U.S. 113, 130, 24 L. Ed. 77 (1876).

Exhibit No.	Document	Section	Correction
LUMA Ex. 20	Direct Testimony of Branko Terzic, Expert Witness for LUMA Energy, LLC and LUMA Energy ServCo, LLC	Cover page	Changed testimony date to October 23, 2025
LUMA Ex. 20	Direct Testimony of Sam Shannon, Associate Director, Guidehouse, on behalf of LUMA Energy ServCo, LLC	Page 1, line 19	Addition of Schedule C-8, Billing Determinants (kW and kWh) by Rate Class, pursuant to Errata Sworn Statement, subscribed by Mr. Ed Balbis on July 2, 2025.
LUMA Ex. 20	Direct Testimony of Sam Shannon, Associate Director, Guidehouse, on behalf of LUMA Energy ServCo, LLC	Page 1, line 19	Addition of Schedule C-10, Contributions in Lieu of Taxes, pursuant to Errata Sworn Statement, subscribed by Mr. Ed Balbis on July 2, 2025.
LUMA Ex. 20	Direct Testimony of Sam Shannon, Associate Director, Guidehouse, on behalf of LUMA Energy ServCo, LLC	Page 25, lines 500-509	Solar-issues withdrawn, as stated in the Joint Motion on Agreements to Revise Testimonies on Solar Issues filed on October 21, 2025
LUMA Ex. 20	Direct Testimony of Sam Shannon, Associate Director, Guidehouse, on behalf of LUMA Energy ServCo, LLC	Page 30, line 597 beginning at “The ability...” through line 598	Solar-issues withdrawn, as stated in the Joint Motion on Agreements to Revise Testimonies on Solar Issues filed on October 21, 2025
LUMA Ex. 20	Direct Testimony of Sam Shannon, Associate Director, Guidehouse, on behalf of LUMA Energy ServCo, LLC	Page 33, line 678 beginning at “Another,” through line 683	Solar-issues withdrawn, as stated in the Joint Motion on Agreements to Revise Testimonies on Solar Issues filed on October 21, 2025
LUMA Ex. 20	Direct Testimony of Sam Shannon, Associate Director, Guidehouse, on behalf of LUMA Energy ServCo, LLC	Page 36, lines 742 through 747	Solar-issues withdrawn, as stated in the Joint Motion on Agreements to Revise Testimonies on Solar Issues filed on October 21, 2025
LUMA Ex. 20	Direct Testimony of Sam Shannon, Associate Director, Guidehouse, on behalf of LUMA Energy ServCo, LLC	Page 37, lines 773 through 776	Solar-issues withdrawn, as stated in the Joint Motion on Agreements to Revise Testimonies on Solar Issues filed on October 21, 2025
LUMA Ex. 20	Direct Testimony of Sam Shannon, Associate Director, Guidehouse, on behalf of LUMA Energy ServCo, LLC	Page 38, lines 797 through 797	Solar-issues withdrawn, as stated in the Joint Motion on Agreements to Revise

Exhibit No.	Document	Section	Correction
			Testimonies on Solar Issues filed on October 21, 2025
LUMA Ex. 20	Direct Testimony of Sam Shannon, Associate Director, Guidehouse, on behalf of LUMA Energy ServCo, LLC	Page 41, line 683	Provisional rate changed from \$0.077896/kWh to \$0.073915/kWh, pursuant to Errata Sworn Statement, subscribed by Mr. Ed Balbis on July 2, 2025.
LUMA Ex. 20	Direct Testimony of Sam Shannon, Associate Director, Guidehouse, on behalf of LUMA Energy ServCo, LLC	Page 43, line 905	Provisional rate changed from \$0.077896/kWh to \$0.073915/kWh, pursuant to Errata Sworn Statement, subscribed by Mr. Ed Balbis on July 2, 2025.

Exhibit 2
Revised Testimony of Alejandro Figueroa (redline)

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

IN RE:

PUERTO RICO ELECTRIC POWER
AUTHORITY RATE REVIEW

CASE NO.: NEPR-AP-2023-0003

Revised Direct Testimony of

Alejandro Figueroa

Chief Regulatory Officer, LUMA Energy ServCo LLC

July 2October 23, 2025

**Summary of Prepared Direct Testimony of
ALEJANDRO FIGUEROA
ON BEHALF OF
LUMA ENERGY LLC AND LUMA ENERGY SERVCO, LLC**

Mr. Alejandro Figueroa Ramírez (“Mr. Figueroa”) is Chief Regulatory Officer at LUMA Energy ServCo, LLC. The purpose of Mr. Figueroa’s prepared direct testimony in this proceeding is to sponsor the Rate Review Petition.

Mr. Figueroa also provides a background on the System Revenue Requirement and explains that LUMA is only sponsoring the revenue requirement for the Operation and Maintenance Services (“O&M Services”) that LUMA is responsible for as the Operator of Puerto Rico’s Transmission and Distribution System (“T&D System”). Mr. Figueroa outlines LUMA’s structure, mission, and vision as Operator of the T&D System, and discusses LUMA’s accomplishments, including the implementation of the System Remediation Plan. Mr. Figueroa describes the state of the T&D System when LUMA took over as Operator on June 1, 2021, states how LUMA has been able to operate the T&D System under 2017 Base Rates and explains that current rates are insufficient. Mr. Figueroa describes LUMA’s Optimal Budget versus Constrained Budget and identifies witnesses and whether they testify to any filing schedules.

Mr. Figueroa’s testimony also provides the operations and maintenance (“O&M”) costs for the Regulatory Department (“Regulatory Department” or “Department”) in the Optimal and Constrained Budgets on behalf of LUMA Energy LLC and LUMA Energy ServCo, LLC (collectively, “LUMA” or “LUMA Energy”). Mr. Figueroa’s testimony addresses the Regulatory Department’s existing and projected costs for staffing, technical and professional services, materials and supplies, transportation and other miscellaneous costs for compliance support services. Based on existing and projected company needs, Mr. Figueroa recommends an Optimal Budget for the Regulatory Department of \$28.23 million for Fiscal Year (“FY”) 2026, \$29.92 million for FY2027, and \$31.72 million for FY2028.

Furthermore, Mr. Figueroa sponsors LUMA’s Request for Provisional Rates. Finally, Mr. Figueroa’s testimony addresses the Puerto Rico Energy Bureau’s (“Energy Bureau” and/or “PREB”) current requirements to amend approved budgets and suggests that the Energy Bureau remove or modify this requirement going forward; provides an estimate of RPS compliance costs; submits the Fiscal Plan certified by the Financial Oversight and Management Board for Puerto Rico (“FOMB”) for the Puerto Rico Electric Power Authority (“PREPA”); and proposes a major-storm costs rider.

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1 **I. WITNESS CASE AND INTRODUCTION**

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

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

7 **Q.2 On whose behalf are you testifying before the Energy Bureau?**

8 A. I am testifying on behalf of LUMA in support of the Rate Review Petition as part of
9 the Puerto Rico Energy Bureau’s proceeding, Case No. NEPR-AP-2023-0003, In re:
10 the Puerto Rico Electric Power Authority Rate Review.

11 **Q.3 What is your educational background?**

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

16 **Q.4 What is your professional experience?**

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

24 responsible for the operational and financial restructuring efforts of PREPA, the
25 Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Highways and
26 Transportation Authority. Thereafter, I worked as counsel at DLA Piper Puerto Rico,
27 where I provided strategic advice to energy sector clients on regulatory and energy
28 policy matters. I joined LUMA in March 2024 as Vice President, Regulatory where I
29 was responsible for LUMA Energy's regulatory filings with the PREB and
30 administration and compliance of the Puerto Rico Transmission and Distribution
31 System Operations and Maintenance Agreement and the Supplemental Terms
32 Agreement ("T&D OMA") executed among PREPA, the Puerto Rico Public Private
33 Partnership Authority ("P3A"), and LUMA dated June 22, 2020. In January of 2025,
34 I assumed the role of Chief Regulatory Officer at LUMA Energy.

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

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

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

39 A. Yes. I testified in connection with LUMA's proposed budgets for FY2025, Case No.
40 NEPR-MI-2021-0004, in conferences conducted by the hearing examiner in case No.
41 NEPR-IN-2024-0004, and in technical conferences held by the hearing examiner in
42 this rate review process, Case No. NEPR-AP-2023-0003. I have also testified in a
43 technical conference for the Integrated Resource Plan, Case No. NEPR-AP-2023-
44 004. I recently submitted pre-filed testimony on LUMA's behalf in Case No. NEPR-
45 AP-2025-0002.

46 **Q.7 What is the purpose of your Direct Testimony?**

47 A. The purpose of my testimony in this proceeding is to sponsor the Rate Review
48 Petition. The Rate Review Petition is intended to request new “permanent” electric
49 service rates, that will be in place for FY2026, FY2027 and FY2028 for customers of
50 the electric system in Puerto Rico, owned by PREPA, as well as provisional rates.
51 LUMA is submitting this Rate Review Petition pursuant to its duties under the T&D
52 OMA. The total proposed revenue requirement – and rate design – for PREPA is
53 comprised of LUMA’s, PREPA’s and Genera PR LLC’s (“Genera”) costs. LUMA is
54 not responsible for defending or supporting PREPA’s or Genera’s revenue
55 requirement or budgets under the T&D OMA. Except where Genera and PREPA are
56 expressly referred to, my testimony and the testimonies of LUMA’s witnesses only
57 address LUMA’s proposed revenue requirement. Rate design occurs at the utility
58 level and for that portion of the Rate Review Petition LUMA relies on the expertise
59 and testimony of its rate design consultant, Mr. Sam Shannon (*see* LUMA Exhibit
60 20.0). I am also sponsoring the proposed Optimal and Constrained Budgets for the
61 Regulatory Department for FY2026, FY2027, and FY2028 which are intended to
62 enable LUMA to support key operational and public policy objectives that benefit
63 customers and allow LUMA to deliver safe, reliable, and efficient electric power

64 service, as well as support compliance with regulatory mandates, including reporting
65 obligations.

66 **Q.8 Are you sponsoring any statements, schedules, or exhibits in conjunction with**
67 **your testimony?**

68 A. Yes. I am sponsoring my Direct Testimony and the exhibits, attachments and
69 Schedules listed below.

- 70 • LUMA Exhibit 1.01: Schedule C-6-FOMB Certified PREPA Fiscal Plan
- 71 • LUMA Exhibit 1.02: Schedule H: Estimates of RPS Compliance
- 72 • LUMA Exhibit 1.03: Schedule J: Proposed Major Storm Costs Rider
- 73 • LUMA Exhibit 1.04: Executive Summary
- 74 • LUMA Exhibit 1.05: Cumulative Underfunding of the Outage Event Reserve
75 Account
- 76 • LUMA Exhibit 1.06: Provisional Rate Workpapers
- 77 • LUMA Exhibit 1.07: Schedules N-2 and N-3
- 78 • [LUMA Exhibit 1.08 Bad Debt Proposal](#)

79 **Q.9 Which documents did you consider for your testimony?**

80 A. The documents that I reviewed include the T&D OMA and the Puerto Rico PREPA-
81 GenCo-HydroCo Operating Agreement (“PGHOA”), executed on June 19, 2023. I
82 also reviewed the Energy Bureau’s resolutions and orders establishing the Scope and
83 Procedures for the instant Rate Case, the 2020 Fiscal Plan for the Puerto Rico
84 Electric Power Authority as Certified by the FOMB on June 29, 2020, and the
85 Resolution and Order on the System Stabilization Plan (Case No. NEPR-MI-2024-
86 0005) dated March 28, 2025.

87 **Q.10 Did you rely on any other information for your testimony?**

88 A. Yes. My extensive professional experience in Puerto Rico, including working for the
89 Energy Bureau, the FOMB, and now LUMA, have provided me with deep
90 knowledge and understanding of regulatory requirements, LUMA's responsibilities
91 under the T&D OMA, as well as Puerto Rico's evolving energy landscape and
92 energy public policies.

93 **Q.11 How is your testimony organized?**

94 A. In Section II, I describe the filing requirements that LUMA follows for this Rate
95 Review Petition. In Section III, I provide a background on the System Revenue
96 Requirement and explain that LUMA is only sponsoring its proposed revenue
97 requirement. In Section IV, I describe LUMA's structure, mission, and vision as
98 Operator of Puerto Rico's Transmission and Distribution ("T&D") System, and I
99 discuss LUMA's current areas of focus and its accomplishments with the System
100 Remediation Plan ("SRP") and focused efforts on federal funding. In Section V, I
101 describe the state of the T&D System when LUMA took over as Operators on June
102 1, 2021. In Section VI, I describe how the initiatives discussed in Section IV have
103 allowed LUMA to operate the T&D System under 2017 Base Rates since
104 commencement and highlight that current rates are insufficient. In Section VII, I
105 discuss the System Revenue Requirement. In Section VIII, I describe LUMA's
106 Optimal Budget versus Constrained Budget and identify witnesses and whether they
107 testify to any financial schedules. In Section IX, I describe the Regulatory
108 Department and its functions. In Section X, I request funding for the Regulatory
109 Department as part of LUMA's overall revenue request. In Section XI, I discuss and

110 sponsor the Request for Provisional Rates. In Section XII, I discuss PREB’s Budget
 111 Amendment process and recommend that this process be modified or eliminated
 112 going forward. In Section XIII, I provide an estimate of the RPS compliance costs.
 113 In Section XIV, I submit the FOMB’s Certified Fiscal Plan for PREPA. In Section
 114 XV, I discuss the proposed major-storm costs rider. Finally, I summarize LUMA’s
 115 requests in Section XVI.

116 **II. FILING REQUIREMENTS OF RATE REVIEW PETITION**

117 **Q.12 What legal and regulatory requirements did LUMA apply to prepare the Rate** 118 **Review Petition?**

119 A. The detailed legal and regulatory requirements are more fully discussed in the
 120 motion in support of the Rate Review Petition, including the requirements of Act 57-
 121 2014. The Rate Review Petition was built to comply with the Energy Bureau’s
 122 orders setting filing requirements. The main orders are those issued in this
 123 proceeding on February 12, 2025 (the “February 12th Order”)¹ setting revenue
 124 requirement filing requirements, as supplemented by an order issued on February 27,
 125 2025 setting two additional revenue requirement filing requirements, an order issued
 126 on April 21, 2025 setting a new timeline for consideration by the Energy Bureau of a
 127 provisional rate request as well as requirements of that provisional rate,² an order

¹ See NEPR-AP-2023-0003, Order Establishing Scope and Procedures for Rate Case, p.1. Where, the Energy Bureau stated its intention to conduct a thorough review of PREPA’s rates, and LUMA, as the operator of PREPA’s transmission and distribution system, is contractually responsible for preparing rate filings and submitting them to the Energy Bureau.

² See NEPR-AP-2023-0003, Revisions and Additions to February 12 Order on Rate Case Procedures, p. 2. Where, LUMA shall file its formal, complete rate review petition on or about July 3, 2025, including both the revenue requirement and rate design components, so that the petition is ... compliant with the applicable filing requirements.

issued on May 29, 2025, setting rate design and cost of service filing requirements³ and an additional order on rate design filing requirements issued by the Hearing Examiner, Mr. Scott Hempling, on June 11, 2025.⁴

Q.13 What is LUMA’s understanding of the scope of the rate review that the Energy Bureau set forth in the February 12th Order?

A. LUMA’s view of the scope of the February 12th Order is that the Energy Bureau will review all sources of revenues and all necessary expenditures to determine both the needs of the electric power system (“System”) as a whole, as well as of each component separately (T&D, generation and PREPA legacy operations) and the amount of funding that will ultimately be made available to the System (and to each component) to invest in and to maintain and operate the system. The Energy Bureau will set permanent rates for FY2026, and projected rates for FY2027 and FY2028.

Q.14 What are the filing requirements set forth in the Energy Bureau’s orders?

A. The PREB required LUMA, Genera and PREPA to each file an Optimal Budget and a Constrained Budget. The PREB also required LUMA, Genera and PREPA to file certain schedules described in the Appendix to the February 12th Order. PREB required that Schedules A-1 and A-2 include information on the proposed budgets; that Schedules B-1 through B-7 include summaries of the revenue requirements, projected results of operations, debt service requirements, plant in service and

³ See NEPR-AP-2023-0003, Resolution and Order Establishing the Rate Design Filing Requirements, p. 1. Where, the Energy Bureau ORDERS LUMA to ensure that the rate design portion of the rate application that it will submit on July 3, 2025 complies with these filing requirements.

⁴ See NEPR-AP-2023-0003, Hearing Examiners Order Adjusting Rate Design Filing Requirements, where LUMA may reference Schedules P-1, P-2, P-3 and P-4 in the pre-filed testimony.

147 accumulated depreciation, leases, and all other revenues and income; that Schedules
148 C-1 through C-11 include financial statements and statistical schedules; that
149 Schedules D-1 through D-4 list capital expenditures and cost-sharing; that Schedules
150 E-1 through E-6 provide proposed rates and estimated bill impacts; that Schedules F-
151 1 through F-7 include clean and marked versions of the proposed tariff and
152 information on riders; that Schedule G-1 include information on PREPA's affiliates;
153 and that Schedule H include estimates of its Renewable Portfolio Standard
154 Compliance costs. On February 27, 2025, the PREB issued a second order adding
155 two filing requirements: Schedule I that includes a revenue-decoupling mechanism
156 with a proposed reconciliation and Schedule J that includes a mechanism to recover
157 major-storm costs through a rider.

158 In the February 12th Order, the PREB also noted that the contracts under
159 which LUMA and Genera perform their services provide for a Fixed Fee and a
160 performance incentive fee (labelled differently in each contract). The revenue
161 requirement must still give LUMA and Genera a reasonable opportunity to achieve
162 the metrics for each operator to earn its respective incentive fee. In addressing the
163 Constrained Budget, the Energy Bureau stated that it will need to adjust the metrics
164 to reflect the lower budget compared to the Optimal Budget. Any adjustment shall
165 consider the metrics approved by the Energy Bureau in the performance metric
166 proceeding and shall be consistent with just-and-reasonable ratemaking.⁵

⁵ See February 12th Order, Part G on the relationship between the revenue requirement and incentive compensation, pp. 4-5.

Q.15 How did the Energy Bureau define the Optimal Budget and Constrained Budget?

A. The February 12th Order indicates that the Optimal Budget represents all the systems funding needs, without funding constraints. Thus, there are no tradeoffs among activities in the Optimal Budget; every activity receives the necessary or required funds to provide electricity to customers at the quality of service required by (a) Puerto Rico Statutes and (b) the contracts under which LUMA and Genera provide that service. With the Constrained Budget, on the other hand, the Energy Bureau acknowledged that tradeoffs are unavoidable and that the Energy Bureau will have to elevate some needs over others, and possibly defer some activities, in order to provide a “customer-sensitive”⁶ transition from the *status quo* to an optimal budget in FY2028.

Q.16 How does LUMA interpret the definitions of Optimal and Constrained budgets?

A. The Optimal Budget defines the investment levels required in the system to address its poor physical and operational condition, while striving to make meaningful progress towards meeting established performance targets. The Constrained Budget considers the fact that not all of the necessary funding will be made available. Thus, some investments that are otherwise needed must be deferred. That Budget illustrates the tradeoffs referenced by the Energy Bureau.

⁶ See February 12th Order, Part G. The relationship between the revenue requirement and incentive compensation, ps. 4-5

Q.17 How will the projected rates for FY2027 and FY2028 be converted to permanent rates?

A. The February 12th Order specifies that the Energy Bureau will specify a procedure for converting to permanent rates when it issues the current proceedings' Final order.

Q.18 Did the February 12th Order also request inclusion of specific costs?

A. Yes. The Order required that the rates reflect known costs and projected costs, including the cost to carry out actions required by the existing Integrated Resource Plan ("IRP"), and the IRP that LUMA will file in Case NEPR-AP-2023-0004.

Q.19 Did the February 12th Order also address the performance metrics?

A. Yes. The order indicated that the revenue requirement established in the instant proceeding must include the costs that a prudent operator needs to incur to achieve those metrics needed to earn its incentive fee(s). However, as noted above, the February 12th Order also required a Constrained Budget to be filed and indicated that in addressing the revenue for the Constrained Budget, the Bureau will need to adjust the metrics.⁷

⁷ See February 12th Order at p. 5 of 34 ("For the Constrained Budget, tradeoffs are unavoidable; the Energy Bureau will have to elevate some needs over others. But the revenue requirement still must give LUMA and Genera a reasonable opportunity to achieve the metrics that trigger for each operator its respective incentive fee. In addressing the revenue requirement for the Constrained Budget, therefore, the Energy Bureau will need to adjust the metrics, or the allocation of compensation, or both, to reflect the lower budget amount that some areas of the Constrained Budget will receive as compared to the Optimal Budget. The Energy Bureau has the authority to make these adjustments in this rate proceeding.")

III. OVERVIEW OF REVENUE REQUIREMENT AND RATE DESIGN

FILINGS

Q.20 What is the total revenue requirement in this Rate Review Petition?

A. The consolidated, System-wide, revenue requirement for the PREPA, comprised of the individual revenue requirements for each of LUMA, Genera and PREPA, for the test period is:

- FY2026 - \$5,~~232,861,866~~572,421,873
- FY2027 - \$5,~~501,934,955~~815,916,239
- FY2028 - \$5,~~516,037,596~~822,440,720

The System-wide revenue requirement(s) listed above includes all costs, including O&M costs, capital investment costs, plus all other costs in providing service in Puerto Rico, including riders such as the FCA/PPCA, and income from federal government agencies. For each year, the amount(s) to be recovered through Base Rates are O&M and non-federal capital costs comprised of LUMA's Constrained Budget, Genera's Optimal Budget, and PREPA's budget,⁸ itself comprised of the budgets for PREPA HoldCo and PREPA HydroCo, plus, other operating costs such as operator services fees and PREPA bankruptcy costs. Operator service fees means funds for PREPA to pay each of LUMA and Genera their management fee(s) under their respective contracts as well as the performance incentive fee if each company

⁸ LUMA is submitting a consolidated revenue requirement that LUMA will submit a consolidated revenue requirement that includes a placeholder for PREPA (HoldCo), using PREPA's Fiscal Year 2025 revenue requirement, adjusted for inflation. See Hearing Examiner's amended order of June 20, 2025.

satisfies established and applicable performance metrics.⁹ LUMA only supports the revenue requirement for the operation and maintenance services for which LUMA is responsible as the operator of the T&D System. Genera and PREPA are each responsible for developing and supporting their respective revenue requirement proposals to be provided to LUMA for inclusion in a consolidated filing and calculation of overall rates. Any and all materials included with this Rate Review Petition directed at supporting Genera's or PREPA's revenue requirements were developed by the respective entity without any input, involvement or intervention by LUMA. For more information on rate design, please refer to the testimony of LUMA's rate consultant Sam Shannon from Guidehouse (*see* LUMA Ex. 20.0).

Q.21 What is PREPA's role regarding the T&D System?

A. PREPA is the government-owned entity that retains ownership of the assets that make up the T&D System that LUMA operates and maintains pursuant to the T&D OMA and the Supplemental Terms Agreement.

Q.22 Please describe LUMA's role as Operator of PREPA's T&D System.

A. LUMA is the privately-owned operator of the T&D System under the T&D OMA.

Q.23 Why does LUMA submit the overall rate filing?

A. Pursuant to the T&D OMA and the PGHOA, and as it relates to the Operation and Maintenance Services (the "O&M Services") performed by LUMA and Genera, LUMA is responsible for the submittal, from time to time, of rate review petitions to

⁹ See February 12th Order, "the revenue requirement therefore must include the costs that give each company a reasonable opportunity that meet the metrics that trigger the company's respective incentive fee." It follows that the revenue requirement should include the maximum incentive fee, and, if zero dollars are paid out the system would simply have a surplus.

the Energy Bureau.¹⁰ As it relates to this proceeding, LUMA submits PREPA's total revenue requirement, inclusive of the revenue requirements of LUMA, Genera and a placeholder number for PREPA, as well as utility-level rate design, in compliance with, among others, the Energy Bureau's February 12th Resolution and Order, April 21st Resolution and Order, and May 29th Resolution and Order.

IV. OVERVIEW OF LUMA'S ROLE, MISSION AND VISION

Q.24 Please describe LUMA's role as Operator of PREPA's T&D System?

A. LUMA provides O&M Services pursuant to Article 5 and Annex I of the T&D OMA. In brief summary, as part of the O&M Services, LUMA is responsible for the comprehensive management, operation, maintenance and improvement of the T&D System, including all activities necessary for safe, reliable, and efficient delivery of electricity. LUMA's duties cover day-to-day operations, customer service, billing and collections, system planning, engineering, asset management, public lighting, information technology, regulatory compliance, and emergency response. LUMA is also tasked with implementing energy efficiency and renewable energy programs, maintaining safety and environmental standards, and managing communications and public outreach. LUMA's role is designed to ensure the T&D System meets Contract

¹⁰ Section 5.6 of the T&D OMA System Regulatory Matters; and Section 7.5 PREB Rate Proceedings of the PGHOA

Standards,¹¹ in alignment with Prudent Utility Practice,¹² and regulatory requirements, while prioritizing operational excellence, customer satisfaction and continuous improvement. I also note that, pursuant to Section 5.1 of the T&D OMA, LUMA enjoys autonomy in providing O&M Services and has been granted irrevocable authority by PREPA and the P3A to perform O&M Services on behalf and as agent of PREPA and, pursuant to Section 5.6(a), as it relates to the O&M Services, represent PREPA before any Governmental Body, which includes both state and federal entities.

The following four operations and maintenance services undertaken by LUMA are the broadest categories that capture its overall organizational structure:¹³

¹¹ See T&D OMA, Section 1.1

means the terms, conditions, methods, techniques, and practices and standards imposed or required by: (i) Applicable Law; (ii) Prudent Utility Practice; (iii) applicable equipment manufacturer's specifications and reasonable recommendations; (iv) applicable insurance requirements under any insurance procured pursuant to this Agreement; (v) the Procurement Manuals, as applicable, and (vi) any other standard, term, condition or requirement specifically contracted in this Agreement to be observed by Operator.

¹² See, *id.*:

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.

¹³ More detailed descriptions of each department's functions and key activities are provided in the FY2024 to 2026 Annual Budgets, Section 2.0 entitled, "Annual Budgets Request." and also in the primary direct testimonies filed herewith.

- a. **Customer Experience:** Supports LUMA’s commitment to providing reliable and affordable electric power by establishing appropriate communication protocols and standard billing and collection practices that reflect a courteous, caring approach to customer issues and proactive approach to problem solving. Four (4) key subdepartments of Customer Experience include Customer Operations, Customer Programs, Customer Service, and Process Development and Governance.
- b. **Operations:** Oversees and manages day-to-day T&D work on the existing utility infrastructure to ensure that customers continue to receive safe and reliable service. This work is performed in accordance with plans such as the Emergency Response Plan¹⁴ and Vegetation Management Plan¹⁵ and in compliance with LUMA’s legislative and regulatory obligations. Key functions include operational performance; 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; and meter replacement.
- c. **Capital Programs:** Provides the technical and programmatic framework required to deliver the funding, design, and completion of projects to

¹⁴ See NEPR-MI-2019-0006, Submittal of Annual Report pursuant to Section 6(m) of Act 83 of May 12, 1941, Exhibit 2, Emergency Response Plan dated May 31, 2024.

¹⁵ See NEPR-MI-2019-0005, Submission of LUMA’s Updated Vegetation Management Plan, June 14, 2024, Exhibit 1

transform Puerto Rico's grid. Key subdepartments include Grid Transformation, Engineering and Project Management and Controls.

- d. **Support Services:** Provides support to the foregoing. Support services are important pillars to LUMA's success in meeting its mission and achieving its goals. Key departments include but are not limited to: Corporate Services,¹⁶ Finance, Human Resources, Information Technology Operational Technology ("IT OT"), Legal, Procurement, Compliance and Regulatory.

Q.25 Please describe LUMA's mission and vision.

A. LUMA's mission is to recover and transform the T&D System to deliver customer-centric, reliable, resilient, safe, and sustainable electricity at reasonable prices. Since its commencement, LUMA has been steadfastly focused on rebuilding and transforming Puerto Rico's electrical system after years and decades of neglect, lack of maintenance and deterioration, as well as the impacts of a series of devastating hurricanes and earthquakes. LUMA's vision for Puerto Rico is to achieve reliable electrical energy service delivered through a T&D system that serves every home and business in every corner of Puerto Rico.

This vision will be accomplished by (1) prioritizing safety, (2) improving customer satisfaction, (3) rebuilding the system for greater resiliency, (4) enabling operational excellence, and (5) modernizing and transforming the grid for sustainable energy. Together, LUMA's mission and these five key priorities are defined as the *Recovery and Transformation Framework*.

Q.26 Can you identify progress that LUMA has made and the benefits to customers?

¹⁶ Corporate Services includes Corporate Security, Emergency Preparedness, Corporate Communications, Health, Safety & Environment (together "HSE"), and Facilities.

309 A. LUMA has made significant progress since commencing operations, and this has, in
310 turn, been translated into benefits for our customers. Since LUMA began operations,
311 over \$4.4 billion has been invested in the T&D System including \$1.9 billion in
312 federally funded projects, \$433 million in non-federally funded capital and \$2.2
313 billion in operating and maintenance expenditures. As of May 2025, LUMA has
314 replaced 28,600 poles, repaired or replaced 177,000 streetlights, completed
315 vegetation management on 6,199 miles of lines, and installed 10,348 distribution
316 automation and protection devices, helping to avoid over 271 million minutes of
317 customer service interruptions.

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

326 As a result of these efforts, ten (10) of LUMA's SRP programs have
327 achieved "remediated status," which means they have reached the goals established
328 in the SRP.¹⁷ Other witnesses testify about their respective departments'

¹⁷ See NEPR-MI-2021-0004, Submission of LUMA's Annual Report for Fiscal Year 2024 and Report on Efficiencies, p. 51, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2024/10/20241028-MI20210004-Motion-Submitting-FY2024-Annual-Report.pdf>

achievements since LUMA's commencement. LUMA also provides quarterly and annual reports to the Energy Bureau on the LUMA Initial Budgets docket NEPR-MI-2021-0004. These reports outline ongoing progress and initiatives, including measures of reliability and resiliency, safety, customer services, and renewable energy integration. LUMA's Quarterly Report for the third quarter (Q3) of FY2025 was filed on May 15, 2025.¹⁸

Q.27 Are LUMA's mission and vision linked to its duties under the T&D OMA and energy public policy?

A. Yes. LUMA's mission and vision are aligned with both our duties under the T&D OMA and energy public policies. Namely, Act 17-2019, which states: the electric infrastructure will be maintained in optimal conditions to ensure reliability and security of the electric service;¹⁹ infrastructure will be designed so it is robust and resistant to weather events;²⁰ and that every consumer is guaranteed the right to receive reliable, stable, and excellent electric power service.²¹

LUMA's mission and vision are also consistent with Act 57-2014, which states: all energy companies must provide an adequate, reliable, safe, efficient service.²² Other witnesses also describe how each department ensures that the energy

¹⁸ See NEPR-MI-2021-0004, Motion to Submit Quarterly Report for the Third Quarter of Fiscal Year 2025, Exhibit 1, Q3 Report, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2025/05/20250515-MI20210004-Public-Motion-to-Subm-Quarterly-Report.pdf>.

¹⁹ See Act 17-2019, Section 1.5(9)(e), 22 LPRA § 1141d (2025).

²⁰ See Act 17-2019, Section 1.5(9)(b), 22 LPRA § 1141d (2025).

²¹ See Act 17-2019, Section 1.5(10)(a), 22 LPRA § 1141d (2025).

²² See Act 57-2014, Section 6.21(a), 22 LPRA § 1054t (2025).

public policy is followed.

V. OVERVIEW OF THE STATE OF THE T&D SYSTEM BY JUNE 2021

Q.28 Describe the state of the T&D System when LUMA commenced operations in June 2021?

A. The T&D System was operated and maintained exclusively by PREPA prior to LUMA's commencement of operations on June 1, 2021. By all accounts, LUMA inherited a T&D System that was significantly deteriorated, in bankruptcy, and being operated in a manner inconsistent with Prudent Utility Practices. 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.²³ The T&D System was fragile, having suffered decades of neglect.

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."

²³ See NEPR-AP-2020-0025, LUMA's Witnesses' Direct Testimonies, Direct Testimony of Jessica Laird, dated August 3, 2021, lines 104-108.

The Puerto Rico legislature also stated that Puerto Rico's electric power generation and distribution systems were deficient and obsolete.

The 2017 Rate Order²⁴ 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.²⁵ 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."²⁶ The 2017 Rate Order stated that "[l]ack of effective long-term planning led PREPA to defer investments in 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."²⁷

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 the T&D System was "falling apart

²⁴ Resolution and Order dated January 10, 2017, as amended in reconsideration in Case No. CEPR-AP-2015-0001 ("2017 Rate Order").

²⁵ See 2017 Rate Order, at p. 3.

²⁶ See 2020 Fiscal Plan, at p. 14, available at <https://drive.google.com/file/d/1paRgy0dJBkUH4-5eev7z2SuR0diil8g9/view>.

²⁷ 2017 Rate Order, ¶39, at 22.

quite literally”²⁸ 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.”²⁹

During the Front-End Transition Period (“FET”),³⁰ LUMA conducted a system-wide gap assessment and identified over 1,000 gaps.³¹ Over 600 initiatives were identified to address those gaps.³² 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, 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

²⁸ 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>.

²⁹ *Id.*, at 33.

³⁰ 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.

³¹ *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>.

³² *Id.*

employee training and certifications).

These legislative findings, findings of the Energy Bureau, LUMA's FTE evaluation 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.

The testimonies of my colleagues, LUMA witnesses Pedro Meléndez (LUMA Exhibit 5.0) and Kevin Burgemeister (LUMA Exhibit 6.0), describe the condition of the inherited T&D System in greater detail, while the testimony of my colleague, ~~Jessica Laird~~[Sarah Hanley](#) (LUMA Exhibit 7.0), details the condition of the inherited billing system and customer-facing platforms.

Q.29 What did LUMA do to address these "gaps"?

A. In compliance with Section 4.1(d)(ii) of the T&D OMA, LUMA developed the SRP, which accounts for the fact that, upon commencement, the "inherited" T&D system was not operating at the standards of performance required under the T&D OMA. In the SRP, LUMA established a collection of individual program briefs across multiple areas, each designed to address deficiencies in PREPA's operations or physical infrastructure, along with a timeline for achieving remediation and the funding required to reach milestones and remediation.³³ SRP initiatives cover the areas of Customer Service, Distribution, Transmission, Substations, Control Center and Buildings, Enabling, and Support Services. For example, the program brief for

³³ It is important to note that achieving the remediated state does not necessarily represent optimal operation or use of best practices. It means that the SRP milestones have been completed.

Meter Replacement and Maintenance to provide and maintain essential services by providing meters to new Net Energy Metering customers, new customers and replacing effective meters for customers while advanced metering infrastructure is being implemented across Puerto Rico over the next three to five years. Or the program brief for New Business Connections, which is essential for LUMA to safely connect and integrate new >50 kVA customers to the system. All of the program briefs are designed to remediate, repair, replace and stabilize the T&D System's equipment, systems, practices, and services to enable LUMA to perform the O&M Services in compliance with Contract Standards. The SRP programs are prioritized and sequenced based on the impact of consequences for the utility and delivery of service to customers. The more significant the impacts, the higher the priority.

At the highest level, the SRP provides a roadmap for the transition from a state in which utility assets and activities are not in compliance with Contract Standards and Prudent Utility Practices, to one where the minimum conditions are met for Contract Standards to achieve the vision of providing safe and reliable electric service to customers. The SRP was approved by the Energy Bureau in Case No. NEPR-MI-2020-0019.³⁴ LUMA has since implemented the SRP but with known budget constraints that have delayed several of the initial timelines.

Q.30 Did LUMA identify any additional gaps?

A. Yes. As LUMA assumed operation and maintenance responsibilities, we began to uncover additional material deficiencies that were not identified with the information

³⁴ Case No.: NEPR-MI-2020-0019, Determination on LUMA's Proposed System Remediation Plan, Resolution & Order of June 23, 2021.

made available during Front-End Transition. These material omissions and deficiencies include:

- Several hundred non-functioning electrical assets and equipment, including twenty-nine (20) non-functioning substations
- Broad and significant call center and Customer Care & Billing limitations
- Isolated and inaccurate Asset Management system that was in the midst of an incomplete upgrade at commencement
- Lack of documentation for processes and procedures
- No material advancement of engineering on federally funded projects, and
- Critically insufficient technical and safety training of field employees that represented a real and direct danger to operations

Q.31 How are the SRP improvement programs funded?

A. Federal funding is available to rebuild, repair and harden storm-damaged physical infrastructure. However, some of the system remediation projects must be funded by non-federal capital (referred to herein as “NFC”). For example, the Critical Energy Management System Upgrades, which is a program that will replace an unsupported and obsolete Energy Management System (“EMS”) that LUMA, as the T&D System Operator, uses to monitor, control and optimize the performance of the generation dispatch, transmission and distribution system. The EMS is a key tool for economic dispatch of generation, and, once implemented, will provide greater visibility and transparency to LUMA (and the Energy Bureau) regarding economic dispatch

decisions.³⁵ Similarly, the SRP program to repair and replace existing and legacy meters will deliver improvements to revenues including reduced number of estimated bills and improved billing accuracy is not federally funded. Both of these programs are funded by LUMA's current and limited Base Rate revenues. I note the latter program is still needed³⁶ for LUMA to fulfill basic utility functions while the federally-funded Automated Metering Infrastructure ("AMI") program is implemented over the next several years.

Q.32 What is the current status of the SRP?

A. As stated above, ten (10) of LUMA's SRP programs have achieved remediated status, which means they have reached the goals established in the SRP. These include Critical System Operation Strategy & Procedures, the IT OT Cybersecurity Program, and Safety Equipment, among others. While improvements have been achieved, LUMA remains in a period of remediation, repair, and replacement to bring the T&D System up to Contract Standards. Decades of mismanagement and neglect will take time and require funding to remediate.

VI. OPERATING WITHIN BUDGETS AND CURRENT RATES

Q.33 Has LUMA operated within the budgets approved by the Energy Bureau for Fiscal Years 2022 through 2025?

³⁵ Broadly, Economic dispatch occurs where the least cost generation (of electricity) is dispatched to the grid first, followed by the next least cost and so on.

³⁶ See NEPR-MI-2021-0004, Resolution and Order on LUMA's 23, 2024 *Motion Submitting Responses to Requests for Information of the December 2, 2024 Resolution and Order in Support of LUMA's Budgeted Spending*. Where, the Energy Bureau approved the funding for Meter Replacement and Maintenance program

A. Yes. Since taking over operation and maintenance responsibilities over the T&D System, LUMA has submitted four annual budgets for approval by the Energy Bureau, beginning with FY2022. LUMA has operated within the approved budgets for Fiscal Years 2022, 2023 and 2024, and expects to remain within budget for FY2025. I note that although LUMA has operated within the limits set forth by these budgets, it should not be understood that such levels of funding were adequate to meet all of the T&D system's needs and achieve Puerto Rico's energy public policy goals.

Q.34 Prior to submitting the Rate Review Petition, has LUMA requested a rate adjustment?

A. Yes. LUMA recently requested a temporary or emergency rate adjustment on May 22, 2025. Prior to that petition, and since June 1, 2021, LUMA operated within the base rate structure approved in 2017. LUMA sought a temporary rate adjustment to: (1) bridge the gap between LUMA's FY2026 Budget and revenues raised by current rates which are insufficient to cover costs for LUMA's FY2026 default budget, including inflation, additional funding that in FY2025 was provided by sources outside of rates, and incremental funding for investments identified as urgent and critical which cannot wait beyond July 1, 2025 and (2) replenish the Outage Event Reserve Account.³⁷ LUMA requested that this funding would be in effect for one hundred and eighty (180) days or until provisional rates are in effect, whichever comes first. On May 30, 2025, PREB denied the temporary rate request without

³⁷ See NEPR-AP-2025-0002, Temporary Review of Permanent Rates of the Electric Power Authority, Motion Submitting Temporary Rate Adjustment Petition, LUMA Ex. 1.0, Q/A 17

prejudice to refiling.³⁸ LUMA filed for reconsideration of that order. On June 13, 2025, the PREB denied LUMA's request for reconsideration.³⁹ Thus, any change in rates that customers have experienced to date is solely due to variations in customer usage, fluctuations in the cost of fuel and purchased power and other changes related to subsidy riders.

Q.35 Have the budgets approved by the Energy Bureau for Fiscal Years 2022 through 2025 been sufficient?

A. No.

Q.36 Please explain.

As I just mentioned, these budgets have been constrained by the revenue produced by 2017 Base Rates,⁴⁰ which are eight years old and are neither reflective of the true investment and maintenance needs of the system nor of LUMA's ability to deploy the remediation and improvement work that the system requires. Second, the FY2024 and FY2025 budgets included additional funding in order to balance the system budgets. Please refer to Table 1 below.

Table 1. Budget Funding FY2024, FY2025 and FY2026

(\$ millions)	FY2024	FY2025	FY2026
Total Base Rate Revenue	1,112	1,151	1,160

³⁸ See NEPR-AP-2025-0002, Resolution and Order, Determination on LUMA's Petition to Implement Temporary Rates, May 29, 2025.

³⁹ See NEPR-AP-2025-0002, Resolution and Order addressing *LUMA's Request for Reconsideration of Denial of Request for a Temporary Rate Adjustment and Renewed Request for Approval of a Temporary Rate Adjustment*, June 13, 2025.

⁴⁰ Base Rates means the monthly customer, energy and demand (if applicable) charges in the Tariff Book that will remain in effect until the rate review, and where, Base Rates do not include pass-through costs such as fuel charge adjustment (FCA), purchased power charge adjustment (PPCA), or other pass-throughs such as Contribution in Lieu of Taxes (CILT).

Table 1. Budget Funding FY2024, FY2025 and FY2026

Other Income	59	90	84
Additional funding	130	75	-
Total	1,301	1,316	1,244
GridCo (LUMA) Opex and Capex	663	692	647
GenCo (Genera) Opex and Capex	324	300	280
HydroCo (PREPA) Opex and Capex	14	14	13
HoldCo (PREPA) Opex and Capex	26	34	32
Other	274	275	273
Total Non-Federally Funded T&D and Generation Expenditures	1,301	1,316	1,245

Even with additional funding to bridge the gap between revenues available from base rates and the minimum levels of investment needed to operate, maintain, repair and restore the electric system, LUMA *still* had to make difficult tradeoffs and defer or slow activities.⁴¹

The 2017 Base Rates were not adjusted to account for the effects of inflation, 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.

⁴¹ A list of deferred activities was provided in the FY2025 Budget Process, ROI-LUMA-MI-2021-0004-20240612-PREB-017; and in the FY2024 Annual Budget LUMA identified the slowing of some improvement programs to maintain fiscal discipline: Transmission, Distribution, and Substation Programs, Fleet Program, Metering Program, and Critical Financial Systems and Critical Financial Controls Programs.

Plainly stated, there has been, and continues to be, a substantial mismatch between the rates and actual costs. Also, the utility's revenue requirement was set before PREPA filed for bankruptcy under the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), prior to hurricanes Irma and María, and the 2019 and 2020 earthquakes, and before the T&D OMA and the Generation OMA⁴² were executed, and, in light of those events, current rates are insufficient to cover the current operation, maintenance and investment needs of the energy system, under the clout of ongoing bankruptcy proceedings and which has suffered severe damage from those hurricanes. The further drop in available funding, as shown by the FY2026 Temporary Default Budget in Table 1, highlights the immediate need for a rate adjustment through provisional rates. I will discuss LUMA's provisional rate request below in Section XI.

Q.37 What is the deficiency between the revenue produced by current rates versus the revenue needed by the System?

A. From FY2022 to FY2025, the budget developed for each of those years was initially constrained by the projected revenues generated by existing base rates, and the percentage of those revenues allocated to the T&D System, as part of the revenue allocation process discussed below. This means that the budgets for each of those years were based on an exercise of distributing available revenues as best as possible to meet the needs of the organization and enable LUMA to invest, to some extent, in the T&D system. While this process produced a budget that was reasonable, in light of the fiscal constraints, the amount of money available to invest in the T&D System

⁴² Puerto Rico Thermal Generation Facilities Operation and Maintenance Agreement executed by the PREPA, P3A and Genera PR LLC, (Jan. 24, 2023).

was insufficient when compared to the level of investment that the system requires. For example, while the FY2025 budget provides for \$692 million in T&D O&M and NFC expenditures, the detailed, bottom-up budgeting exercise undertaken in connection with this Rate Review Petition identified a need to invest approximately \$1.6 billion into the T&D System. In overly simplistic terms, this shows that, objectively, the T&D System requires more than double the amount of investments current rates allow in order to achieve meaningful strides towards expected performance targets. LUMA refers to this dynamic as *budget insufficiency*. In other words, if the budget insufficiency is not addressed, or partially addressed, maintenance and capital improvement investments will not reach the level needed to counter ordinary system degradation and deliver overall service quality improvements at a pace consistent with the expectations of the T&D OMA. Please also refer to the testimony of my colleagues, LUMA witnesses Pedro Meléndez and Kevin Burgemeister. See LUMA Exhibits 5.0 and 6.0.

Q.38 Has the System received additional funding from other sources to address the revenue deficiency?

A. Yes. LUMA's FY2024 budget of \$663 million included \$84.76 million and the FY2025 budget of \$692 million included \$44 million in additional funding made available by the P3A, as Administrator, through the revenue allocation procedure. Thus, existing base rates were insufficient to even meet the already constrained FY2025 budget (during the development of the FY2025 budget, LUMA identified \$65 million in investments that lacked funding and required deferral). Had additional

funding not been made available to the T&D System, overall deferred activities would have reached nearly \$100 million.

Q.39 How have the revenues been allocated amongst the three entities – that is, LUMA, PREPA and Genera?

A. The budget allocation process is outlined in the PGHOA and aims to determine how projected base rate revenues for a fiscal year are to be allocated among LUMA, Genera and PREPA. The budget allocation process begins with determining the revenue forecast for the upcoming fiscal year. Once the revenue forecast is determined, LUMA, PREPA, Genera and the P3A, as Administrator, meet to determine the percentage of revenues to be allocated to each entity, based on the forecasted budget expenditures developed by each entity for the following fiscal year. According to the PGHOA, the allocation of revenues resulting from this meeting should be “proportionate to, and consistent with, the cost allocation among the Budgets in the applicable Rate Order.” If an allocation cannot be agreed upon amongst LUMA, PREPA and Genera, then the P3A, as Administrator, is authorized to determine the final allocation for the relevant fiscal year.

Q.40 If LUMA has been able to operate within current rates, then why does it require a rate modification?

A. Operating within budgets and, consequently, within approved rates does **not** mean that sufficient funding has been made available to perform all of the activities and investments necessary to meet performance metrics.

There is clearly a mismatch between current rates and actual costs i.e., current rates are insufficient to cover the current operation, maintenance and

investment needs of the T&D system. That is why this Rate Review Petition is being filed and why it is so important for LUMA to present the full scope of revenues, other income and costs involved in accordance with the February 12th Order, and for the Energy Bureau to set provisional and then permanent rates that are just and reasonable and consistent with sound fiscal and operational practices that provide for reliable and adequate service.”⁴³

Q.41 Why can’t LUMA continue deferring activities to remain within budget limitations?

A. Deferral or postponement of maintenance and capital improvement deprives the utility from the resources otherwise needed to support those investments and has a compounding effect on the performance of the T&D System, as it delays the delivery of improvements necessary to, at the very least, keep up with ordinary equipment degradation, which could delay or negate the pace at which customers can benefit from other improvements being made. For example, as I stated in my testimony for LUMA’s temporary rate adjustment, at the beginning of FY2025, there were 53 transmission circuit breakers out of service and throughout the year, LUMA replaced or repaired 39 of them. Despite this, the number of transmission circuit breakers currently out of service 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. Additionally, as the system’s physical

⁴³ Section 6.25(a) of Act 57-2014

condition further deteriorates, deferral of necessary investments may increase the cost of performing future repairs. The testimonies of my colleagues Kevin Burgemeister, Pedro Meléndez, Crystal Allen, ~~Jessica Laird~~ Sarah Hanley, ~~Jose Latorre-González~~ Miguel Sosa Alvarado, and Michelle Fraley illustrate these impacts. *See* LUMA Exhibits 6.0, 5.0, 11.0, 7.0, 17.0 and 13.0.

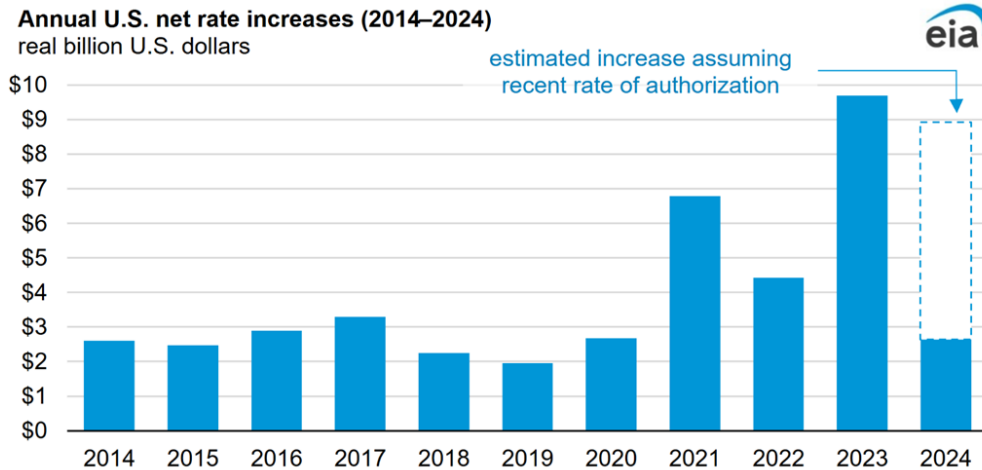
Q.42 When was PREPA’s last full review of permanent rates?

A. PREPA’s most recent rate case occurred at least eight years ago with the final Order in Case No. CEPR-AP-2015-0001 being issued on January 10, 2017. Overall macroeconomic factors and changes in energy consumption have occurred in recent years that were not contemplated in the 2017 Rate Order nor could have they been reasonably foreseen. These include, for example, rampant inflation, dramatic increase in participation of residential customers in the Net Energy Metering Program and increases in combined heat and power systems by industrial customers as well as the impact of devastating hurricanes and resulting population outflow. Please also refer to Section III of my colleague Andrew Smith’s testimony for a discussion of these items and the impact on the operation of the T&D System.⁴⁴

Meanwhile, other utilities in North America have received approvals to increase their rates to cover higher costs and investments in their systems. Recent statistics bear this out. The United States Energy Information Administration (“EIA”) provided by the following snapshot of net rate increases between 2014 and 2024:⁴⁵

⁴⁴ See LUMA Exhibit 2.0, Testimony of Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC, at Q/As 15-16.

⁴⁵ Anitia, Lori, 2024, September 9, Trend toward electric utility rates increases in regulated market

Figure 1

This figure and the accompanying narrative confirms a trend of sustained electric utility rate increases, especially over the last four years: “State regulators signed off on \$9.7 billion in net rate increases in 2023, more than double the \$4.4 billion authorized in 2022.”⁴⁶ Many of the increases are driven by investment to prepare electric systems for more frequent and severe weather events, and infrastructure necessary to enable clean energy and accommodate increased electrification (such as electric vehicles). LUMA is no different in terms of its need to cover cost increases but also, and more importantly, to invest non-federal capital in the system to address the significant challenges that are currently faced by the T&D System, the majority of which are the result of decades of underinvestment, but many of which are also the product of continued underinvestment given the reduced levels of funding that has been made available to the T&D System.⁴⁷

continues in 2024, U.S. Energy Information Administration
<https://www.eia.gov/todayinenergy/detail.php?id=63024>, accessed April 28, 2025.

⁴⁶ *Ibid*

⁴⁷ See February 12th, at 2 (“Only with this full knowledge can Puerto Rico prepare for time when the costs continue but the government help diminishes. As the bondholders have stated: “the funding

The EIA also notes that from the start of 2023 through August 12, 2024, regulators nationwide have authorized 58% of the net rate increases that were requested by utilities. If the Energy Bureau were to approve 58 percent of the increase to LUMA's optimal (T&D) budget, that amount is still \$15 million more than LUMA's Constrained Budget. While LUMA believes the funding needs of the system are reflected in the Optimal Budget, and the Optimal Budget more closely aligns with the existing performance targets, the Constrained Budget is reasonable because it is consistent with the average increase(s) that have been authorized by other regulators. Indeed, the minimum reasonable amount that LUMA is requesting through the Constrained Budget is very much in line with, maybe even short of, rate increases that have been approved by regulators in the United States given the challenges that utilities face. I note, as well, most, if not all, of the utilities that have sought rate increases to sustain increased investments into the energy system own, operate and maintain energy infrastructure that is in significantly better condition than PREPA's T&D System, highlighting the importance of increasing the funding that is available to invest in Puerto Rico's T&D System.

Table 3

Line	Item	\$ millions
(a)	FY2025 Budget	692
(b)	LUMA Optimal Budget FY26	1,648
(c)	LUMA Constrained Budget FY26	1,231
(c)–(a)=(d)	Increase from FY25 to Optimal	956
(d)*0.58	58% of the increase	554
(a)+(d)=(e)	Theoretical Budget for FY2026	<u>1,246</u>
(c)–(e)	Difference between Constrained Budget and Theoretical Budget	(15)

required to maintain the grid, to harden it against natural disasters, to prevent blackouts, and to pay for financing should determine the rate – not the other way around.”).

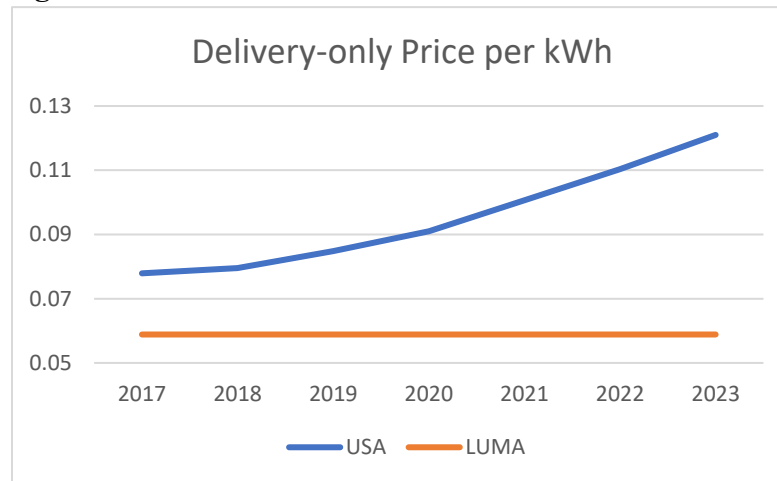
Shown a different way, we can take data from the EIA⁴⁸ on the average price of electricity for residential customers in the United States from 2023 going back to 2017 and compare it to LUMA's then-approved – and still in-effect – residential Base Rates to show, on a chart and in a table that prices (per kWh) for the delivery of electrons have generally increased while Puerto Rico's has remained flat.

Table 4
Delivery-only Price per kWh (\$)

Year	USA ¹	Increase	Puerto Rico ²	Increase
2017	0.0779	-	0.0589	-
2018	0.0795	2%	0.0589	0%
2019	0.0848	7%	0.0589	0%
2020	0.0910	7%	0.0589	0%
2021	0.1007	11%	0.0589	0%
2022	0.1103	10%	0.0589	0%
2023	0.1210	10%	0.0589	0%

¹ Where Delivery-only applies to incumbent distribution utilities
² Assuming 425 kWh monthly consumption, with per kWh energy charge of \$0.04944 plus \$4 customer divided by 425 kWh (\$0.04944+\$0.00941=\$0.05885, rounded to \$0.05889)

Figure 2



Q.43 Why have you chosen to focus on residential customers in this discussion?

⁴⁸ [Electric Power Annual - U.S. Energy Information Administration \(EIA\)](#), Table 2.4 Average price of electricity to ultimate customers by sector, by provider

A. Residential rate classes are available from the sources listed above and are relatively similar across utilities (compared to commercial or industrial classes whose characteristics and rate classes can vary widely from utility to utility). Given that the majority of customers for utilities in North America,⁴⁹ and the fact that they tend to be more price sensitive as a rate class, means that residential rates are a useful yardstick for rate comparison purposes.

All the foregoing analysis is not intended to be exhaustive but rather illustrative, to show: 1) PREPA's base rates have a certain amount of "catching up" to do relative to other utilities given that it has not had a rate increase in over eight years.

VII. SYSTEM-WIDE REVENUE REQUIREMENT AND RATE DESIGN FOR PREPA OWNED T&D, THERMAL GENERATION, AND HYDROELECTRIC ASSETS

Q.44 Please describe the structure of PREPA's System-Wide Rate Review Petition.

A. LUMA is filing this Rate Review Petition to update to PREPA's current Base Rates, which were last set in 2017. As noted above, the Energy Bureau, in the February 12th Order, and then the April 21st Order, determined that this rate review will be conducted by way of a single proceeding with a final Order to be issued one hundred eighty (180) days after a determination of completeness. Within the present proceeding, the PREB

⁴⁹ While residential customers may form the majority of customers by sheer number, the total consumption of this customer class is less than 50% of the utility's total

has established two phases, one to review the system-wide revenue requirement, and the second to review rate design for setting “permanent” rates.

The Rate Review Petition includes schedules and exhibits supported by the sworn written direct testimonies of PREPA’s, Genera’s, and LUMA’s witnesses to support the revenue requirement and rate design for permanent rates in English, but with summary Spanish translations. The Rate Review Petition includes schedules required by the Filing Requirements issued by the PREB in the February 12th and 27th and March 24th Orders and other materials pertaining to the revenue requirement phase of this proceeding. It also includes schedules and materials required by the May 29th Order pertaining to the rate design phase of this proceeding. The Rate Review Petition also includes a draft form of public notice to inform the public that a request to review electric power rates has been filed with this Energy Bureau (*See* LUMA Attachment A, and an executive summary that is included herewith as part of my testimony (*See* LUMA Exhibit 1.04).

Q.45 What is reflected in PREPA’s System-wide revenue requirements?

A. PREPA’s System-wide revenue requirements (including a placeholder for PREPA’s revenue requirements, the revenue requirements for Genera, as operator of the generation assets (non-hydro), and LUMA, as operator of the T&D assets), is the sum of O&M expenses, riders, federally- and non-federally funded capital expenditures for FY2026 (the test year), 2027 and 2028 (collectively, the test period). There is also a Constrained Budget projection for the test period.

Q.46 What is the PREPA’s System-wide base revenue requirement(s)?

A. The proposed revenue requirement being requested herein is approximately \$5.~~233~~
~~572~~ billion for FY2026, \$5.~~502-815~~ billion for FY2027, and \$5.~~516-822~~ billion for
FY2028 based on LUMA's Constrained Budget, Genera's Optimal Budget and
PREPA's budget.⁵⁰ The revenue requirement is presented at this level as a basis for
showing what potential rates could look like under such a scenario. LUMA,
however, fully endorses and defends all cost items in the Optimal Budget with the
understanding the Energy Bureau will evaluate all costs and make a final
determination on the revenue requirement(s).

Q.47 Does PREPA's System-Wide revenue requirement include PREPA's legacy debt?

A. The costs for PREPA's legacy debt that are the subject of Title III are included in
PREPA's revenue requirement, as ordered by the Energy Bureau in the February 12th
Order. Because the Title III proceeding is ongoing, there is a high and low number
estimate included in PREPA's revenue requirement for this debt as required by the
Filing Requirements. Refer to Schedules B-3 and B-4. I understand that PREPA
continues to work on securing a sustainable and long-term solution for the funding
of its pension obligations in connection with this rate review.

Q.48 Which Schedules and Testimonies Support the System-Wide Revenue Requirement of PREPA?

A. The overall revenue requirements are reflected in Schedules B-1 and B-2. Andrew
Smith supports LUMA's revenue requirement for the T&D System only. (See LUMA

⁵⁰ Again, LUMA is submitting a consolidate revenue requirement that LUMA will submit a consolidated revenue requirement that includes a placeholder for PREPA (HoldCo), using PREPA's Fiscal Year 2025 revenue requirement, adjusted for inflation. See Hearing Examiner's amended order of June 20, 2025.

729 Exhibit No. 2.0 and supporting exhibits). The revenue requirement for PREPA and
 730 Genera are supported by testimony of their witnesses.

731 **Q.49 What is reflected in PREPA's System-wide rate design?**

732 A. In accordance with the Energy Bureau's Resolution and Order dated May 29, 2025,
 733 the proposed rate design is based on the system-wide revenue requirement, cost-of-
 734 service study and revenue allocation. As described above, system-wide rate design
 735 contemplates Genera's Optimal Budget, LUMA's Constrained Budget and PREPA's
 736 budget.⁵¹

737 **Q.50 Which Schedules and Testimonies Support the System-wide rate design for**
 738 **PREPA?**

739 A. The rate design is reflected in Schedules L, M and N. Mr. Sam Shannon supports the
 740 rate design for the utility (*See also* LUMA Exhibit No. 20.0 and supporting exhibits).

741 **VIII. LUMA'S REVENUE REQUIREMENT FOR THE OPERATION AND**
 742 **MAINTENANCE OF THE T&D SYSTEM OWNED BY PREPA**

743 **Q.51 How did LUMA calculate the optimal revenue requirements for its operation**
 744 **and maintenance of the T&D system for FY2026, 2027 and 2028?**

745 A. Descriptions of LUMA's bottoms-up process(es) for forecasting revenue
 746 requirements have previously been provided on the record of this proceeding.⁵² In

⁵¹ See footnote 51.

⁵² See NEPR-AP-2023-0003, Responses to First Requirement of Information, Exhibit 1, RFI-LUMA-AP-2023-0003-20231024-PREB-LUMA-01-03(a) available at <https://energia.pr.gov/wp-content/uploads/sites/7/2023/11/20231103-Motion-Submitting-Responses-to-First-Requirement-of-Information-in-Compliance-with-October-24th-Resolution-and-Order-1.pdf> & Request for Continuance of Technical Conference and Motion Submitting Responses to Attachment One of the Resolution and Order March 15, 2024, Exhibit 1, RFI-LUMA-AP-2023-0003-20240315-PREB04 available at <https://energia.pr.gov/wp-content/uploads/sites/7/2025/01/20250118-AP20230003-Motion-Subm-Responses-to-Req-of-Inf-issued-on-Dec-20-2024-and-Jan-10-2025.pdf>

addition to building an Optimal Budget based on the needs of the T&D System, without being limited by revenues generated by the 2017 Rate Order, LUMA endeavored to develop an Optimal Budget that is also executable. In the context of LUMA's optimal revenue requirement, "executability" refers to the practical ability to implement the programs, projects, and activities included in the Optimal Budget within a given fiscal year. While the Optimal Budget is designed to reflect the true needs of the electric system, unconstrained by the revenue limitations of the 2017 Rate Order, LUMA also evaluates whether the proposed spending can realistically be carried out, given real-world constraints. LUMA assessed executability based on both internal and external factors that dictate the pace at which programs and activities can be implemented, including access to labor and craft workers, availability of materials and equipment, and contractor capacity, amongst others. By incorporating these considerations, LUMA ensured that the Optimal Budget is not only a reflection of T&D System's needs but also a plan that can be realistically executed within the fiscal year. This approach helps avoid overestimating what can be accomplished and ensures that budgeted funds are aligned with achievable outcomes, thereby supporting both effective system transformation and responsible financial management.

The optimal and constrained revenue requirements for LUMA are reflected in Schedule B-1. Andrew Smith supports LUMA's revenue requirement for the T&D System only (*See* LUMA Exhibit No. 2.0 and supporting exhibits).

Q.52 How did LUMA calculate the constrained revenue requirement for its operation and maintenance of the T&D System for FY2026, 2027 and 2028?

770 A. Please refer to the testimony of my colleague Andrew Smith for a discussion on the
 771 development of the constrained budget (*See* LUMA Exhibit 2.0, Section V, Revenue
 772 Requirement). The testimonies of LUMA's witnesses in support of the costs of each
 773 of the Departments listed below, address the Constrained Budget. Each witness
 774 identified the various activities that could be deferred without threatening LUMA's
 775 ability to comply with the T&D OMA. LUMA's expert witness Branko Terzic, a
 776 former Commissioner at the Federal Energy Regulatory Commission, also addresses
 777 the concept of the Constrained Budget in his testimony (*See* LUMA Exhibit 19.0).

778 **Q.53 Please identify the schedules that contained LUMA's calculations of the optimal**
 779 **and constrained revenue requirements for its operation and maintenance of the**
 780 **T&D System for FY2026, 2027, and 2028?**

781 A. The Optimal and Constrained revenue requirement(s) for LUMA are reflected in
 782 Schedule B-1. Andrew Smith supports LUMA's revenue requirement for the T&D
 783 System only (*See* LUMA Exhibit No 2.0 and supporting exhibits).

784 **Q.54 Please describe expenses included in LUMA's revenue requirement.**

785 A. LUMA's revenue requirement includes T&D Operating Expenditures and T&D Non-
 786 Federally Funded Capital Expenditures, as well as the same categories of other
 787 expenses that have appeared in the annual budgets since FY2022. As shown in
 788 Schedule C-2, those are: bad debts expenses, Operator Fees, and 2% reserve for excess
 789 expenditures. For bad debt expense, LUMA assumes the same 2.97% that was
 790 approved in PREPA's 2017 Rate Order.⁵³ [A bad debt proposal is included herewith as](#)
 791 [part of my testimony \(See LUMA Exhibit 1.08\).](#) The LUMA fee is calculated by

⁵³ *See* CEPR-AP-2015-0001, Final Resolution and Order, dated January 10, 2017, p. 50.

LUMA’s Contracts Management team within the Regulatory Department (described further below), while Genera’s fee was provided by Genera and can be supported by that entity. The 2% excess expenditure reserve is prescribed in the T&D OMA.⁵⁴

I also note that LUMA has included \$8.75 million in interim costs and expenses. Section 3.4 of the Puerto Rico Transmission and Distribution System Supplemental Terms Agreement (Operator’s Title III Costs and Expenses) states the following as it relates to Interim Costs and Expenses:

“during the Interim Period, all of the following (without duplication) shall be considered T&D Pass-Through Expenditures and shall be deemed administrative expenses of the owner: all costs, expenses, including Fees-and-Costs, arising from, related to or in connection with any participation by Operator in, or any other action taken by Operator in connection with PROMESA, the Title III Case or any other Legal Proceeding related thereto (“Interim Cost and Expenses”). Notwithstanding anything to the contrary herein or in the O&M Agreement, (a), Operator’s inclusion in any applicable Operating Budget of any line item related to the Interim Costs and Expenses shall not be held against Operator for purposes of determining whether an Operator Event of Default has occurred, (b) any Interim Costs and Expenses in excess of the applicable Operating Budget line item shall not be counted against any limitation on Excess Expenditures and (c) all Interim Costs and Expenses shall be deemed to be included in the applicable Operating Budget regardless of whether such Interim Costs and expenses are delineated in such Operating Budget.”

“Interim Cost and Expenses” is comprised of time and expenses associated with Title III activities for LUMA employees and its advisors and technical specialists. The costs associated with these activities include internal labor, legal services, professional and technical consulting services, and IT services. LUMA reviewed its costs and expenses in early 2025 and estimated that, based on the information available at that point in time, Title III related costs would increase by 15% in FY2026. The forecasted increase

⁵⁴ See Section 7.3(b) Budgets, “Each Budget shall include up to a maximum of two percent (2%) in excess of the total amount for excess expenditures that may arise in any Contract Year...

822 was due to an expected increase in Title III related volume of work (e.g. Plan of
823 Adjustment related activities, Title III litigation and mediation, Title III discovery,
824 request for information from Financial Oversight and Management Board for Puerto
825 Rico (FOMB), bondholders and other intervenors, Title III related meetings with
826 internal and external parties, any necessary and required billing system configuration
827 preparation in advance of implementing a confirmed plan of adjustment, and various
828 other activities). As such, internal time spent on Title III activities, internal and
829 external counsel-related activities, and related advisor costs were budgeted to meet
830 these expected demands. During the time when the rate petition was being developed
831 (Q3 FY2025), LUMA's Interim Costs and Expenses were rapidly growing and
832 expected to reach between \$1.9 and \$2 million across all Interim Cost and Expense
833 categories in Q4 FY2025. The team then applied a 15% increase against Q4 estimates
834 for the coming year, provided the volume of work outlined above, leading to a budget
835 of \$8.75 million for FY2026. From there, LUMA estimated that the volume of work
836 would decrease substantially in FY2027 and FY2028 for the rest of the rate period or
837 until PREPA exited Title III. As such, LUMA Interim Costs are forecast to be \$6.5
838 million for FY27 and then \$4.475 for FY2028.

839 On April 16, 2025, PREPA sent LUMA its estimated costs, which amounted
840 to \$18.7 million. As outlined above, since the T&D OMA states that LUMA's related
841 costs are administrative expenses of the Owner, LUMA's \$8.75 million budget is
842 incorporated within PREPA's overall budget for Bankruptcy Title III Advisor Costs.
843 This is consistent with how the amounts have been presented and approved in the
844 Annual Budgets for the past three fiscal years. These costs are consolidated into Line

41 of Schedules C-2 Optimal and C-2 Constrained. As such, the total cost amounts to \$27.45 million.

Finally, an additional line item entitled GridCo Storm Reserve Account is included with \$120 million per year for FY2026 and FY2027. The purpose of requesting this amount is to recover cumulative amounts that have been spent by LUMA, using funds from the Service Accounts on storm response that should have been available through the Outage Event Reserve Account, had PREPA been properly funding that account, and to replenish said account as well as replenishment of the Outage Event Reserve Account. Pursuant to Section 7.5 (d)(ii) of the T&D OMA, PREPA is required to maintain an Outage Event Reserve Account with a minimum balance of \$30 million. The intent behind the Outage Event Reserve Account is for funds to be available to respond to outage events without depleting funds that have been allocated to the operation and maintenance of the T&D System. It is PREPA's explicit responsibility under the T&D OMA to maintain the balance of the Outage Event Reserve Account.⁵⁵ Said account was last funded in November of 2023. To date, neither PREPA nor P3A have identified a funding source to replenish this account and the cumulative balance.

Q.55 Please explain LUMA's proposal to recover \$120 million annually in FY2026 and FY2027 to recover storm responses costs.

A. LUMA is proposing to recover a total amount of \$240 million over a two-year period in order to smooth the rate impact. LUMA proposes this total amount is first recovered through the provisional rate(s), and then the Major Storm Costs Rider (once

⁵⁵ See T&D OMA, Section 7.5(d), at 94.

approved). In the Energy Bureau’s February 27th Order, it directed LUMA to propose a major-storm costs rider. As part of LUMA’s temporary rate request it has already developed a storm rider to be implemented in its billing system. Once the tariff is approved by the Energy Bureau in the final Order, LUMA proposes collecting any cumulative outstanding amounts for outage costs through this rider starting on July 1, 2026 at the start of FY2027.

Q.56 Did LUMA consider the approved Integrated Resource Plan and its implementation timeline?

A. Yes. The February 12th Order requires the rates to account for the costs to carry out actions required by the existing Integrated Resource Plan (“IRP”) and the 2025 Integrated Resource Plan expected to be filed later in calendar year 2025 (the “2025 IRP”). While the existing IRP is incorporated to LUMA’s capital plans, the final 2025 IRP is scheduled to be filed on October 17, 2025. Given that the 2025 IRP is currently under development, it is not contemplated in this rate review docket. Moreover, as stated by LUMA in RFI-LUMA-AP-2023-0003-20241220-PREB#3, based on current assumptions in the preliminary 2025 IRP, the impact on LUMA’s revenue requirement(s) for FY2026, FY2027 and FY2027 would be immaterial.⁵⁶

Q.57 Does LUMA’s proposed revenue requirement include cost share matching funds for federally funded projects?

A. Yes. As required by the Energy Bureau, Schedules B-1 includes cost share matching funds for federally funded projects to account for the possibility that matching funds

⁵⁶ See NEPR-AP-2023-0003, Motion Submitting Responses to Requests of Information issued on December 20, 2024, Exhibit 1, LUMA Responses to December 20th ROI, *available at* [20250118-AP20230003-Motion-Subm-Responses-to-Req-of-Inf-issued-on-Dec-20-2024-and-Jan-10-2025.pdf](#).

may not be available from the Commonwealth of Puerto Rico to be evaluated in this rate case.⁵⁷

Q.58 What are the justifications for LUMA's proposed revenue requirement?

A. The revenue requirement requested herein to be collected initially through provisional rates and then new permanent rates is vital to keep rebuilding the T&D System that the people of Puerto Rico expect and deserve. That is, updated permanent rates are necessary to fund O&M activities, such as hiring and developing new employees, and to fund non-federal capital, all of which is necessary for LUMA to provide customer-centric, reliable, resilient, safe, and sustainable electricity at reasonable prices in accordance with the T&D OMA and Act 57-2014. The departmental budgets are discussed in the primary direct testimonies of the witnesses responsible for those departments. I discuss the Regulatory Department's budget in Section X of this testimony.

Because LUMA's FY2026 revenue requirement is founded on a bottom-up assessment of the current needs of the T&D System, and because it takes into account improvements already implemented, LUMA's proposed revenue requirement is just and reasonable, and provides reliable service at a reasonable cost. In other words, the LUMA portion of the proposed costs that the PREPA rates would recover, represents the costs of providing O&M service for PREPA's T&D System in Puerto Rico.

⁵⁷ See NEPR-MI-2021-0004, Determination on LUMA's FY23 Annual Budgets and LUMA's FY24 Annual Budgets pre-filing requirements, p. 18. Where, the "Energy Bureau ORDERS LUMA to ensure that Federal Funding is not jeopardized due to the unavailability of matching funds," and "to account for the possibility that matching funds may not be available from other sources." All of which will be evaluated in the rate case.

Q.59 What testimonies and schedules support the revenue requirement and rate design for FY2026, FY2027 and FY2028?

A. The System revenue requirements – at optimal and constrained levels – are reflected in Schedules B, submitted as part of this rate petition. The schedules reflect the revenue requirements for the individual departments, which are sponsoring witnesses to support their department’s revenue needs for FY2026, FY2027 and FY2028. The output of the System rate design is reflected in, among others, Schedules M. Table 5 below identifies LUMA’s Exhibit numbers, witnesses, and the Schedules that they support (if any):

Table 5

Exhibit No.	Witness – Testimony	Schedule(s)
LUMA Ex. 1.0	Alejandro Figueroa, Chief Regulatory Officer, LUMA Energy ServCo LLC System-Wide Revenue Requirement Overview, Provisional Rate and Regulatory Testimony	Schedule C-6 Schedule H-1 Schedule J-1 Schedules N-2, N-3
LUMA Ex. 2.0	Andrew Smith, Chief Financial Officer, LUMA Energy ServCo, LLC LUMA’s Revenue Requirement and Finance Department Testimony	Schedules A-1, A-2 Schedules B-1 through B-7 Schedules C-1 through C-5, C-7, C-9 & C-11 Schedules D-1, D-3, D-4
LUMA Ex. 3.0	Eduardo Balbis, Partner, Guidehouse on behalf of LUMA Energy ServCo, LLC Expert Witness Testimony – Regulatory Oversight, Budgeting Processes, Reporting Practices, Efficiencies, and Net Metering	N/A

Exhibit No.	Witness – Testimony	Schedule(s)
LUMA Ex. 4.0	Joseline N. Estrada Rivera, Director of Load Forecasting, LUMA Energy ServCo, LLC Load Forecast Testimony	Schedule F-6
LUMA Ex. 5.0	Pedro A. Meléndez Meléndez, Chief Capital Programs & Grid Transformation Officer, LUMA Energy ServCo, LLC Capital Programs Department Testimony	N/A
LUMA Ex. 6.0	Kevin Burgemeister, Senior Vice President of Operations (Acting), LUMA Energy ServCo, LLC Operations Department Testimony	N/A
LUMA Ex. 7.0	Jessica Laird Sarah Hanley, <u>Interim Senior</u> Vice President of Customer Experience (Acting) , LUMA Energy ServCo, LLC Customer Experience Department Testimony	Schedule E-5
LUMA Ex. 8.0	Michael Granata, Senior Vice President, Safety, Security and Emergency Response (Acting) LUMA Energy ServCo, LLC Health, Safety and Environment Testimony Department Testimony	N/A
LUMA Ex. 9.0	Ivonne Gómez Méndez, Chief People Officer, LUMA Energy ServCo, LLC Human Resources Department Testimony	N/A
LUMA Ex. 10.0	Ángel E. Rotger Sabat, Esq., Chief Legal Officer, LUMA Energy ServCo, LLC Legal Department and Land and Permits Division Testimony	N/A

Exhibit No.	Witness – Testimony	Schedule(s)
LUMA Ex. 11.0	Crystal Allen, Chief Information Officer, LUMA Energy ServCo, LLC IT OT Testimony	N/A
LUMA Ex. 12.0	Michelle Fraley, Vice President, Corporate Security and Emergency Management, LUMA Energy ServCo, LLC Emergency Preparedness Testimony	N/A
LUMA Ex. 13.0	Michelle Fraley, Vice President, Corporate Security and Emergency Management, LUMA Energy ServCo, LLC Corporate Security Testimony	N/A
LUMA Ex. 14.0	Lorenzo López, Chief of Communications and Stakeholder Engagement, LUMA Energy ServCo, LLC Corporate Communications Testimony	N/A
LUMA Ex. 15.0	Juan Rogers, Chief Procurement and Supply Chain Officer LUMA Energy ServCo, LLC Procurement and Supply Chain Testimony	N/A
LUMA Ex. 16.0	Ángel E. Rotger Sabat, Esq., Chief Legal Officer, LUMA Energy ServCo, LLC Compliance Testimony	N/A
LUMA Ex. 17.0	José Latorre González <u>Miguel A. Sosa Alvarado, Manager of Design and Space Planning Facilities and Infrastructure</u> , LUMA Energy ServCo, LLC Facilities Testimony	N/A

Exhibit No.	Witness – Testimony	Schedule(s)
LUMA Ex. 18.0	Kevin Burgemeister, Senior Vice President of Operations (Acting), LUMA Energy ServCo, LLC Fleet Testimony	N/A
LUMA Ex. 19.0	Branko Terzic Expert Witness Testimony	N/A
LUMA Ex. 20.0	Sam Shannon, Associate Director, Guidehouse Rate Design (including provisional rates), COSS	<u>Revenue requirement</u> Schedules C-8 and C-10, E-1, E-2, E-3, and E-4 Schedules F-1 through F-5, F-7 Schedule I-1 <u>Rate Design</u> K-1 through K-2, L-1 through L-2, M-1 through M-9, Schedule N-1 Schedules O-1 through O-4 Schedules P-1 through P-4

Q.60 Would the Optimal Budget enable LUMA to meet all performance metrics?

A. LUMA's Optimal budget does not allow it a reasonable opportunity to earn its respective incentive fee, when applicable, because of the way the performance metrics have been set by the Energy Bureau. Because the Constrained Budget reduces the Optimal Budget by identifying further tradeoffs and deferrals, to the extent possible, the Constrained Budget does not give LUMA a reasonable opportunity to earn its incentive fee either.

Q.61 Do the limitations inherent to the Constrained Budget impact LUMA's ability to meet the performance metrics?

A. Yes. As described in the testimonies of my colleagues, if the Energy Bureau approves only the Constrained Budget, there are impacts to the organization's ability

929 to meet the performance metrics.

930 **Q.62 If LUMA's ability to meet the performance metrics will be affected, do you**
 931 **have a recommendation on how the performance metrics may be adjusted?**

932 A. Not at this time. To file such a proposal, LUMA would then need to consider the
 933 budget that the Energy Bureau ultimately approves to be able make appropriate
 934 judgements about how the approved budgets may affect performance and LUMA's
 935 ability to earn the incentive fee agreed upon in the T&D OMA. Due to the highly
 936 interrelated nature of many of the performance metrics, and the complexity of such
 937 an endeavor, LUMA proposes that it is most appropriate to defer the determination
 938 of updated baselines and targets to a new proceeding, to be conducted once the
 939 determination on available funding has been completed.

940 **IX. REGULATORY DEPARTMENT ACTIVITIES RELATED TO FUNDING**
 941 **REQUEST**

942 **Q.63 What are the key functions of the Regulatory Department?**

943 A. The Regulatory Department is responsible for submitting filings with this Energy
 944 Bureau, including supporting the transformation of the utility. Regulatory also works
 945 to ensure compliance with all relevant laws, regulations, compliance with the T&D
 946 OMA and supports government affairs and public policy.

947 **Q.64 Please explain what you mean by transformation of the utility.**

948 A. I mean bringing the operations and maintenance activities up to Contract Standards
 949 under the T&D OMA. I note PREPA did not have a regulatory department (as it was
 950 self-regulated until 2014), and this is a function that LUMA has established since
 951 commencement and serves as an effective interface with the Energy Bureau.

952 **Q.65 How does the Regulatory Department ensure compliance with relevant law and**

regulations?

A. Employees in the Regulatory Department continuously refers to laws and regulations that specifically govern regulatory processes and/or those respecting active and ongoing dockets before this Energy Bureau. For example, throughout this rate review proceeding LUMA has reviewed Acts 57-2014 and 83-1941 to provide guidance and recommendations to the Hearing Examiner on the implementation (and subsequent reconciliation) of provisional rates and the determination of completeness by the Energy Bureau. The Regulatory Department may also provide internal guidance on the interpretation or implementation of certain provisions in Regulation 8058, Amendment to the Regulation of General Terms and Conditions for the Supply of Electric Energy, No. 7982, dated August 19, 2011. The Regulatory Department must also be familiar with various interconnection regulations for consultations with this Energy Bureau or for regulatory reporting purposes. These are just a couple of examples.

Q.66 How is the Regulatory Department organized?

A. Regulatory has five subdepartments: (1) Contracts Management, (2) Grid Modernization, (3) Programs and Compliance (4) Tariffs & Budgets and Load Forecasting (5) and Government Affairs and Public Policy.

Q.67 Please describe the primary focus and roles of Contract Management Subdepartment.

A. The Contracts Management sub-department is responsible for compliance with the T&D OMA and working with government agencies such as FOMB, P3A, the Central Officer for Reconstruction, Recovery and Resiliency (“COR3”) as well as

coordinating with PREPA and Genera under the PGHOA. In doing so, they coordinate with internal LUMA teams to collect the necessary information to comply with the recurring and *ad hoc* reporting needs of these government agencies. This sub-department is also responsible for ensuring that LUMA's Service Fee is properly billed.

Q.68 Please describe the primary focus and roles of Grid Modernization.

A. The Grid Modernization sub-department identifies requirements and supports the development of plans related to renewables integration, distributed energy resources, new generation resources, in addition to developing the 2025 IRP.

Q.69 Please describe the primary focus and roles of Programs and Compliance.

A. Programs and Compliance supports utility and customer programs, and performance metrics dockets, and provides updates on major programs (including, but not limited to federal funding, physical security, emergency response, energy efficiency, vegetation management and data security). Programs and Compliance also collects information concerning and prepares reports on LUMA's performance in the Legacy Performance Metric and Incentive Performance Metric and dockets, as defined by the T&D OMA. Programs and Performance also helps to manage incident reporting with the Energy Bureau.

Q.70 Please describe the primary focus and roles of Tariffs and Budgets and Load Forecasting.

A. Tariffs and Budgets is responsible for all matters related to LUMA's tariffs and riders such as this rate review and the maintenance of the existing permanent rate structure, including, but not limited to, the quarterly reconciliation and update of the Fuel Charge

Adjustment (“FCA”), and Power Purchase Charge Adjustment (“PPCA”) riders. The team also manages all matters related to LUMA’s Budgets and SRP dockets, including, but not limited to the following: Annual Budget filings, and Quarterly and Annual Reports. It is also involved in coordinating the development of the budgets required by this rate review and has been involved in the design of tariff structures to recover the total approved revenue requirement. This sub-department also includes Load Forecasting, which is responsible for the development and improvement of LUMA’s load forecasting. The planned load forecasting improvements will utilize a myriad of data and regression modelling to estimate energy consumption by LUMA customers, as further described in the testimony of my colleague, Joseline Estrada (*See* LUMA Exhibit 4.0).

Q.71 Are there functions previously under Regulatory that have been moved to other Departments? If so, please explain.

A. Yes. Regulatory previously oversaw land and permits, supply side contract administration (“SSCA”), and stakeholder relations and external affairs departments. Commensurate with my appointment as the Chief Regulatory Officer, the land and permits department was moved under LUMA’s Legal Department and SSCA moved under the operations department. Recently, with the appointment of LUMA’s Chief Communications and Stakeholder Relations Officer, the stakeholder relations and function was consolidated under his supervision, while my department retained primary responsibility for Government Affairs and Public Policy functions, as further described below. These organizational changes better align functional areas with the departments they are supporting. For more information, please refer to the testimony

for the legal, operations and corporate communications departments, respectively.
 (See LUMA Exhibits 10.0 (Legal), 6.0 (Operations) and 14.0 (Corporate Communications)).

Q.72 Please describe the primary focus and roles of Government Affairs and Public Policy.

A. This subdepartment builds and maintains relationships with government representatives to ensure LUMA will be able to participate in cross-functional policy discussions with government entities (and other industry stakeholders through collaboration with that team) to promote policies that benefit our customers. This subdepartment is also responsible for ensuring compliance with requirements established by Government agencies, as well as responding to any requests for information, including those issued by the Legislative Assembly, and appearing before legislative committees as required to support the interests of the T&D System, our customers and contribute to the development of Puerto Rico's energy public policy. Government Affairs and Public Policy also provides the business with support by identifying issues and opportunities with new or proposed regulations. Other more mature utilities in North America have their own government relations teams that perform similar functions. All of which ensures that both the utility and its customers are considered as policy and industry changes occur to help mitigate the risk of unintended consequences that could adversely impact the utility and/or its customers.

X. REGULATORY PROPOSED BUDGETS & IDENTIFIED NEEDS

A. Optimal Budget

Q.73 What are the proposed FY2026, FY2027 and FY2028 Optimal Budgets for the Regulatory Department?

A. Table 6 below summarizes the FY2026, 2027 and 2028 Optimal Budget(s).

Table 6. Budget Request for Regulatory Department FY2026-FY2028 (\$ millions)

Kind of Expense (\$, thousands)	FY2025 Approved Amount		FY2026 Amount Required		FY2027 Amount Required		FY2028 Amount Required	
	O&M	NFC	O&M	NFC	O&M	NFC	O&M	NFC
Staffing	\$10.05		\$10.98		\$11.64		\$12.34	
Material and Supplies	\$0.00		\$0.00		\$0.00		\$0.00	
Transportation, Per Diem, and Mileage	\$0.21		\$0.22		\$0.23		\$0.24	
Technical and Professional Services ^{1 2}	\$5.35		\$9.43		\$10.00		\$10.60	
Legal Services	\$3.20		\$6.7		\$7.10		\$7.53	
Other Expenses ³	\$1.06		\$0.90		\$0.95		\$1.01	
Total⁴	\$19.87		\$28.23		\$29.92		\$31.72	
¹ Includes IT Licenses for CRM								
² Sum of IT Service Agreements and Professional and Technical Services line items in the working papers								
³ Sum of Rent, Postal & Communications Expenses and Miscellaneous Expenses in the working papers								
⁴ Figures may not match due to rounding								

Q.74 Please describe the process undertaken to arrive at the proposed Optimal Budgets.

A. To develop the Optimal Budget, the regulatory department followed the finance department's rigorous process for developing an organization-wide budget at a department level to capture planned expenditures including operating expenditures and non-federal capital (if any). This is the same bottom-up, methodical approach that LUMA (and the regulatory department) used to develop its budgets for past annual

budget submissions but without the revenue limitations created by the 2017 Base Rates. I note the optimal budget contemplates the significant increase in regulatory workload that requires review and coordination by the regulatory department, up to and including the senior leader level. Increased regulatory requests have necessitated the need, under the current FY2025 budget, for longer hours to provide timely and accurate information that is increasingly required by the Energy Bureau (and other agencies such as the FOMB). The regulatory workload for the first three quarters of FY2025 has already exceeded FY2024 in terms of the number of technical conferences and requests for information, is on pace to exceed the total annual number of filings from FY2024. Please refer to Table 7 below.

Table 7. FY24 Regulatory Workload vs. Q1/Q2 FY25 – PREB Only

Deliverable	FY24 (Annual)	FY25 (Q1, Q2, Q3)
Regulatory PREB Filings	303 filings	232 filings
Technical Conferences	11 conferences 153 witnesses	14 conferences 92 witnesses
Requests for Information (RFIs)	290 RFIs	295 RFIs

Q.75 What are the staffing costs included in the Optimal Budget?

A. Staffing costs include compensation for the Regulatory Department’s 56 employees (excluding land and permits, SSCA and stakeholder relations). Staffing costs include base salaries, fringe benefits and bonuses. Please refer to Table 8 below for a breakdown. The staffing costs also include the cost for an additional headcount of 33 in FY2026. I note the total number of employees identified in Table 8 is slightly higher than the workpapers (which has a total employees count of 87) because the forecast is grossed up for an assumed 2 percent vacancy rate.

1074

Table 8. FY26 Regulatory Headcount Information

Summary of Regulatory FY2026 Headcount			
Regulatory by subdepartment	FY2026		Comments/Rationale
	FTE Summary	New Hires	
Executive	3	6	Layer beneath Chief Regulatory Officer to manage coordination among dockets and high regulatory workload
Tariffs, Budgets and Load forecasting	22	6	Rate review and permanent rate dockets, plus the load forecasting improvement project
T&D Contract Management	6	2	Necessary to support the increased workload observed with P3A, PREPA, Genera, FOMB and COR3
Programs and Compliance	9	12	High regulatory workload given ad hoc investigations (such as June 12 th Outage etc.)
Grid Modernization	12	4	IRP, distributed energy resources and absorption of dockets from SSCA
Government Affairs	4	3	Manage relations and compliance requirements associated with the federal and state executive and legislative branch.
Subtotal	56	33	
Total	89		

1075 **Q.76 Why are additional hires needed in Regulatory?**

1076 A. At the executive level, there is need to build and establish a senior management
 1077 layer, and other employees (Manager and Director) directly beneath me in order to
 1078 help manage high regulatory workload and provide ongoing strategic guidance and
 1079 direction to LUMA employees to prepare high quality filings for the Energy Bureau.
 1080 Additional hires in the individual subdepartments are also needed, as further
 1081 discussed below.

1082 **Q.77 Explain the need to hire six (6) positions in the Executive cost center?**

1083 A. LUMA plans to add six (6) new positions in the Executive cost center, including one
 1084 (1) VP, Regulatory, one (1) Manager, Strategic Priorities, one (1) VP, Government
 1085 Affairs, one (1) VP, Tariffs, Budgets and Load Forecast, one (1) Director,
 1086 Regulatory Coordination, and one (1) Office Manager. The VP, Regulatory will
 1087 ensure strategic alignment is achieved across all of LUMA's PREB-related matters.
 1088 The Director, Regulatory Coordination and Manager, Strategic Priorities will
 1089 directly support the Chief Regulatory Officer with executive reporting and help
 1090 advance Regulatory's strategic direction across the organization by liaising and
 1091 working closely with various executive team members of other LUMA departments
 1092 on behalf of the Chief Regulatory Officer. The VP, Tariffs, Budgets and Load
 1093 Forecast will ensure strategic alignment across these three distinct but highly
 1094 interrelated subdepartments. The VP, Government Affairs will establish, develop,
 1095 and maintain relationships with government and legislative stakeholders to advance
 1096 LUMA's policy objectives. Finally, the Office Manager will coordinate the day-to-
 1097 day administrative operations of the office to ensure smooth workflows.

1098 **Q.78 What is the reason for six (6) new hires in the Tariffs, Budgets and Load**
 1099 **Forecasting subdepartment?**

1100 A. Tariffs, Budgets and Load Forecasting has been understaffed for some time, and there
 1101 is significant work expected during and after the two phases of this rate review,
 1102 especially rate design and implementation,⁵⁸ continued quarterly and annual budget

⁵⁸ The Energy Bureau's February 12th Resolution and Order states "The Energy Bureau will convert the projected rates for FY2027 and FY2028 through a procedure to be specified in the current proceeding's final Order (p. 3 of 34).

reporting (as well as possible future budget amendments) in addition to ongoing permanent rate docket (NEPR-MI-2020-0001), which includes quarterly factors for the FCA and PPCA riders, as well as annual adjustments to CILT and subsidies. LUMA also notes the PPCA is becoming increasingly complicated as it captures costs for renewable energy programs such as the Customer Battery Energy Sharing (“CBES”) and the Backup Generators (“BUGS”) programs. The Load Forecasting team also conducts studies that are essential for system and financial planning, including but not limited to: load profile studies, and net metering impacts. Because of the specialized knowledge within Load Forecasting, there is need to recruit additional resources to guarantee that knowledge is transferred over time without compromising data accuracy or delivery dates.

Q.79 Please explain the need for two (2) new hires in Contracts Management.

A. Two (2) additional analyst positions are required to support the Contracts Management team with a significant increase in workload in terms of communications with PREPA, Genera but also external agencies. The number of communications that the Contracts Management team has been handling has doubled since the start of FY2025, and the communications are becoming increasingly complex. Add to this the expected continuation of external agency contract package review processes that are handled by this subdepartment, as well as other ad hoc requests that come such as internal inquiries and the shared services exit, it is reasonable to request two additional positions to avoid stretching current resources in the team too thin.

1125 **Q.80 Can you explain the need for twelve (12) new hires in Programs and**
 1126 **Compliance.**

1127 A. The Programs and Compliance subdepartment has also been operating with
 1128 insufficient resources given the multiple active regulatory proceedings and the
 1129 regulatory guidance support provided to operating units within LUMA.

1130 **Q.81 Please explain the basis for requesting four (4) new hires in Grid**
 1131 **Modernization?**

1132 A. Grid Modernization's staffing need is driven by the ongoing IRP process, where an
 1133 adjudicative process is expected to begin in FY2026. There is also much ongoing
 1134 work in the area of distributed energy resources, including repeated requests for
 1135 information and consultations on Net Energy Metering, interconnection regulations
 1136 and microgrids. A new regulation is expected on interconnections, which will
 1137 require coordination across LUMA to provide the best possible feedback. This sub-
 1138 department will also absorb all dockets from the SSCA sub-department
 1139 (commensurate with that subdepartment's move to the Operations Department).
 1140 These dockets include reporting on renewable procurement tranches, resource
 1141 adequacy, Accelerated Storage Additional Program ("ASAP") program, and
 1142 Renewable Energy Credits.

1143 **Q.82 Please explain the need to hire three (3) employees for the Government Affairs**
 1144 **subdepartment.**

1145 A. The sub-department is requesting three additional analysts who will be responsible
 1146 for conducting initial analysis and drafting responses on legislative measures,
 1147 legislative requests for information, reports, and other information requested from

the executive branch, the U.S. Congress, and other agencies in the federal government. The analysts will also be responsible for gathering information and organizing the information collected from the LUMA departments to respond to the legislative measures and requests. These roles are important and necessary because they will allow LUMA to participate in and comment, with the best information available, without burdening the LUMA departments whose focus remains on rebuilding the grid. To give context for the scale, the Government Affairs and Public Policy subdepartment interacts with over one (1) hundred government entities from the executive branch and approximately a dozen more on the legislative side. Puerto Rico's Legislative Assembly operates on a full-time basis with two legislative sessions a year for four years.

Q.83 Is Regulatory planning to add FTEs in FY2027 and FY2028?

A. Yes. Given Regulatory is an enabling support function for work performed by various LUMA Departments, the Regulatory Department projected an expansion in FY2027 and FY2028 by looking holistically at the growth of the departments that we support and the planned increase in workload in the coming years. Alongside the Finance Department, Regulatory took into account the effect of inflation for increase(s) in wages (basically, salary increases) for FY27 and FY28 and the growth of the Regulatory Department commensurate with growth of the organization and the resulting volume of regulatory-related work that arises as a result.

Q.84 What is included in Materials and Supplies?

A. Materials and supplies are amounts to cover day-to-day office supplies and materials for employees, on a per year basis, to perform their job functions excluding computers,

1171 which are covered in the IT/OT budget. It is estimated based on historical budget
1172 numbers.

1173 **Q.85 What costs are included in Transportation, Per Diem and Mileage?**

1174 A. Transportation, per diem and mileage are amounts to cover “air” and “ground”
1175 transportation costs of the Regulatory Department’s employees and contractors.
1176 These costs are estimated based on historical budget figures.

1177 **Q.86 What types of costs are included in Technical and Professional Services?**

1178 A. The costs included in the Technical and Professional Services include the costs of
1179 outside consultants. One consulting firm is providing resources to support the rate case
1180 and to provide support for the load forecasting improvement project support. One
1181 consultant from another firm is providing support for the IRP. These costs also include
1182 the cost of a consulting firm that provides overall project management of various
1183 Regulatory, PREB and T&D OMA initiatives and general staff augmentation where
1184 short-term support is critical or for roles that have proven difficult to fill locally. To
1185 determine Technical and Professional Services costs, every contract owner in the
1186 Regulatory Department determines an amount based on previous contract spend for
1187 each contractor. The contract owners evaluate the activities where support is expected
1188 to be required for FY2026 and project amounts to be spent. Technical and Professional
1189 Services were indexed by an inflation rate of six (6) percent for FY2027 and FY2028.

1190 **Q.87 Will additional hires translate to spending less on Technical and Professional**
1191 **Services?**

1192 A. Not in the near term. While Regulatory plans to increase headcount to achieve its long-
1193 term goal of reducing use of external contractors, the Regulatory Department will need

external contractor support until new hires are fully onboarded and trained. Unlike other utilities located on the Continental United States, LUMA does not have a large pool of candidates with regulatory expertise. This means that LUMA must hire candidates who are capable, and who have the right skills, and teach them how to do utility regulatory work. Moreover, the Regulatory Department will continue to need Technical and Professional Services for specialized, infrequent or highly technical dockets, such as this rate review and the IRP.

Q.88 Is Regulatory proposing to add new Technical and Professional Services?

A. Yes. The government affairs and public policy subdepartment is investing in a Customer Relationship Management (“CRM”) system to allow us intake, manage, keep track, and respond government information requests, legislative measures and inquiries, as well as other associated reports. The application will also be a valuable tool to collect and keep updated point of contacts information, organize meetings, site visits, and communicate with key government stakeholders to build and maintain strong and healthy relationships with them. The tool will facilitate the organization and centralization of information regarding government stakeholders necessary to support meaningful engagement and to use to help with effective (executive and legislative branch) case management. The Contracts Management Subdepartment is also seeking to implement a Contract Administration Management System (“CAMS”) that will replace a cumbersome manual compliance tracking system, and, in turn, improve regulatory reporting and contract management. This investment will help the regulatory department better fulfill its roles and responsibilities.

1216 **Q.89 Can you explain the Contract Administration Management System.**

1217 A. The CAMS is a tool developed by LUMA to define the T&D OMA contract
1218 responsibilities into its individual contract clauses, providing additional breakdown
1219 for interpretation of the clauses, categorizing them by the teams they correspond to
1220 and topics they relate to, with the objective of using it as a guide to understand
1221 LUMA's respective T&D OMA responsibilities and how to fulfill them.

1222 **Q.90 Can you further explain the Customer Relationship Management System?**

1223 A. The system will work as a case management tool to which will have a portal
1224 available to federal and state government officials and representatives from the
1225 executive and legislative branch to submit their requests for information, inquiries,
1226 requests for meetings and site visits, as well as any official communications. Each
1227 request or official communication will be registered, analyzed, assigned, and
1228 responded to through the system. The system provides for keeping records of points
1229 of contact, meetings scheduled, minutes, and other useful information.
1230 The purpose of this project is to create and manage cases in an efficient way by: (1)
1231 facilitating the registration, management and identification of cases; (2) creating a
1232 centralized government stakeholders database preventing data duplication; (3)
1233 facilitating the registration, management and identification of stakeholders; (4)
1234 managing a 360-degree view of the stakeholder; (5) implementing Customer Service
1235 Portal to add new communication channels; and (6) conducting data analysis and
1236 management through interactive dashboards, thus being able to visualize daily
1237 management and compare with previous periods.

1238 **Q.91 Are there any technical costs that are included in the FY2026 budget that will**
 1239 **change in subsequent years?**

1240 A. Yes. Regulatory budgeted entirely for CAMS implementation in Technical and
 1241 Professional Services for FY2026 (\$150K inclusive of some technical and
 1242 professional services for support of implementation). However, starting in FY2027,
 1243 the IT/OT department will pay for license(s) in its budget. CRM will be
 1244 implemented in the current year (i.e., FY2025), and regulatory will have continued
 1245 licensing fees in FY2026 and beyond. The CRM system costs for Regulatory may
 1246 vary slightly in future years as incremental licenses are incurred so that third parties
 1247 can use the tool.

1248 **Q.92 Please describe the legal services costs included.**

1249 A. Yes. Legal costs for the Regulatory Department is for the services provided by
 1250 external legal counsel who provide support to LUMA for all of its dockets with the
 1251 Energy Bureau. I note that because of the specialized nature of the work, only the
 1252 Procurement and Regulatory departments have their own external legal counsel,
 1253 which they manage within their respective departmental budgets. LUMA's other
 1254 departments rely on LUMA's internal resources. The LUMA legal department does
 1255 not generally support either Regulatory or Procurement but remains available to both
 1256 departments for general advice. For clarity, LUMA has provided the legal costs as a
 1257 separate line item in Table 6 above.

1258 **Q.93 What costs are included in Other Expenses?**

1259 A. Other expenses include LUMA's budgeted amounts for payments to support the
 1260 operation of the public entities associated with energy regulation, including \$700K

1261 in FY2026 up to \$798K in FY2028.

1262 **B. Constrained Budget**

1263 **Q.94 Is the Regulatory Department proposing a Constrained Budget? If not, please**
 1264 **explain why.**

1265 A. Yes.

1266 **Q.95 What is the Constrained Budget for the Regulatory Department?**

1267 A. Please refer to Table 9 below for the constrained budget.

1268 **Table 9. Summary of Regulatory Constrained Budget FY2026-FY2028 (\$ millions)**

Kind of Expense (\$, thousands)	FY2025 Approved Amount		FY2026 Amount Required		FY2027 Amount Required		FY2028 Amount Required	
	O&M	NFC	O&M	NFC	O&M	NFC	O&M	NFC
Staffing	\$10.05		\$9.70		\$10.18		\$10.69	
Material and Supplies	\$0.00		\$0.00		\$0.00		\$0.00	
Transportation, Per Diem, and Mileage	\$0.21		\$0.22		\$0.23		\$0.24	
Technical and Professional Services ^{1 2}	\$5.35		\$7.26		\$7.62		\$8.00	
Legal Services	\$3.20		\$6.70		\$7.04		\$7.39	
Other Expenses ³	\$1.06		\$0.90		\$0.94		\$0.99	
Total⁴	\$19.87		\$24.78		\$26.01		\$27.31	

¹ Includes IT Licenses for CRM

² Sum of IT Service Agreements and Professional and Technical Services line items in the working papers

³ Sum of Rent, Postal & Communications Expenses and Miscellaneous Expenses in the working papers

⁴ Figures may not match due to rounding

1269 **Q.96 How did the Department build with the Constrained Budget?**

1270 A. The Regulatory Department looked at what programs or activities could be deferred
 1271 in FY2026 in order to produce a “customer sensitive” budget in accordance with the
 1272 Energy Bureau’s February 12th Order and considered inflation for the remaining two

years in the test period. Reductions were made in the labor and technical and professional services KOEs. Specifically, the Department deferred eleven positions across various groups within Regulatory to reduce prospective headcount and reduce the Regulatory staffing expense. Additionally, professional services were reduced by \$2 million, \$2.3 million and \$2.5 million for FY2026, FY2027, and FY2028, respectively ~~\$1 million~~ to minimize expenses.

Q.97 What specific activities will not be funded under the Constrained Budget?

A. The Regulatory Department determined that it could defer spending in professional and technical services, as well as in labor.

Q.98 Will the Department's ability to meet regulatory requirements be affected by the Constrained Budget?

A. Yes. As described above, the number of filings that the department is responsible for has increased as the Energy Bureau (and other agencies) request information and add additional requirements. To the extent that the Regulatory Department's budget is constrained, this will have impact on the department's ability to meet its increasing regulatory responsibilities. The impact could be an increased risk of employee efficiency or effectiveness and/or turnover, incomplete or insufficient information being provided to the PREB or other external agencies, or missing deadlines entirely.

Q.99 Does the Regulatory Department directly support performance metrics? If so, which ones?

A. No.

1294 **Q.100 Does the Regulatory Department indirectly support performance metrics? If so,**
1295 **which ones?**

1296 A. No.

1297 **XI. REQUEST FOR PROVISIONAL RATE**

1298 **Q.101 What is a Provisional Rate?**

1299 A. A Provisional Rate is a temporary rate established by the Energy Bureau under section
1300 6.25(e) of Act 57-2014, as amended. A Provisional Rate is subject to reconciliation
1301 meaning that if the Permanent Rate that the Energy Bureau establishes at the end of a
1302 rate review is lower or higher than the Provisional Rate, customers will be refunded
1303 or charged the difference between the Permanent Rate and Provisional Rate.

1304 **Q.102 Why is the utility requesting an application for a Provisional Rate?**

1305 A. The Energy Bureau's February 12th Resolution and Order required the utility to
1306 request a Provisional Rate. The Energy Bureau stated, "provisional rates are necessary
1307 because the fiscal year for the new rates begins on July 1, 2025, well before the Energy
1308 Bureau will have decided on the permanent rates." Then, in its April 21st Order, the
1309 Energy Bureau stated "LUMA may include, with its formal petition [to be filed on
1310 July 3], a request for provisional rates." In general, as described herein, the revenues
1311 produced by current rates are not sufficient for LUMA to be able to proactively repair
1312 and invest in the system. Recently, the Energy Bureau acknowledged that revising
1313 current Base Rates is essential for Puerto Rico's electric system to remain reliable and
1314 financially sustainable and that the Temporary Default Budget amounts are interim
1315 and shall remain in force until superseded by provisional (and/or final) rates issued in

the present Rate Review proceeding.⁵⁹ LUMA agrees. While this rate review gives the utility the opportunity to update its revenue requirement and permanent rates, a final Order is not expected to be issued until at least one hundred eighty (180) days from a determination of completeness. Thus, a provisional rate will help close the gap between the insufficient levels of funding awarded through current rates (as evidenced by the Temporary Default Budget) and the levels of funding necessary to enable investments on par with T&D System needs.

Q.103 When will the Provisional Rate go into effect?

A. Given that LUMA is submitting this Rate Review Petition on July 2, 2025, LUMA expects the provisional rate(s) would go into effect September 1, 2025. Act 57-2014 states that within thirty (30) days after filing a rate modification request, the Energy Bureau may make a determination about whether the provisional rate should be established. If affirmative, the provisional rate shall take effect sixty (60) days after the date of approval of the provisional rate, unless the Energy Bureau determines, upon request, that the provisional should take effect earlier, but never less than thirty (30) after approval of the provisional rate.

Q.104 Did the Energy Bureau establish criteria for the provisional rate(s)?

A. Yes. The Energy Bureau was concerned about a situation where it sets permanent rates below provisional rates resulting in a problem of finding money to pay refunds. The Energy Bureau ruled that the provisional rates should only propose investment increases that LUMA views as high priority and noncontroversial. With this limitation, the Energy Bureau can authorize the provisional rate necessary to finance additional

⁵⁹ See NEPR-MI-2021-0004, Resolution and Order on the Establishment of Temporary Default Budgets for Fiscal Year 2026 ("FY26"), dated June 20, 2025

1338 spending while lowering the risk that the utility will spend amounts that exceed what
1339 the Energy Bureau ultimately approves.⁶⁰

1340 **Q.105 What amount is LUMA proposing to collect through the Provisional Rate?**

1341 A. LUMA is requesting \$970 million be collected in FY2026 through the provisional
1342 rate. This amount is based on LUMA's provisional rate proposal. I note this amount
1343 is *less* than the \$1,231 million proposal million that is being requested under LUMA's
1344 Permanent Rate Proposal. Please refer to Table 10 below.

1345 **Q.106 Is any other entity requesting the Provisional Rate?**

1346 A. Yes. Both Genera PR and PREPA have formally notified LUMA that they are also
1347 requesting the Energy Bureau to approve a provisional rate for their respective
1348 operations.

1349 **Q.107 Considering LUMA, Genera, PREPA's (HydroCo and HoldCo's) requests for**
1350 **provisional rates, what amount is the utility proposing to collect through the**
1351 **Provisional Rate?**

1352 A. The utility, meaning all the entities consolidated, is requesting \$2.491 billion be
1353 collected in FY2026 through the provisional rate. This amount is based on LUMA's
1354 provisional rate proposal, Genera PR's Optimal Budget, and the PREPA placeholder
1355 amount(s), plus other expenses and net income. I note this amount is *less* than the
1356 \$2.751 billion that is being requested under the utility's proposed total revenue
1357 requirement (based on (no less than) LUMA's Constrained Budget, Genera PR's
1358 Optimal Budget, and PREPA's placeholder amount(s)). Please refer to Table 10
1359 below.

⁶⁰ See NEPR-AP-2023-0003, April 21st Resolution and Order, Section II. C, ps. 5-6

1360

Table 10. Provisional Rate versus Permanent Rate for FY2026

<i>(\$ millions)</i>	Provisional Rate Proposal	Permanent Rate Proposal	Variance
GridCo Opex and Capex	\$970	\$1,231	(\$261)
GridCo – Storm Costs	\$120	\$120	-
GenCo Opex and Capex	\$597	\$597	-
HydroCo Opex and Capex	\$14	\$14	-
HoldCo Opex and Capex	\$36	\$36	-
Other	\$576 505	\$576 505	-
Net Operating Income	\$178	\$178	-
Total¹	\$2,491 420	\$2,752 681	(\$261)
¹ Figures may not match the above narrative due to rounding			

1361

Q.108 How will LUMA apply the Provisional Rate?

1362

A. If approved by the Energy Bureau, LUMA will apply a uniform cents per kilowatt hour charge to all customer classes through a rider. LUMA notes this is the same manner in which the Energy Bureau approved, and PREPA collected provisional rates in the 2017 rate review.⁶¹ Please refer to the testimony of Sam Shannon, LUMA Ex. 20.0, for the calculations and the overall rate increase per kWh to recover the revenue deficiency (i.e., the amount between revenue at present rates and the \$2.491 billion requested to be collected through the provisional rate).

1368

1369

Q.109 Will the Provisional Rate modify any rider or surcharge?

1370

A. No. In accordance with Section 6.25 of Act 57-2014, LUMA does not include any modifications to riders or surcharges in the Provisional Rates.

1371

1372

Q.110 Are you sponsoring amounts included in the Provisional Rate for Genera or PREPA?

1373

⁶¹ See Resolution & Order Case No. CEPR-AP-2015-0001, June 24, 2016, p. 7.

1374 A. No. Similar to the revenue requirement for permanent rates, LUMA is not responsible
1375 for sponsoring or supporting PREPA's or Genera's revenue requirement or budgets
1376 under the T&D OMA. However, as the sponsor of this Rate Review Petition, and
1377 consistent with the Energy Bureau's requirements, on behalf of LUMA, I am
1378 presenting the consolidated, utility-level provisional rate request.

1379 **Q.111 What supporting materials is LUMA submitting for the provisional rate request?**

1380 A. My colleagues Andrew Smith, Pedro Meléndez, Kevin Burgemeister, [Jessiea](#)
1381 [LairdSarah Hanley](#), Crytal Allen and [Jose LatorreMiguel Sosa](#) (See LUMA Exhibits
1382 2.0, 5.0, 6.0, 7.0, 11.0, 17.0, and 18.0), include sections on provisional rate proposals
1383 embedded within the pre-filed testimonies on each of the items identified in Table 10,
1384 and why they are considered high priority and noncontroversial. I discuss below and
1385 support the replenishment of the outage event reserve and accumulated balance. Table
1386 11 below identifies the specific sections of the testimony(ies) on permanent rates that
1387 address the provisional rates.

1388 **Table 11. LUMA Exhibits, Witness names and sections of pre-filed testimony**
 1389 **supporting provisional rates**

Exhibit	Witness	Section
LUMA Exhibit 7.00	Jessica Laird Sarah Hanley	Section V.
LUMA Exhibit 6.00	Kevin Burgemeister	Section V.
LUMA Exhibit 5.00	Pedro Meléndez	Section V.
LUMA Exhibit 11.00	Crystal Allen	Section V.
LUMA Exhibit 18.00	Kevin Burgemeister	Section VII.
LUMA Exhibit 17.00	José Latorre-González Miguel Sosa Alvarado	Section V.
LUMA Exhibit 2.0	Andrew Smith	Section VI. subsection (D)
LUMA Exhibit 1.0	Alejandro Figueroa	Section XI.

1390 **Q.112 Does this comply with the requirements of the February 12th Order on**
 1391 **provisional rates?**

1392 A. Yes. Among the elements that must be included with the application for provisional
 1393 rates is “pre-filed testimony and exhibits demonstrating the need for the proposed
 1394 provisional rates. This pre-filed testimony may appear within the testimony that
 1395 supports the permanent rates. A cover letter should identify the specific sections of the
 1396 testimony on permanent rates that address the provisional rates.”⁶² For clarity and
 1397 brevity, I have provided Table 11 above in lieu of a cover letter, which achieves the
 1398 same goal.

⁶² See February 12th Resolution & Order, p. 7 of 34

Q.113 Has LUMA identified high priority and noncontroversial items in accordance with the Energy Bureau's April 21st Order?

A. Yes. The items identified in Table 12 below make up the amount being requested, and, in my respectful submission – and those of my colleagues – are high priority and noncontroversial because they are either unavoidable costs or costs that support critical and necessary investments into the electric system that must be undertaken in FY2026.

Table 12. High priority and noncontroversial items to be collected through provisional rates (\$M)

Department	High priority and noncontroversial item	O&M	NFC	Total
Regulatory	Reimbursement of Outage Events Costs and Replenishment of Account	\$120		\$120
Customer Experience	Payment Processing Fees	\$4.5	-	\$4.5
Operations	Vegetation Management	24.0	-	24.0
	Substation Maintenance	21.0 20.8	-	21.0 20.8
	System Operations	2.0	-	2.0
	Transmission priority pole replacements		\$5.78	\$5.78
	Substation Reliability	-	\$6.56	\$6.56
	Substation Rebuilds		\$1.2	\$1.2
	Aviation (Fleet)	-	\$3.0	\$3.0
Capital Programs & Grid Transformation	System Stabilization Projects	-	\$122.9 119.4	\$122.9 119.4
	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

Table 12. High priority and noncontroversial items to be collected through provisional rates (\$M)

Department	High priority and noncontroversial item	O&M	NFC	Total
	O&M Support for Critical Initiatives	7.2		7.2
	Cybersecurity	-	0.8	0.8
	Technology Enablement	-	3.3	3.3
	Asset Management	-	2.4 0	2.4 0
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 1	20.3 1
Finance	A-schedules Budgeting	0.5	-	0.5
	Inflation adjustment	23.8		23.8
	Total Subtotal	\$66.4	\$182.7	\$249.1
	2% for Excess	\$1.3	\$3.7	\$5.0
	Total	\$67.7	\$186.4	\$254.1

Q.114 Can you please describe, in general terms, what the “Reimbursement of Outage Events Costs and Replenishment of Account” item refers to?

A. Yes. As I will further detail below, PREPA has failed to replenish the Outage Event Reserve Account by a total amount of \$239 million. This item consists of two outstanding obligations that PREPA is contractually required to fund through the Service Accounts:

(1) Approximately \$30 million to replenish the Outage Reserve Account to its required funding level.

(2) Approximately \$209 million to reimburse Outage Event Costs that LUMA has had to cover from the Operating Account, rather than from the Outage [Event](#) Reserve Account, due to the lack of available funds.

1418 **Q.115 Is there a business record that supports the \$209 million number?**

1419 A. Yes. A summary of financial records related to the Outage Event Reserve Account
1420 that is prepared as part of LUMA's regular course of business.

1421 **Q.116 Are you familiar with the financial records related to the Outage Event Reserve**
1422 **Account?**

1423 A. Yes, I am. As part of my responsibilities, I regularly review and analyze financial data,
1424 including bank statements and account balances related to the Service Accounts under
1425 the T&D OMA.

1426 **Q.117 Have you or someone under your supervision prepared a summary of the funding**
1427 **activity and current balance of the Outage Event Reserve Account?**

1428 A. Yes. Tables were prepared under my direction in the regular course of business using
1429 data extracted directly from the utility's bank statements and internal financial records.
1430 The table is presented herewith as LUMA Ex. 1.05.

1431 **Q.118 What do the tables in LUMA Exhibit 1.05 show?**

1432 A. The table in the first tab, "OE Underfunding-February 2025" shows the actual balance
1433 of the Outage Event Reserve Account over time, the amounts withdrawn by LUMA
1434 to cover eligible expenses, and the corresponding deposits by PREPA. It quantifies
1435 the cumulative underfunding of the account relative to the \$30 million balance
1436 required under Section 7.5(d) of the T&D OMA. The table shows that as of February
1437 2025, PREPA had failed to fund a total amount of \$208,562,217 in Outage Event
1438 Costs.⁶³

⁶³ A total of \$238,562,217 less \$30,000,000 that should be available in the Outage Event Reserve.
\$210,201,335 if the then \$1,639,117 bank balance is included to offset the \$30,000,000

The second tab, “OE Underfunding-April 2025” shows that storm costs continued to accumulate in March and April and the Outage Event Reserve Account reached a near zero balance. Although cumulative underfunding is currently \$254 million, for purposes of this filing, LUMA used the \$209 million cumulative underfunding and the \$30 million minimum balance requirement.

Q.119 Is this table a true and accurate summary of the financial data as reflected in LUMA’s official records?

A. Yes, it is. The figures were cross-verified against the original bank statements and internal accounting records.

Q.120 Why is replenishment of the Outage Event Reserve Account high priority and non-controversial?

A. The replenishment of the Outage Event Reserve Account is both a high-priority and non-controversial funding need because it is the **only** dedicated source of immediately accessible funds available to LUMA for responding to emergency situations. Unlike other funding sources, which are allocated based on projected costs for planned activities that undergo prior review and approval for necessity and reasonableness, the Outage Event Reserve Account is specifically designed to address the inherently unpredictable nature of emergencies. A utility cannot forecast with precision the timing, severity, or financial impact of events such as hurricanes. Also, PREPA, as a bankrupt entity, does not have access to financing or capital markets to fund costs associated with responding to outage events. As such, PREPA maintaining the Outage Event Reserve Account at the level required by the T&D OMA is essential to ensure that LUMA can mobilize resources without delay when emergencies occur. The

1462 inability to rely on this account due to lack of replenishment undermines the utility's
1463 operational readiness and exposes customers to unnecessary risk.

1464 **Q.121 Per the T&D OMA, what is the required level of funding of the Outage Event**
1465 **Reserve Account?**

1466 A. \$30 million.

1467 **Q.122 Per the T&D OMA, who is responsible for funding the Outage Event Reserve**
1468 **Account?**

1469 A. Solely, PREPA.

1470 **Q.123 As of the day on which you are signing this testimony, is there a mechanism in**
1471 **place to replenish the Outage Event Reserve Account?**

1472 A. No.

1473 **Q.124 As of the day on which you are signing this testimony, has PREPA requested**
1474 **PREB to put in place a rate mechanism or tariff rider in place to replenish the**
1475 **Outage Event Reserve Account?**

1476 A. No.

1477 **Q.125 Does the T&D OMA place on LUMA the responsibility of requesting PREB to**
1478 **put in place a rate mechanism or tariff rider to replenish the Outage Event**
1479 **Reserve Account?**

1480 A. No.

1481 **Q.126 Has LUMA done something regarding PREPA's failure to replenish the Outage**
1482 **Event Reserve Account?**

1483 A. Yes, in addition to sending multiple letters requesting PREPA to replenish the
1484 Outage Event Reserve Account, on May 22, 2025, LUMA presented PREB a *Motion*

1485 *Submitting Temporary Rate Adjustment Petition* (“May 22 Petition”)⁶⁴. Regarding
 1486 the Outage Event Reserve Account, LUMA informed PREB that PREPA had not
 1487 replenished the Outage Event Reserve Account since November 2023, despite its
 1488 contractual obligation to maintain a \$30 million balance and requested the approval
 1489 of a specific tariff rider to collect \$30 million through rates to replenish the Outage
 1490 Event Reserve Account, commencing in June 2025.

1491 **Q.127 Did PREB respond to LUMA’s May 22 Petition?**

1492 A. Yes. On May 29, 2025, PREB denied the entire May 22 Petition.⁶⁵ PREB did not
 1493 discuss LUMA’s arguments regarding the Outage Event Reserve Account, nor did it
 1494 explain the reason to deny the request for a rider to maintain the \$30 million balance
 1495 it outright.

1496 **Q.128 What did LUMA do in response to this decision?**

1497 A. On June 6, 2025, we submitted to PREB a motion titled *Urgent Request for*
 1498 *Reconsideration of Denial of Request for a Temporary Rate Adjustment and*
 1499 *Renewed Request for Approval of a Temporary Rate Adjustment* (“June 6
 1500 Reconsideration”).⁶⁶ Regarding the Outage Event Reserve Account, LUMA
 1501 reiterated the urgent need to replenish the Outage Event Reserve Account by citing
 1502 contractual requirements, the critical role of the reserve in emergency response, the

⁶⁴ See NEPR-AP-2025-0002, Temporary Review of Permanent Rates of the Electric Power Authority, Motion Submitting Temporary Rate Adjustment Petition (May 22, 2025).

⁶⁵ See NEPR-AP-2025-0002, Resolution and Order, Determination on LUMA’s Petition to Implement Temporary Rates (May 29, 2025).

⁶⁶ See NEPR-AP-2025-0002, Urgent Request for Reconsideration of Denial of Request for a Temporary Rate Adjustment and Renewed Request for Approval of a Temporary Rate Adjustment (June 6, 2025).

risks and inefficiencies of not funding it, consistency with regulatory precedent of establishing reserves, and the immediate threat posed by the upcoming storm season. LUMA substantiated its request with Andrew Smith's, LUMA's Chief Financial Officer, sworn pre-filed testimony, and my sworn pre-filed testimony. The June 6 Reconsideration was denied outright by the Associate Commissioners of the PREB.⁶⁷ PREB's Chairman filed a Dissenting Opinion stating that PREB should've granted LUMA's request to access funds for the Outage Event Reserve Account. Chairman Avilés asserted that he considers not having access to the \$30 million, especially during hurricane season, constitutes an emergency. I could not agree more.

Q.129 In your previous answers, you stated that LUMA is not responsible for requesting that PREB implement a rate mechanism or tariff rider to replenish the Outage Event Reserve Account. Yet, you also explained that LUMA submitted a petition to PREB seeking to replenish this account. Why did LUMA take this step?

A. While it is true that LUMA is not contractually obligated to request a rate mechanism or tariff rider to replenish the Outage Event Reserve Account, we submitted the May 22 Petition and the June 6 Motion for Reconsideration because we believe that ensuring that this account is adequately funded is essential, particularly as Puerto Rico enters hurricane season. LUMA couldn't stand idly by PREPA's continued deflection every time LUMA requests funding for the Outage Event Reserve Account.

⁶⁷ See NEPR-AP-2025-0002, Resolution and Order addressing LUMA's Request for Reconsideration of Denial of Request for a Temporary Rate Adjustment and Renewed Request for Approval of a Temporary Rate Adjustment (June 13, 2025).

The availability of funds in the Outage Event Reserve Account is directly tied to LUMA's ability to respond swiftly and effectively to major service disruptions caused by storms or other emergencies.

While it might appear that LUMA could absorb the costs associated with emergency response, doing so would require diverting funds from the Operating Account, which is specifically budgeted and approved by PREB for the operation, maintenance, and improvement of the T&D System. These funds are intended to support long-term system reliability and resilience, including investments that aim to significantly reduce, if not eliminate, outages caused by T&D System-related events. Using these resources to respond to emergencies undermines that purpose and is a direct consequence of PREPA's failure to comply with its contractual obligation to replenish the Outage Event Reserve Account. In effect, PREPA's inaction shifts the burden of emergency response onto the very customers it once served, compromising both immediate response capabilities and long-term system improvements.

Additionally, while some may assume that emergency-related costs can be covered by FEMA or other emergency funding agencies, the process does not involve the immediate deposit of funds into LUMA's accounts. Even assuming the event qualifies for FEMA assistance (which is not automatic or mandatory after an atmospheric event strikes), the standard procedure is for the operator to first incur the expense, whether for example for helicopter fuel, equipment, or labor, and then seek reimbursement. This reimbursement process is not instantaneous and does not provide the liquidity needed to act in real time. Without a fully funded Outage Event Reserve

Account, LUMA lacks the financial flexibility to respond swiftly to emergencies, placing both the system and customers at risk.

Furthermore, in its May 29 Order, the PREB noted that in the event of an emergency or temporary situation, LUMA could request a temporary rate adjustment. While I recognize that this mechanism exists, I believe it introduces an unnecessary obstacle during critical moments and does not address the immediate cash needs associated with responding to a major storm.

In practice and as a requirement of the T&D OMA, LUMA must have funds readily available at the time an Emergency or Outage Event occurs. Relying on a post-event request for a temporary rate adjustment creates a significant delay in accessing the necessary funds. IT also fails to account for the fact that PREPA has not access to capital markets. The process involves LUMA submitting a request, PREB reviewing and approving it, followed by implementation in the next billing cycle. Only after that cycle concludes, would customers begin to contribute through their payments.

In summary, requiring a temporary rate adjustment, especially when a mandatory funding mechanism already exists under the T&D OMA, is neither practical nor feasible in emergency scenarios.

PREPA's continued disregard in the face of multiple requests has placed LUMA in a precarious position, undermining our ability to respond to emergencies and putting at risk the reliability of the System and the well-being of our customers.

Q.130 In your narrative, you mention the continued underfunding of the Outage Event Reserve Account. Can you please explain?

A. Yes. As previously stated, under the terms of the T&D OMA, PREPA is contractually obligated to replenish the Outage Event Reserve Account each time LUMA makes a withdrawal. The required balance for this account is \$30 million. For example, if LUMA withdraws \$10 million to cover eligible emergency response costs, PREPA is required to deposit \$10 million to restore the account to its full \$30 million balance. This “top-off” mechanism ensures that the account remains fully funded and ready to support immediate response efforts in the event of future emergencies. However, PREPA has failed to meet this obligation, resulting in a persistent shortfall that compromises LUMA’s ability to respond effectively to outage events.

This consistent underfunding forced LUMA to withdraw from the Operating Account to fund Outage Event Cost. The total balance of the amounts that PREPA must reimburse to LUMA’s Operating Account as of February 2025 is \$210 million.

Q.131 Is this included in the “Reimbursement of Outage Events Costs and Replenishment of Account” line?

A. Yes. Of the total \$239 million, LUMA is seeking to recover \$209 million over the period of two years to carry out what PREPA is contractually obligated to do, which is to reimburse the Operating Account for Outage Event Costs that had to be paid from that account rather than from the Outage Event Reserve Account.

Q.132 Are you requesting the full accumulated balance through provisional rates?

A. No. As stated above, for purposes of this filing, the total accumulated balance for expenses already incurred is \$209 million. Through the provisional rates, LUMA is

requesting to collect half of the \$209 million. This will help to smooth the rate impact, and, with the expectation that the Energy Bureau will approve a major-storm costs rider further described in Section XV below, the balance of the accumulated storm response costs can be collected through said rider beginning on or around June 1, 2026, after the Energy Bureau's final Order on this rate review is issued and new rates (and riders) are implemented sixty (60) days from said Order.

Q.133 Why is collection of the accumulated balance high priority and noncontroversial?

A. The persistent shortfall of the Outage Event Reserve Account has placed undue strain on LUMA's liquidity. Consequently, the recovery of the accumulated balance to replenish the Outage Event Reserve Account is not only a high priority but also a noncontroversial necessity, given its direct impact on operational stability. Liquidity is a critical financial condition for executing the approved budget and maintaining reliable operations.

This request is based on actual costs that LUMA was forced to cover due to PREPA's failure to meet its funding obligations. Because the necessary funds were not available in the Outage Event Reserve Account when needed, LUMA had to redirect funds from its Operating Account to respond to outage events. For example, in the fall of 2024, the Outage Event Reserve Account held just over \$1.5 million. In response to Tropical Storm Ernesto, LUMA redirected \$33 million from its Operating Account to fund recovery efforts. These funds were originally designated for planned and approved operational and capital activities.

The Operating Account is the primary source of funding for activities that have been carefully planned, budgeted, and approved by the Energy Bureau. These include

critical reconstruction and modernization projects across Puerto Rico’s electric grid. These projects are essential to improving system reliability and resilience. Using these funds to respond to emergencies, which PREPA is contractually obligated to fund through the Outage Event Reserve Account, undermines the financial structure of the utility and compromises its ability to deliver on long-term commitments.

PREPA’s chronic underfunding has not been limited to the Outage Event Reserve Account. Since August 2024, PREPA has funded the Operating Account at only one-third of the level required under the T&D OMA. Over the past three months alone, PREPA has underfunded the Operating Account by approximately \$14 million per month. This has further strained LUMA’s liquidity and reduced its ability to fund day-to-day operations and respond to outages.

Collecting the accumulated balance will help stabilize the financial condition of the system. It will restore liquidity, protect the execution of critical projects, and ensure that LUMA can continue to meet its obligations to the people of Puerto Rico. For these reasons, the payment of the accumulated balance is not only a matter of contractual compliance. It is a financial necessity and should be considered both high priority and noncontroversial.

Q.134 Does any other witness address the Provisional Rate?

A. Yes, other than LUMA’s witnesses Mr. Sam Shannon testifies as to the Provisional Rate(s) (*see* LUMA Exhibit 20.0).

Q.135 Were there any other requirements for provisional rates?

A. Yes. In a Resolution and Order on the System Stabilization Plan (Docket NEPR-MI-2024-0005) dated March 28, 2025, the Energy Bureau stated that “[t]he provisional

1636 rate request due April 30, 2025, must include comprehensive documentation, cost
 1637 estimates and relevant assumptions to substantiate [the system’s urgent stabilization
 1638 needs].”⁶⁸

1639 **Q.136 Is the System Stabilization Plan captured by the provisional rate?**

1640 A. Yes. The system stabilization portion of the System Stabilization Plan is included in
 1641 the provisional rate as identified by the System Stabilization Projects line item in Table
 1642 12. As described in my colleague Pedro Meléndez’s Testimony, the system
 1643 stabilization portion of the System Stabilization Program will focus on the highest
 1644 priority and most impact improvements needed with the greatest impact being on
 1645 resiliency (reducing the likelihood of a cascading outage event) (*see* LUMA Exhibit
 1646 No. 5.0). The plan reduces the risk of catastrophic, regional or island-wide outages.

1647 **XII. BUDGET AMENDMENT PROCESS**

1648 **Q.137 Can you describe the current annual budget process?**

1649 A. Yes, currently, the PREB requires that LUMA submit an annual budget that the Energy
 1650 Bureau approves annually. This annual process is described in detail in the testimony
 1651 of LUMA witness Eduardo Balbis (*See* LUMA Exhibit 3.0).

1652 **Q.138 Does the PREB also have requirements to amend the budget?**

1653 A. Yes. If LUMA anticipates that a budget line item will exceed its budgeted cost by
 1654 more than five percent (5%), the Energy Bureau requires LUMA submit a budget
 1655 amendment, where the PREB must approve, prior to any expenditure taking place,
 1656 even if LUMA does not or will not exceed its *total approved* budget.

⁶⁸ *See* NEPR-MI-2024-0005, Establishment of the Electric System Priority Stabilization Two-Year Plan, Resolution and Order dated March 28, 2025, p. 10 of 23

Q.139 Are you suggesting a change to that requirement for those types of budget amendments and why do you propose the change?

A. Yes. As described by LUMA witnesses Balbis and Smith, LUMA Exs. 2.0 and 3.0, and as previously submitted to this Energy Bureau,⁶⁹ utilities require the flexibility and ability to adapt budget projections to change budgets to occurrences that were not anticipated and are beyond the control of the utility. Moreover, the budget amendment process is an administrative and regulatory burden, especially at times when LUMA, as T&D System Operator, may need to make necessary expenditures in a timely fashion and where the reallocation does not lead to a rate increase (in other words, customers remain protected because the T&D budget is not exceeded). With my colleagues, I therefore propose that the budget amendments for reallocations within approved budgets be eliminated.

XIII. ESTIMATES OF RPS COMPLIANCE COSTS

Q.140 What are the requirements of Schedule H?

A. In the February 12th Order, the Energy Bureau requests a good faith estimate of RPS compliance costs⁷⁰ for revenue requirement purposes.

Q.141 Can LUMA identify and distinguish among the specific RPS Compliance costs listed in the February 12th Resolution and Order?

A. Yes. The RPS compliance costs in Schedule H-1, refer to the purchase of Renewable Energy Credits (RECs). In accordance with the Energy Bureau's order, LUMA

⁶⁹ See NEPR-MI-2021-0004, Response to May 6th Order, p. 3

⁷⁰ Where RPS means Renewable Portfolio Standard, and Section 1.6(7) of Act 17, as amended, requires 100% renewable energy production by 2050. See also, Section 82-2010, as amended, requiring that the RPS of each retail energy provider be 100% by 2050.

provides, in Schedule H, the cost of RECs from FY2015 through the end of May FY2025 and provides a forecast of REC costs (plus nominal administrative fees) for the test period, where identifiable. However, the cost of RECs are not included in the revenue requirement. As previously stated,⁷¹ RECs from utility scale renewable sources (power purchase and operating agreements or “PPOAs” with PREPA) flow through the Power Purchase Cost Adjustment (“PPCA”) rider. The February 12th Order also directed LUMA to identify and distinguish among various costs. Please refer to Table 13 below for LUMA’s comments on the information requested.

Table 13. RPS Compliance

February 12 th Requirement	LUMA Comments/Rationale
(a) the cost incurred to provide credits to net-metering customers when (i) those customers export excess energy production (not counting any accumulated excess that exists at the end of the year), and (ii) that exported production is counted towards RPS compliance;	There is no identifiable cost for exported production that is counted toward RPS compliance.
(b) the cost incurred to provide credits to residential customers (75%) and public-school customers (25%), when (i) those customers have excess energy production accumulated after the end of the fiscal year, and (ii) that excess energy production is counted towards RPS compliance;	Please refer to Table 1 in Schedule H for a table through FY2024. FY2025 is not available at the time of this filing.
(c) the cost incurred to buy renewable energy certificates under purchase power agreements;	1) REC purchase costs are separately identifiable from energy purchase costs only for a few existing utility-scale renewable energy projects, for the rest, the costs are ingrained in the energy purchase costs; in all cases the costs flow through the PPCA; and; 2) There are no REC purchase costs

⁷¹ NEPR-AP-2023-0003, Motion Submitting Responses to Request of Information Issued on December 20, 2024, and January 10, 2025, Exhibit 4, LUMA’s response to RPS Compliance Costs

	associated with net metering exportation from distributed PV systems.
(d) the cost to buy renewable energy certificates in the market promulgated by the proposed Regulation of Renewable Energy Certificates and compliance with the Renewable Energy Portfolio of Puerto Rico (NEPR-MI-2021-0011); and	The Proposed Regulation of Renewable Energy Certificates and Compliance with the Renewable Energy Portfolio of Puerto Rico filed in draft form in NEPR-MI-2021-0011 has not been adopted by the Energy Bureau and is not in effect. It is not clear what the terms of the regulation will be when a final version is adopted. LUMA has not calculated the costs to buy renewable energy certificates promulgated by a <i>proposed</i> regulation.
(e) the cost incurred to pay fines for RPS noncompliance.	The cost of non-compliance has not been estimated because there never has been a cost of non-compliance.

1686 **Q.142 Are you making any proposals respecting RPS Compliance in this rate review?**

1687 A. Yes. In my respectful opinion, RPS Compliance costs should be addressed
1688 separately from this proceeding. LUMA has provided forecast RPS compliance costs
1689 for illustrative purposes. The costs requested in Schedule H are either unidentifiable
1690 or are appropriately addressed in other dockets that are before the Energy Bureau.

1691 **XIV. FOMB'S CERTIFIED PREPA FISCAL PLAN**

1692 **Q.143 Have you included a copy of the most recent FOMB-certified PREPA Fiscal**
1693 **Plan?**

1694 A. Yes. Said plan is filed as Schedule C-6; however, I do not adopt it as evidence. Rather,
1695 the document is filed in accordance with the Energy Bureau's February 12th R&O on
1696 filing requirements.

XV. SCHEDULE J – MAJOR-STORM COSTS RIDER

Q.144 What is your understanding of the Hearing Examiners R&O adding two filing requirements?

A. In the February 27th Order there were two additional filing requirements for the utility. In the explanation for Schedule J, it was correctly explained that although the electric system has a budgeted amount for outage events, major storms may cause damage that exceed the budgeted amount causing PREPA, LUMA or Genera to immediately redeploy cash that was budgeted for other projects.

The February 27th Order also clarifies that one version would work where a major storm cost exceeds a threshold amount of, say \$5 million in budgeted-for outage events, the utility could apply for recovery of that amount through the rider, over a specified period of time. Another more significant version would occur where outage restoration costs total \$50 million. LUMA would withdraw \$30 million from the Outage Event Reserve account and another \$20 million from some other account and then seek approval from the Energy Bureau to recover \$50 million through the rider using customer-supplied funds (\$30 million to replenish the Outage Event Reserve Account and \$20 million to cover other costs not covered by insurance or FEMA reimbursement).

Q.145 What was LUMA directed to do?

A. LUMA was directed to provide language for, and an explanation of, a major-storm cost rider, including (a) the Energy Bureau's review of each initial proposal before the adjustment goes into effect; (b) a reconciliation if the adjustments require one; and (c) review the mechanism before the start of FY2027 and FY2028.

1720 **Q.146 Are you providing the draft tariff as part of this current filing?**

1721 A. Yes. LUMA agrees, in principle, with the concept of a major-storm costs rider. As
 1722 such, and in accordance with the February 12th Order, LUMA proposes ~~(a)~~a tariff to
 1723 be able to recover storm-related costs and replenish the Outage Event Reserve
 1724 Account, subject to PREB approval~~-,~~ Please refer to Schedule O-4 that contains,
 1725 among others, the draft tariff sheet for the Major Storm Recovery Rider.~~filed~~
 1726 herewith as LUMA Exhibit 1.03.

1727 By establishing a dedicated rider, LUMA aims to create a clear and consistent
 1728 mechanism for recovering both past and future outage event costs. This will ensure
 1729 that funds used for emergency response are replenished without having to divert
 1730 money from accounts designated for planned activities. Ultimately, this approach is
 1731 intended to protect the utility's liquidity and financial stability by preventing the
 1732 depletion of funds allocated for other essential operations.

1733 **Q.147 When do you expect the riders to be in effect?**

1734 A. Given that the Energy Bureau must review the mechanism(s) itself, LUMA expects
 1735 the rider to be reviewed in this rate review and approved in the Energy Bureau's
 1736 final Order currently expected sometime between February and April of 2026. That
 1737 would mean the rider would be in effect for the start of FY2027. For FY2026,
 1738 replenishment of the Outage Event Reserve Account and half the accumulated
 1739 balance for storm response are included as part of LUMA's provisional rate
 1740 proposal.

1741 **XVI. SUMMARY OF REQUESTS**

1742 **Q.148 Can you list the request LUMA makes to the Energy Bureau in the Rate Review**
1743 **Petition?**

1744 A. Yes. LUMA respectfully requests the Energy Bureau to:

- 1745 • Approve an amount no less than LUMA's Constrained Budget for FY2026,
1746 FY2027 and FY2028 and approve a corresponding revenue allocation
- 1747 • Approve the provisional rate requested herein and supported by LUMA's
1748 witnesses.
- 1749 • Establish an allocation of revenues for PREPA in this rate review and then
1750 order PREPA to fund, each month, based on the approved allocation.
- 1751 • Direct that after a final determination is made in this proceeding, it will open
1752 a separate proceeding to revise the performance metrics that are affected by
1753 the approved revenue requirement to cover T&D costs.

1754 **Q.149 Does this complete your testimony?**

1755 A. Yes.

ATTESTATION

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

The prepared Direct Testimony, the attached exhibits, the schedules that I am sponsoring and the cost information for the Regulatory Department in LUMA Exhibit. 2.03 and LUMA Exhibit 2.04, constitute my Direct Testimony in the above-styled case 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 herein, including the exhibits and schedules, are my Direct Testimony and to the best of my knowledge are true and correct.

Alejandro Figueroa

Affidavit No. 527

Acknowledged and subscribed before me by Alejandro Figueroa, 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 2nd day of July 2025.

Notary Public

LUMA EXHIBIT 1.01

Schedule C-6 – FOMB Certified PREPA Fiscal Plan

LUMA EXHIBIT 1.02

Schedule H-1 – Estimates of RPS Compliance

LUMA EXHIBIT 1.03

Schedule J-I – Proposed Major Storm Costs Rider

LUMA EXHIBIT 1.04

Executive Summary

LUMA EXHIBIT 1.05

Cumulative Underfunding of the Outage Event Reserved Account

LUMA EXHIBIT 1.06
Provisional Rate Workpapers

LUMA EXHIBIT 1.07

Schedules N-2 and N-3

LUMA EXHIBIT 1.08

Bad Debt Proposal

Exhibit 3
Revised Testimony of Andrew Smith (redline)

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

IN RE:

PUERTO RICO ELECTRIC POWER
AUTHORITY RATE REVIEW

CASE NO.: NEPR-AP-2023-0003

Direct Testimony of

Andrew Smith

Chief Financial Officer, LUMA Energy ServCo, LLC

July 2, 2025 [as amended on October 22, 2025](#)

**Summary of Prepared Direct Testimony of
ANDREW SMITH
ON BEHALF OF
LUMA ENERGY LLC AND LUMA ENERGY SERVCO, LLC**

Mr. Andrew Smith is Chief Financial Officer at LUMA Energy ServCo, LLC. His prepared direct testimony serves several purposes, including providing a broad overview of the economic challenges that LUMA Energy LLC and LUMA Energy ServCo, LLC (together, “LUMA”) face that result in the need for this filing.

Mr. Smith explains that the current Base Rates established by the Puerto Rico Energy Bureau (“Energy Bureau”) in 2017 are not sufficient to recover LUMA’s costs as Operator of Puerto Rico’s transmission and distribution system (“T&D System”). He testifies that the Base Rates are not sufficient because they do not account for historically high price inflation pressures, declining revenues caused by ~~the rapid growth of distributed energy resources, namely Net Energy Metering and~~ Combined Heat and Power by industrial load, nor do they take into account the inability of the utility to access the debt or capital markets to finance the utility with a typical utility capital structure while the Puerto Rico Electric Power Authority (“PREPA”) remains in Title III bankruptcy.

Mr. Smith explains that these economic challenges are exacerbated by PREPA’s extended failure to adequately replenish the Outage Event Reserve Account as required by the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement (“T&D OMA”) executed by PREPA, LUMA and the Puerto Rico Public-Private Partnerships Authority (“P3A”) dated June 22, 2020. He states that PREPA’s failure to replenish the Outage Event Reserve Account since 2023 has required LUMA to reallocate \$209 million in budgeted funds needed for operating and improving the T&D System and to instead spend those funds to respond to outages and other emergencies. In other words, planned work included in LUMA’s approved budget was cancelled or deferred because the funds intended for that work were needed to pay for service restoration following outages caused by acts of God.

Mr. Smith’s testimony also provides an overview of the schedules he is sponsoring, including the schedules for LUMA’s Optimal and Constrained Budgets (Schedules A-1 and A-2), Summary Information (Schedules B-1 through B-7), Financial Statements and Statistical Schedules (Schedules C-1 through C-11), and Capital Expenditure and Cost-Sharing (Schedules D-1 through D-4) as required by the Energy Bureau’s February 12, 2025 Resolution and Order (“February 12th Order”).

Mr. Smith explains the bottom-up budgeting exercise that LUMA conducted and the assumptions underpinning the preparation of the Optimal Budget. He also describes the process for preparing the Constrained Budget, as ordered by the Energy Bureau, explaining that each

LUMA Department identified which departmental activities planned under the Optimal Budget could be deferred or delayed to meet the definition of the Constrained Budget. In addition, Mr. Smith explains that due to the state of PREPA's historical financial records and lack of a reconciled and current balance sheet, LUMA is not able to present its revenue information using the Federal Energy Regulatory Commission's Uniform System of Accounts and has limited ability to confirm the accuracy of the balance sheet and plant-in service and accumulated depreciation values. Mr. Smith testifies that such challenges do not negatively impact this rate case and the setting of new Base Rates because the current regime is a cash financing model that does not depend on that information.

Mr. Smith also presents LUMA's revenue requirement and the overall increase in total T&D System investment that is being proposed.

Mr. Smith then testifies as to the operations and maintenance ("O&M") and non-federal capital ("NFC") costs for the Finance Department ("Department") in the Optimal and Constrained Budgets. Mr. Smith's testimony addresses the Department's existing and projected costs for staffing, technical and professional services, materials and supplies, transportation and other miscellaneous costs.

Based on existing and projected company needs, Mr. Smith recommends an Optimal Budget for Finance of \$63.1 million for Fiscal Year ("FY") 2026, \$62.6 million for FY2027, and \$94.4 million for FY2028. Mr. Smith's testimony for the Department also includes a Constrained Budget, as ordered by the Energy Bureau. Mr. Smith explains the activities and projects that would be deferred, reduced or defunded under the Constrained Budget and identifies the impacts of deferring or delaying those activities and projects.

Lastly, Mr. Smith's testimony presents LUMA's requests for the Energy Bureau to modify certain reporting requirements. First, Mr. Smith discusses LUMA's proposal that the Energy Bureau require LUMA only to file three quarterly reports and an annual report within 120 days following fiscal year end instead of filing four quarterly reports and an annual report. Second, Mr. Smith presents LUMA's proposal for the Energy Bureau to no longer require authorization for LUMA to reallocate funds within its approved budgets. Both of these measures would improve LUMA's ability to respond to changing system conditions more efficiently and timely, be more cost-effective, and consistent with prudent utility practice.

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I. WITNESS AND CASE INTRODUCTION

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

A. My name is Andrew Smith. My business address is LUMA Energy, PO Box 363508, San Juan, Puerto Rico 00936-3508. I am the Chief Financial Officer for LUMA Energy LLC and LUMA Energy ServCo, LLC.

Q.2 On whose behalf are you testifying before the Commonwealth of Puerto Rico Energy Bureau (the “Energy Bureau” or “PREB”)?

A. My testimony is on behalf of LUMA Energy LLC and LUMA Energy ServCo, LLC (jointly referred to as “LUMA”) as part of the Commonwealth of Puerto Rico Energy Bureau’s (“Energy Bureau” or “PREB”) proceeding NEPR-AP-2023-0003, the Puerto Rico Electric Power Authority (“PREPA”) Rate Review.

Q.3 What is your educational background?

A. I have a master’s degree in business administration (MBA) with a concentration in internal auditing from Louisiana State University. As an undergrad, I attended the University of Texas at Austin, where I received a bachelor’s degree in psychology. I have over 30 years of experience in the electric utility, energy, and finance/investment banking industries.

Q.4 What is your professional experience?

A. Over the course of my career, I have developed extensive experience with capital markets, capital allocation, treasury, financial planning and analysis, valuation, mergers and acquisitions, and investor relations. I have also been involved in financial and operational turnarounds for multiple companies, and I have held the most senior position at a utility in a neighboring Caribbean region.

Q.5 Please describe your work experience prior to joining LUMA.

A. Prior to joining LUMA, I was the Chief Executive Officer of the Virgin Islands Water & Power Authority leading the financial and operational turnaround of the US Virgin Islands electric and water utility. Prior to that, I was self-employed, consulting for a large private-equity-backed electric utility client leading special projects at the direction of the CFO focusing on cash and collateral forecasting and management, regulatory filings, a securitized financing, and other special projects. Before my consulting role, I joined GenOn Energy, which owned and operated approximately 18 Gigawatts of generating capacity, during its bankruptcy restructuring, and was part of the management team that led the company's emergence from bankruptcy. Prior to that, I spent five years with Dynegy, which was a \$10 billion power generation company that owned and operated approximately 45 gigawatts of fossil fuel generating stations around the United States prior to its acquisition by Vistra Energy. There, as part of the Senior Leadership Team, I established and led a team responsible for GAAP and non-GAAP financial reporting, forecasting and budgeting and analysis, and led the investor relations department prior to that role. Prior to Dynegy, I spent approximately 15 years in the investment banking industry in various roles with increasing levels of seniority and responsibility focused on the electric utility and competitive power generation sectors.

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

A. I recently submitted testimony in Case No. NEPR-AP-2025-0002 respecting LUMA's request to implement temporary rates.¹ I have never testified orally before PREB.

Q.7 What is the purpose of your Direct Testimony?

¹ See NEPR-AP-2025-0002, Temporary Review of Permanent Rates of the Electric Power Authority, LUMA Ex. 2.0 – Direct Testimony of Andrew Smith, and LUMA Ex. 2.01 – Temporary Rate Revenue Requirement

45 A. My testimony addresses several key areas in support of LUMA’s Rate Petition.

- 46 • In Section II, I describe the Scope of my testimony, including a listing of the
47 schedules and exhibits that I sponsor.
- 48 • In Section IIII, I provide an overview of the economic challenges LUMA faces
49 that result in the need for this filing, including high inflation, approved budgets that
50 are less than the utility needs to serve its customers most effectively, the lack of a
51 review of Base Rates since 2017, and the deterioration of Puerto Rico’s electric
52 system. I also describe the measures that LUMA has taken to deliver on its
53 commitments in light of its historically limited budgets and explain how
54 improvements in the utility’s financial circumstances will benefit customers and
55 other stakeholders.
- 56 • Next, in Section IV, I describe the current state of LUMA’s financial systems and
57 the process undertaken to develop LUMA’s business plan. I will provide an
58 overview of the financial systems that LUMA inherited from PREPA and describe
59 certain factors that constrain LUMA’s ability to provide certain financial
60 information. In this section, I will also describe LUMA’s business planning
61 process, and the intensive and organization-wide development of LUMA’s Optimal
62 and Constrained Budgets requested by the Energy Bureau, the latter of which is an
63 input into the utility’s consolidated revenue requirement.
- 64 • Following this, in Section V, I state LUMA’s revenue requirement, and the
65 assumptions used to develop LUMA’s portion of the revenue requirement, and
66 provide an overview of the risks of continuing to defer activities and maintenance
67 that is needed by the Puerto Rico Transmission and Distribution System (“T&D

System”) needs.

- In Section VI, I will discuss the funding request amount that is attributable to the Finance Department that is included in the LUMA revenue requirement.
- In Section VII, I comment on the 120-day requirement for annual reporting and the request to reallocate funds within approved budgets.
- Lastly, in Section VIII, I will explain that certain costs are included in LUMA’s revenue requirement for a future Chief Corporate Services Officer.

II. SCOPE OF TESTIMONY

Q.8 Are you sponsoring any statements, schedules, or exhibits in conjunction with your testimony?

A. The following exhibits are attached to my testimony:

- LUMA Exhibit 2.01: Critical Financial Controls Program Brief (PBFM2)([2026](#))
- LUMA Exhibit 2.02: Critical Financial Systems Program Brief (PBFM4) (FY2026)
- LUMA Exhibit 2.03: Working papers, Optimal Budget.
- LUMA Exhibit 2.04: Working papers, Constrained Budget
- LUMA Exhibit 2.05: NFC Long Term Investment Panel (LTIP)FY2026-20235
Unconstrained
- _____
- LUMA Exhibit 2.06: NFC Long Term Investment Panel (LTIP)FY2026-20235
Constrained

I am sponsoring the Schedules listed below. For certainty, I am speaking only to the LUMA component of the schedules. I did not participate in developing budgets and associated materials for PREPA or Genera PR (“Genera”), nor do I defend them in my

testimony.

- **Schedule A-1** Optimal Budget
- **Schedule A-2** Constrained Budget
- **Schedule B-1** Determination of Base Rates Revenue Requirement
- **Schedule B-2** Rate Year Result of Operations with Pro Forma Adjustments
- **Schedule B-3** Debt Service Requirement
- **Schedule B-4** Proposed Margin for Debt Service Requirements
- **Schedule B-5** Plant in Service and Accumulated Depreciation
- **Schedule B-6** Capital Lease Details
- **Schedule B-7** Revenues Excluding Sale of Electricity
- **Schedule C-1** Balance Sheets
- **Schedule C-2** Results of Operations
- **Schedule C-3** Statement of Changes in Financial Position
- **Schedule C-4** Statement of Changes in PREPA's Net Position
- **Schedule C-5** Audited Financial Statements for Historical Year
- **Schedule C-7** Utility Plant in Service and Accumulated Depreciation
- **Schedule C-9** Various Operating Statistics
- **Schedule C-11** Accounts Receivable as of the Beginning of Rate Year
- **Schedule D-1** Optimal Projected Total Construction and Decommissioning Capital Expenditure
- **Schedule D-3** Optimal Projected Construction and Decommissioning Capital Expenditure for Transmission Plant
- **Schedule D-4** Optimal Projected Construction and Decommissioning Capital

Expenditure for Distribution Plant

- **Schedule D-1** Constrained Projected Total Construction and Decommissioning

Capital Expenditure

- **Schedule D-3** Constrained Optimal Projected Construction and Decommissioning

Capital Expenditure for Transmission Plant

- **Schedule D-4** Constrained Optimal Projected Construction and Decommissioning

Capital Expenditure for Distribution Plant

Q.9 Which documents did you consider for your testimony?

A. The documents I reviewed include:

- Various Quarterly and Annual Reports for LUMA.
- Transmission and Distribution System Operation and Maintenance Agreement executed by PREPA, LUMA and the Puerto Rico Public-Private Partnerships Authority (“P3A”) dated June 22, 2020 (the “T&D OMA”).
- Program Brief for Critical Financial Systems.
- Program Brief for Critical Financial Controls.
- Resolution and Order of February 12, 2025, Establishing Scope and Procedures for Rate Case, Case No. NEPR-AP-2023-003.
- Resolution and Order of February 27, 2025, Adding Two Additional Filing Requirements, Case No. NEPR-AP-2023-003.
- Order of March 24, 2025, Hearing Examiner’s Order Requiring Certain Information in the Rate Case Application or Accompanying Prefiled Testimony, Case No. NEPR-AP-2023-003.
- January 10, 2017 Resolution and Order, Case No. CEPR-AP-2015-0001.

- 137 • Order on Reconsideration dated March 8, 2017, Case No. CEPR-AP-2015-0001.
- 138 • Energy Bureau Resolution and Order of May 31, 2021 on LUMA's Initial Budgets,
- 139 Case No. NEPR-MI-2021-0004.
- 140 • Energy Bureau Resolution and Order of June 30, 2023, Case No. NEPR-AP-2023-
- 141 0003.
- 142 • LUMA's October 4, 2023, Motion in Compliance with June 30th Resolution and
- 143 Order – Submission of Phase I Report, Case No. NEPR-AP-2023-0003.
- 144 • Energy Bureau Resolution and Order of March 15, 2024, Case No. NEPR-AP-
- 145 2023-0003.
- 146 • LUMA's Request for Continuance of Technical Conference and Motion
- 147 Submitting Responses to Attachment One to the Resolution and Order of March
- 148 15, 2024, of April 8, 2024, Case No. NEPR-AP-2023-0003.
- 149 • Energy Bureau Resolution and Order of April 12, 2024, Case No. NEPR-AP-2023-
- 150 0003.
- 151 • Energy Bureau Resolution and Order of December 10, 2024, Case No. NEPR-AP-
- 152 2023-0003.
- 153 • Puerto Rico PREPA-GenCo-HydroCo Operating Agreement of June 19, 2023
- 154 ("PGHOA").
- 155 • LUMA's SRP filed with the Energy Bureau in Case No. NEPR-MI-2020-0019,
- 156 February 24, 2021 and May 8, 2021.
- 157 • LUMA's request to modify SRP filed on April 14, 2022, December 22, 2023, and
- 158 June 5, 2024, Case No. NEPR-MI-2020-0019.
- 159 • LUMA's SRP Annual Reports, filed on December 9, 2022, October 30, 2023, and

October 28, 2024, Case No. NEPR-MI-2020-0019.

- LUMA's Request for Approval of T&D Budgets and Submission of GenCo Budgets for FY2025 and Budget Allocations for the Electric Power System filed on May 25, 2024, Case No. NEPR-MI-2021-0004.
- Energy Bureau Resolution and Order on PREPA's pension funding crisis, of March 24, 2025, Case No. NEPR-MI-2021-0004.
- PREPA's Motion on its Pension Costs of March 26, 2025, Case No. NEPR-MI-2021-0004.
- Energy Bureau's orders issued in Case No. NEPR-MI-2021-0004 of August 3, 2022, November 11, 2022, December 14, 2022, June 29, 2023, July 17, 2024, September 17, 2024, and March 5, 2025.
- Exhibit 1, Section 1.0, of LUMA's Response to September 17th Order and Motion Submitting Evidence Regarding Requirements of Pre-Approvals of Budget Reallocations and Expenditures and Challenging Validity of Orders Setting Those Requirements.

Q.10 Did you rely on any other information for your testimony?

A. Yes, my extensive professional experience in electric utilities, energy, and finance and my experience working in distressed Caribbean utilities.

III. BACKGROUND ON FINANCIAL AND ECONOMIC CHALLENGES AND THE T&D SYSTEM

Q.11 How does LUMA collect revenues necessary to maintain and operate the T&D System?

A. LUMA’s total revenue requirement for operating and maintaining the transmission and distribution facilities that comprise the PREPA-owned electric power system (“System”) is collected through rates established by the Energy Bureau’s predecessor, the Puerto Rico Energy Commission, in the January 2017 Resolution and Order issued in Case No. CEPR-AP-2015-0001 and the order on reconsideration issued on March 8, 2017 (the “2017 Rate Order”). These rates have remained unchanged since the 2017 Rate Order. The 2017 Rate Order provides no mechanism for adjustments to Base Rates to account for impacts of dynamic variables that affect the costs of operating and maintaining the system. LUMA collects the total System revenue that is used to fund PREPA, Genera and itself. As outlined in the T&D OMA, including Section 3.2, LUMA collects the cash on behalf of PREPA; however, PREPA is the owner of the bank accounts, and, thus, controls the cash in the bank accounts. Cash collected from customers by LUMA cannot be used unless its use is approved by PREPA in accordance with the cash replenishment processes outlined in the T&D OMA.²

Q.12 Please described what you mean by “Base Rates.”

A. I mean the monthly customer, energy and demand (if applicable) charges in PREPA’s Tariff Book. Base Rates do not include pass-through costs such as fuel charge adjustment (FCA), purchased power charge adjustment (PPCA), or other pass-through costs such as Contributions in Lieu of Taxes (CILT). Base Rates will remain in effect until this rate review is completed.

² For example, Section 7.5(a)(ii) Service Accounts, Operating Account, where, PREPA shall fund the Operating Account in an amount equal to four and a half (4.5) months of anticipated T&D Pass-Through Expenditures

Q.13 Can you describe the circumstances surrounding the establishment of the current Base Rates and how those circumstances compare to today's environment?

A. Circumstances today are vastly different from 2017. The Energy Bureau recognized this fact in its June 30th 2023 Resolution and Order outlining the significant changes in Puerto Rico's energy sector that are relevant to the need for a rate review process.³ In the 2017 Rate Order, the Energy Bureau stated that PREPA was experiencing "financial emergency" and its bondholders were "negotiating a financial restructuring" "[r]ather than declar[ing] default on their bonds and su[ing] for payment."⁴ Ultimately, PREPA would commence a bankruptcy case in July 2017 under Title III of the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") before the United States District Court for Puerto Rico. PREPA's Title III case continues to date, eight years after it was filed. Whereas in 2017, PREPA was the sole recipient of the revenues provided by the Base Rates, revenues are now split among the three Operators (*i.e.* LUMA, Genera and PREPA) through a Budget Allocation Process as per the T&D OMA and the PGHOA.

Q.14 You mentioned that revenues are now split among LUMA, Genera and PREPA, through a Budget Allocation Process, please describe the budget allocation process.

A. The Budget Allocation Process is a process that has determined the split (or, the "allocation") of PREPA's total revenue⁵ among the parties (PREPA, Genera, and LUMA) before each fiscal year begins. The effect over the past four fiscal years is that the portion

³ See Energy Bureau Resolution and Order of June 30, 2023, at 1-2, *supra* n. 4.

⁴ 2017 Rate Case Order, Section II.A., ¶9 at 12.

⁵ In a non-rate-review-year, the revenue which is allocated among these entities is based on 2017 Base Rates

of revenues allocated for operation and maintenance of the T&D System has decreased from 2017 levels, as shown in the table below.

Table 3. Summary Comparison to Current Rate Order						
	FY2017 Approved Budget	FY2022 Approved Budget (May 2021)	FY2023 Approved Budget (February 2023)	FY2024 Approved Budget September 2023)	FY2025 Approved Budget (December 2024)	FY2026 Temporary Default Budget (June 2025)
Transmission & Distribution	923	649	627	651	692	647
Operating Expenditures	707	525	550	560	567	530
Non- Federally Funded Capital	216	124	77	91	125	117
Generation and HoldCo	267	311	335	363	348	325
Other¹	99	224	246	274	275	273
Total	1,289	1,184	1,208	1,288	1,315	1,245
¹ Other includes LUMA and Genera Fees, Bankruptcy Title III Advisor Costs, FOMB Advisor Costs, and Bad Debts						

Q.15 Why does the table show that LUMA's revenues are going down, but Genera's and PREPA (i.e. HoldCo)'s revenues are increasing?

A. The budgets in the table are the result of the Budget Allocation processes administered by P3A. Accordingly, LUMA is unable to explain the changes in revenue allocations by P3A.

Q.16 Are there factors adversely affecting electricity sales and revenues that are not covered by current base rates? If so, please explain.

A. Yes. ~~The current Base Rates also do not take into account the rapid growth of distributed energy resources, namely Net Energy Metering ("NEM") customers and their impact on residential load and necessary upgrades to the system. Under the existing compensation~~

233 ~~structure, NEM customers can self-supply during the day but also generate excess energy~~
234 ~~credits to offset future consumption from the grid (for example, during peak times when~~
235 ~~the sun is not shining). A NEM customer whose supply exactly matches consumption~~
236 ~~avoids all grid costs except for the \$4 monthly customer charge, yet the customer remains~~
237 ~~connected to the T&D System. The problem is that a NEM customer is not making~~
238 ~~sufficient financial contribution to the embedded costs of the system but the customer~~
239 ~~continues to use the grid during system peaks (after solar production drops off) between~~
240 ~~5:00 p.m. and 11:00 p.m. In other words, LUMA's peak demand can remain unchanged~~
241 ~~because NEM customers call on the utility to deliver energy during peak times, but because~~
242 ~~a NEM customer can "bank" credits to offset consumption, revenues decline despite the~~
243 ~~fact that the System does not experience a change in peak demand. Please also refer to the~~
244 ~~testimony of my colleagues Eduardo Balbis, LUMA Ex. 3.0 and Joseline Estrada, LUMA~~
245 ~~Ex. 4.0. In response to the Energy Bureau's consultants' request for information 51,⁶ Ms.~~
246 ~~Estrada estimates that revenue reductions attributable to NEM will be \$100 million in~~
247 ~~FY2026, increasing to \$136 million in FY2028.~~

248 Current Base Rates also do not contemplate the proliferation of Combined Heat and
249 Power ("CHP"), and consequent reduction in industrial load and decline in revenues from
250 industrial consumers. Industrial consumption as of February 2025 fell by ten (10) percent
251 compared to the same period last year. CHP is one contributing factor as customers with
252 large and steady thermal loads (for example, to produce steam or hot water) can install
253 CHP units that provide thermal load and produce electricity as a "beneficial byproduct."
254 LUMA is working to understand how industrial customers with CHP are utilizing those

⁶ See NEPR AP 2023-0003, Hearing Examiner's Order Requiring Certain Information in the Rate Case Application or Accompanying Prefiled Testimony.

255 systems. But LUMA knows it has 28 industrial customers with CHP, of which three
256 customers have been lost completely (*lost* meaning that they no longer pay to use the T&D
257 System). Also, (industrial) customers that now have CHP accounted for 37% of total
258 industrial consumption in 2017 compared to 27% in fiscal years 2024 and 2025. Declining
259 industrial revenues, which are usually a source of steady revenue for electric utilities, could
260 lead to under collection of revenues LUMA needs to operate. Please refer to the testimony
261 of my colleague Joseline Estrada, LUMA Ex. 4.0.

262 Additionally, when the base rates were approved in 2017, the T&D System had not
263 yet been severely damaged by Hurricanes Irma, a Category 5 hurricane, María, a high-end
264 Category 4, hurricane, and Hurricane Fiona, which made landfall as a Category 1 storm.
265 The storms, and the resulting extended system outages, have impacted customers and
266 reduced revenues. For example, a significant population left Puerto Rico after the storm,
267 which has reduced demand for electricity in the ensuing years. The remaining customers
268 have increased incentives to become more energy independent following storm-related or
269 other service disruption, and, as a result, many have adopted rooftop solar systems and
270 battery energy storage, which also reduces utility electricity sales.

271 Finally, changes in consumer behavior and energy efficiency have also impacted
272 LUMA. For example, due to the relatively high cost of electricity in Puerto Rico, customers
273 have shifted and/or reduced how they use electricity. For example, customers may install
274 a timer on their water heater to reduce energy consumption, or a customer may elect to
275 install a more energy efficient tankless water heater. Home appliances have also become
276 more energy efficient, as have Heating Ventilation and Air Conditioning (“HVAC”)
277 systems. Customers can elect to replace older, less efficient appliances and/or HVAC with

more energy efficient modern appliances, but the appliance and HVAC replacement cycle also occurs naturally as older appliances fail and are replaced. Home lighting has also been migrating to LED lighting from incandescent lighting, reducing energy consumption for illumination. These dynamics have intrinsic value to society through reduced energy consumption, lower emissions, and lower share of household costs attributable to energy consumption, etc., but these dynamics concomitantly reduce kWh sales which impact the utility's revenue. It is also important to note that there are PREB-mandated programs that provide incentives for customers to reduce their electricity consumption, so not only are customers choosing to change their electricity consumption behavior in response to system performance and costs, but customers are also provided direct incentives to reduce their consumption of electricity.

Q.17 Do the costs associated with interconnecting distributed generation have an impact on LUMA's ~~revenues and~~ cost to operate and maintain the available for the operation and maintenance of the T&D System?

A. ~~As described by my colleague Joseline Estrada, load displacement and negative revenue impacts could result from increases in the number of NEM customers. However aside from revenue,~~ there are significant grid upgrade costs that are expected to be made in order to accommodate the increasing level of NEM customers (+3,000 enrollments monthly). LUMA has already identified \$12 million (\$10 million related to PBUT6 and \$2 million related to PBUT33 shown in the table below) in system upgrades that have been identified (but have no mechanism to be recovered) because the costs were not contemplated in prior Engineering budgets. LUMA currently faces a situation of conflicting laws and regulations leading to a situation where these prospective system upgrade costs are not being paid for

by anyone. Regulation 8915 requires payment of the NEM application fee, supplementary study and system upgrade costs before interconnection of a distributed generation (“DG”) system. Regulation 8915 requires system upgrades to be paid for by the cost-causer. However, Act 114-2007 requires LUMA to *automatically* connect DGs <25 kW to the system. It follows that if a customer has already installed a certified DG system and is interconnected to the grid, there is very little incentive for that customer – or their solar developer – to pay for after-the-fact supplementary studies and/or system upgrades. Based on this, LUMA is requesting these costs be included in non-federal capital.

Q.18 Can you identify the costs that are included in non-federal capital to accommodate distributed generation?

A. Yes. Please refer to Table 5-4 below.

Table 4. NFC for Net Metering Customers (\$ millions)				
Cost Item (Program Brief)	FY2026	FY2027	FY2028	Rationale
Supplemental Studies Compliance & Studies (PBUT1)	\$3	\$4	\$4	Required to conduct studies to safely connect distributed generation resources to the system
Distribution System Upgrades (PBUT6)	\$10	\$15	\$15	Upgrade costs to the distribution system to accommodate the increase in NEM customers
Transmission System Upgrades (PBUT33)	\$2	\$4	\$5	Upgrades to the transmission system for the increase in NEM customers

Q.19 Have macroeconomic changes also impacted the utility?

A. Yes. The current rates did not contemplate inflation that reached some of the highest levels in decades in the years following LUMA’s commenced operations. According to the

consumer price index (CPI)⁷ report(s) published by the US Bureau of Labor Statistics, inflation for the twelve (12) months ending December of each year, the CPI changes were⁸:

- 2021 +7.0%⁹
- 2022 +6.5%¹⁰
- 2023 +3.4%¹¹
- 2024 + 2.9%¹²

The cumulative effects of these price increases have had a significant and measurable negative impact on LUMA's ability to procure materials. The Puerto Rico CPI changes have been slightly lower.¹³ But the United States CPI is the most effective metric for evaluating the cost to serve LUMA's customers because materials and equipment are sourced from the United States.

Q.20 Do you have examples of financial pressure(s) that inflation is creating for LUMA?

⁷ The CPI is a measure of the average change over time in the prices paid by urban consumers for a basket of consumer goods and services. The all urban consumer group represents over 90 percent of the total U.S. population.

⁸ See U.S. Bureau of Labor Statistics, Consumer Price Index Archived News Releases, Available at: <https://www.bls.gov/bls/news-release/cpi.htm#2021>

⁹ *Id.* Available at https://www.bls.gov/news.release/archives/cpi_01122022.htm.

¹⁰ *Id.* Available at https://www.bls.gov/news.release/archives/cpi_01122023.htm.

¹¹ *Id.* Available at https://www.bls.gov/news.release/archives/cpi_01112024.htm.

¹² *Id.* Available at https://www.bls.gov/news.release/archives/cpi_01152025.htm.

¹³ 2021 + 0.17%, 2022 +4.65%, 2023 +5.40% and 2024 +2.42%.

A. Yes. In 2017, PREPA purchased pole type transformers¹⁴ at \$1,075.79 per transformer and in 2025, LUMA, using the same vendor, paid \$3,044.40 per transformer. That is a cost increase of 183%. Similarly, in 2018, PREPA purchased aluminum conductor steel-reinforced cable (“ACSR”)¹⁵ for \$0.55/ft. In 2025, LUMA purchased the same ACSR from the same distributor at \$0.90/ft. This purchase price still represents the best available price, and the difference represents a 64% increase. To further illustrate the purchase price variance over time, in 2020, PREPA purchased galvanized steel poles for \$2,448.00 per pole. In 2025, purchasing the same pole from the same vendor cost LUMA \$4,259.43 per pole, a price increase of 74%. A depiction of the inflationary impacts to LUMA is shown in Tables 1 and 2.

Table 1. Inflation Examples				
<i>\$USD</i>	PREPA 2017	PREPA 2018	PREPA 2020	LUMA 2025
Pole Type Transformer				
Item Cost Per Unit	\$1,075.79			\$3,044.40
Percent Increase				183%
Aluminum Conductor Steel Cable				
Item Cost Per Unit		\$0.55		\$0.90
Percent Increase				64%
Galvanized Steel Poles				
Item Cost Per Unit			\$2,448.00	\$4,259.43
Percent Increase				74%

Table 2. Inflationary Cost Impact						
	Year	Old Price	New Price	Price Increase	2025 Quantity	2025 Incremental Cost Impact
Pole type transformer	2017	\$1,076	\$3,044.40	\$1,968.61	1,940	\$3,819,103

¹⁴ Used to reduce voltage from distribution level to consumption level.

¹⁵ A type of high-capacity, high-strength stranded conductor used in [overhead power lines](#).

Aluminum conductor steel cable	2018	\$0.55	\$0.90	\$0.35	7,146,514	\$2,501,280
Galvanized steel poles	2020	\$2,448	\$4,259.43	\$1,811.43	1,940	\$3,514,174
Total						\$ 9,834,558

The examples above show how LUMA's purchasing power has significantly decreased in recent years and how this inflationary impact directly and adversely affects LUMA's ability to purchase the same volume of materials and equipment as it did just a few years ago in order to operate the utility safely and effectively. Stated differently, inflation has a negative impact on LUMA because PREPA's Base Rates have not changed, but the cost of materials that it purchases for its operations has risen sharply. As a result, LUMA is able to purchase significantly less material with the Base Rates revenue currently collected versus what it was able to purchase when the Base Rates were established in 2017.

Q.21 Does the current rate structure raise enough revenue to provide the necessary financial resources to respond to outages or other emergencies?

A. No, current rates have proven insufficient to raise enough revenue to operate the system and also respond to outages that have occurred in the past years. LUMA's ability to respond to outages or other emergencies is limited by PREPA's lack of working capital or a revolving credit financing facility due to its Title III bankruptcy. Energy is one of FEMA's eight Lifelines, which FEMA has identified are the most fundamental services in the community that, when stabilized, enable all other aspects of society to function. However, if LUMA needs to respond to a natural disaster to repair damage and restore critical services its only source of funding is cash on hand, additional funding that may, or may

not, be available from PREPA or funding from the Commonwealth, which also may, or may not, be available.

Furthermore, if LUMA must respond to a natural disaster, due to the overall revenue insufficiency being experienced under current rates, the funds used for service restoration are taken away from spending on other system operations and investment which are foregone or deferred in order to pay for service restoration. This situation is different from how a utility would typically manage the cost of unplanned outages. Typically, utilities maintain a funded storm reserve, or a working capital or other credit facility,¹⁶ that can provide access to cash. If a utility needs more cash than may be available in a funded storm reserve to respond to an outage event, such as an ice storm or a hurricane, the utility can access that cash through its credit facility. The utility subsequently collects cash through rates to replenish the funded storm reserve or repay the outstanding balance on the credit facility.

This problem is exacerbated due to the currently underfunded Outage Event Reserve Account. The T&D OMA establishes an Outage Account in which PREPA is contractually required to maintain a balance of \$30 million, funded by PREPA, to pay for Outage Events (as defined in the T&D OMA). The Outage Account was initially funded with \$30 million by PREPA, and then funds were subsequently used to fund outage restoration by LUMA. In the past, the Outage Account was replenished by PREPA to contractual levels, and so on and so forth. However, the Outage Account was last funded in November 2023, and the account has not been replenished since. There are currently no

¹⁶ See for example, 2024 Florida Statutes, Title XXVII – Railroads and Other Regulated Utilities, Chapter 366 – Public Utilities, 366.8260 – Storm-Recovery Financing. Where “Storm-recovery reserve” means an electric utility storm reserve, or such other similar reserve established by law or rule or pursuant to the order of the Commission

funds in the Outage Account. Despite the outage account not being funded, LUMA has continued to respond to Outage Events to restore service, including hurricane Fiona and tropical storm Ernesto. In addition to these two named storms, LUMA has responded to other Outage Events as well. LUMA has spent \$209 million (reflects Outage Event costs not reimbursed as of February 2025) on Outage Events that have not been funded by PREPA, in violation of the terms of the T&D OMA. Please refer to the testimony of my colleague Alejandro Figueroa, LUMA Exhibit No. 1.0, on how LUMA proposes to recover the unreimbursed Outage Events costs in arrears in this rate review plus replenishment of the contractually required funding of \$30 million and seeks to require PREB to mandate PREPA's compliance with its obligation to fund the Outage Account.

Q.22 What has changed since the 2017 Rate Order in terms of System revenue?

A. What has impacted System revenues from year-to-year is primarily due to changes in the volume of kWh sales, which are primarily due to weather, and CHP and NEM, as described in testimony of my colleague Joseline Estrada. For example, in terms of weather, total consumption increased by 11.7% in FY2024 in comparison to FY2023 because of a heat wave. At the same time, the FY2023 load was affected by Hurricane Fiona, which caused a 4.51% decrease in demand compared to FY2022. This is why LUMA agrees with the Energy Bureau that a mechanism to "decouple" revenue from billing determinants would be a constructive enhancement to PREPA's regulatory framework.

Changes in macroeconomic factors, consumer behavior, and the passage of time are impactful on the T&D system's revenue requirement. As described above in my testimony, the cost of inflation for goods and services needed by LUMA to maintain the T&D system has been significant since Base Rates were last reviewed in 2017.

Accordingly, as also described in my testimony, the same Base Rates fund significantly less purchases of goods and services today than the Base Rates funded in 2017.

Furthermore, the T&D system is old, and the system is now eight (8) years older than it was when Base Rates were last reviewed in 2017. LUMA has been forced to operate since its inception with budgets that are below the budget that LUMA believes are needed to invest in and maintain the T&D system, as evidenced by the Optimal and Constrained T&D System Budgets submitted by LUMA as part of this rate proceeding. As a result, aged equipment that has not been replaced while LUMA operated under reduced budgets is only older and more deteriorated than it already was in 2017, and maintenance that was deferred, has only been deferred that much longer.

Q.23 Has LUMA implemented efficiencies since it began operating? Please explain.

A. Over the past four (4) years, LUMA has improved the safety of our employees, as measured by frequency and severity of injuries.¹⁷ As shown in the testimony(ies) of my colleagues, LUMA has also improved the level of work performed in quality and frequency versus its predecessor and is producing benefits for LUMA's customers. Several of my colleagues address efficiency and improvements that LUMA has executed in their testimonies, including improvement in safety, information technology – specifically cybersecurity, customer's call wait-times, customer call abandonment rates, just to name a few.

Q.24 Please briefly describe the current physical condition of the T&D System.

A. It is in a state of significant disrepair, significant components on the system are at, or beyond, end of life, and many components of the system operate with decades-old technology – all of which have a significant negative impact on system performance. Please

¹⁷ See Table 1, *supra*.

refer to the testimony of my colleagues Alejandro Figueroa, Kevin Burgermeister, and Pedro Meléndez who explain that while improvements have been achieved, LUMA remains in a period of desperately needed remediation, repair, and replacement in order to bring the T&D System up to Contract Standards specified in the T&D OMA. This means that until the assets and the underlying systems are brought up to a prudent operator standard, there must be sufficient budget for higher-than-normal asset replacement costs as well as just and reasonable operating costs considering the state of deterioration of the assets and underlying systems. My focus is on the state of the financial systems, which I describe further below.

Q.25 Has LUMA implemented actions to operate within budget constraints since it took over operations of the T&D System? Please explain your answer.

A. Under the T&D OMA, PREPA is responsible for ensuring sufficient cash to finance operations, and it is LUMA's responsibility to operate the T&D System within the approved budget.¹⁸ To successfully operate within the constraints of the Budget Allocation under current Base Rate revenues, LUMA has prioritized and deferred activities each fiscal year it has functioned as operator of the T&D System. This prioritization incorporated multiple factors to optimize the beneficial impacts to customers which included: improved reliability, responsiveness to customers, availability of materials given global supply shortages, and long-term improvements to the system in-line with the System Remediation Plan ("SRP"), among other factors.¹⁹ Several activities were postponed or slowed until a

¹⁸ See T&D OMA Annex I, Section VI.C at I-9 ("Operator shall be responsible for all . . . budgeting . . . related to the T&D System").

¹⁹ See LUMA's SRP filed with the Energy Bureau in Case No. NEPR-MI-2020-0019, February 24, 2021 and May 8, 2021, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2021/02/LUMAS->

time when the funds and resources to pursue them become available. Examples of these delays were detailed in LUMA's FY2025 T&D Budgets filing²⁰: Distribution Streetlighting, Billing Accuracy & Back Office, New Business Connections, Distribution Line Rebuild, Substation Reliability, Facilities Development & Implementation, T&D Fleet, Workflow Processes & Tracking, Tools Repairs & Management, and Critical Financial Systems. In a subsequent response to the Energy Bureau's request for information, LUMA further enumerated the deferred costs and provided a priority explanation.²¹

Q.26 What have been the impacts of operating within budget?

A. While deferring planned activities, and necessary maintenance, repair, and investment can be an effective strategy in the short-term to maintain fiscal discipline; underfunding will lead to further delays of the milestones outlined in LUMA's System Remediation Plan

[Submittal-and-Request-for-Approval-of-System-Remediation-Plan-NEPR-MI-2020-0019-3.pdf](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), and <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>. See also modifications filed on April 14, 2022, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2022/04/Motion-Submitting-Changes-to-SRP.pdf>, and December 23, 2023, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2023/12/20231222-MI20200019-Motion-Submitting-Changes-to-SRP-2024.pdf>, and June 5, 2024, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2024/06/20240605-MI20200019-Motion-Submitting-Modifications-to-System-Remediation-Plan.pdf>; see also Annual Report of December 9, 2022 available at <https://energia.pr.gov/wp-content/uploads/sites/7/2022/12/Motion-Submitting-LUMAS-Annual-System-Remediation-Plan-Report-For-FY2022-NEPR-MI-2020-0019.pdf>, Annual Report of October 30, 2023, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2023/10/Motion-to-Submit-Annual-Report-for-Fiscal-Year-2023-NEPR-MI-2020-0019.pdf>, and Annual Report of October 28, 2024, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2024/10/20241028-MI20200019-Motion-Submitting-FY2024-Annual-Report.pdf>.

²⁰ See NEPR-MI-2021-0004, *Request for Approval of T&D Budgets and Submission of GenCo Budgets for FY2025 and Budget Allocations for the Electric Power System*, filed on May 25, 2024, at Section 5.0. Available at <https://energia.pr.gov/wp-content/uploads/sites/7/2024/05/20240525-MI20210004-Motion-FY2025-TD-GenCo-and-System.pdf>

²¹ See NEPR-MI-2021-0004, LUMA's Responses to Requests for Information, ROI-LUMA-MI-2021-0004-20240612-PREB-017, available at [20240620-MI20210004-LUMA-Responses-to-RFI.pdf](https://energia.pr.gov/wp-content/uploads/sites/7/2024/06/20240620-MI20210004-LUMA-Responses-to-RFI.pdf) (pr.gov)

(“SRP”) and consequently, slowed progress of the transformation of the T&D System and PREPA’s electric infrastructure as a whole. Deferral of maintenance has also led to other negative consequences, for example: increased frequency of broken, or out-of-service assets, more expensive emergency repairs compared to planned repairs, more expensive planned repairs because assets further deteriorate with time as maintenance is deferred resulting in the final repair being more expensive than if repaired sooner, and longer restoration times if equipment does fail because the needed repair may be more extensive.

Q.27 Did this situation lead to a liquidity issue for the electric power system?

A. The PREB was informed of the lack of adequate funding of the System over the years, but the liquidity situation became more acute in the first quarter of FY2025 because the monthly funding that LUMA received from PREPA was substantially reduced. For example, PREPA provided funding to LUMA of \$131.6 million in July of CY2024, and had been providing similar monthly funding previously, although at levels below the funding level required in the T&D OMA. However, in August of CY2024, PREPA only provided \$43.4 million of funding to LUMA. Monthly funding from PREPA has remained at depressed levels since then. The PREB initiated an investigation in a separate docket, but the PREB has not yet issued a final report or order.²²

Additional factors highlight a lack of sufficient funding in the system. PREPA has repeatedly informed the PREB that it did not have sufficient revenues to fund its pension obligations and asked the government to find a source of funding.²³ The Financial

²² See NEPR-IN-2024-0004, Puerto Rico’s Electric System Cash Flow and Cash Position Concerns.

²³ See Energy Bureau Resolution and Order of March 24, 2025, Case No. NEPR-MI-2021-0004, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2025/03/20250324-MI20210004-Resolution-and-Order.pdf>.

Oversight and Management Board for Puerto Rico (“FOMB”) identified funding for PREPA’s pension contingent on PREPA filing an emergency rate petition by March 28, 2025. The FOMB noted that even though LUMA had a duty as an agent of PREPA to file rates to fund the T&D System, LUMA is not required to make a rate filing to fund PREPA’s own obligation to fund its pensioners. In coordination with the Government of Puerto Rico and the FOMB, PREPA informed the PREB that it identified resources to cover pensions costs for April 2025.²⁴ Prior to this time, PREPA’s pension obligations have relied on a \$300 million loan from the Government of Puerto Rico, authorized by FOMB. Clearly, pension funding has been a chronic problem. LUMA understands that on May 22, 2025, the Commonwealth agreed to lend PREPA \$50 million (in two installments of \$25 million) for the purpose of paying pensions for the months of May and June.

Q.28 Does PREPA’s ongoing bankruptcy have an impact on the utility’s financial situation? Please explain your answer.

A. Currently, PREPA is a municipal utility that is unable to borrow money due to its ongoing bankruptcy case. It is currently unable to issue bonds at an attractive cost or to issue bonds at all. It is also not currently able to access other sources of competitive financing, such as revolving credit facilities, because of its weak financial condition and ongoing bankruptcy proceedings. As a result, the utility must operate under a “cash financing” regime, meaning any expenses or investment incurred during the year must be paid for either through revenue generated from current Base Rates, PREPA’s cash reserves, or through funding from the Commonwealth of Puerto Rico (the “Commonwealth”) or a “non-PREPA funding

²⁴ See PREPA’s Motion of March 26, 2025, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2025/03/20250326-AP20230003-Motion-Informing-Identification-of-Funding.pdf>.

source.” If base rates are insufficient to fund the required T&D System’s operating expenses and capital investments (i.e., if PREPA does not have the cash on hand to pay for its obligations from revenue generated by current rates), then either the Commonwealth must inject cash into the utility, or some of the services provided by LUMA will be affected. For example, capital improvements may be limited, or various activities may be deferred to the future or reprioritized in an effort to prioritize using the revenues derived from the rates and any cash injections most effectively.

Q.29 Please explain the impact on customers of PREPA’s cash-financing regime?

A. Electric utilities typically finance a portion of their annual capital investment, which is how PREPA historically funded part of its spending prior to its bankruptcy and the current Title III bankruptcy proceedings. Currently, PREPA funds all its annual activities through cash collected in rates from customers each year. Under the current cash-financing regime, customers must pay for the total cost of capital investment in the year it is incurred. This is because PREPA is unable to issue new debt due to PREPA’s ongoing Title III proceedings, through which PREPA’s debt is being restructured.

If, in the future, PREPA gains access to financing, under a future debt-financing structure, the utility could finance some of its capital spending. With access to financing, PREPA could raise the cash to pay for a portion of its annual capital investment by issuing bonds, or other financial instruments, and pay for that spending over time through annual payment of principal and interest on the financing over a number of years. In a simplified illustrative example, under a cash financing regime, \$100 million of capital investment must be collected dollar-for-dollar in the year that the capital is spent, so the cost to customers is \$100 million that year. Under a traditionally more common debt-financing

519 regime, if it is assumed that 50% of the capital investment can be financed at 8% over ten
520 years, the cost to the customer in year-one when the utility invests \$100 million is \$50
521 million. That \$50 million must be collected in rates in year-one (the portion of the capital
522 investment that remains funded under the cash financing regime). Also, in year-one another
523 \$7 million must be collected in rates related to the annual payment for interest and principal
524 repayment for the financing that funded the remaining \$50 million of capital investment
525 under the debt-financing regime. So, rather than collecting \$100 million in year-one from
526 the customer under a cash-financed regime, the utility only needs to collect \$57 million
527 from the customer in year-one under a financing regime, representing a 43% reduction in
528 the amount of cash that must be collected in year-one from the customer versus a cash
529 financing regime. In subsequent years, the only cash that needs to be collected from the
530 customer is \$7 million for the annual principal and interest payment until the financing is
531 repaid. This dynamic directly and significantly reduces the impact on the rate per kWh that
532 must be charged to the customer because less cash must be collected annually from the
533 customer under a debt-financing regime versus a cash-financed regime.

534 Further potentially affecting the impact on customer rates is PREPA's credit quality
535 upon its emergence from Title III and thereafter. PREPA's credit quality is impacted by the
536 quality of its financial results, whether it is honoring its contractual and legal obligations,
537 and its operations, among other factors. PREPA's credit quality can also be impacted by its
538 regulatory, environmental, and compliance environments. Higher credit quality should
539 result in a lower cost of financing when PREPA is able to transition to a debt financing
540 regime, which can help lower rates. For example, in the debt-financing scenario described
541 above, a reduction in the assumed interest rate on the debt financed portion of capital

investment to 6% from 8%, lowers the annual debt service requirement to \$6.8 million from \$7.5 million, which represents an 8% reduction in annual debt service costs.

A simple way of describing this is that customers pay for the capital spending over time just like when a customer takes out a loan from a bank to finance the purchase of a car. In this analogy, the utility acts like the bank allowing customers to finance capital projects investment in the utility system that provide long-term benefits to the customer. Regardless of whether LUMA is operating under a cash financing regime or a debt financing regime, its spending and investment needs included in the Optimal and Constrained budgets that are part of this proceeding would not change. Rather, the impact on customer rates could be different under a debt financing regime versus a cash financing regime as described above.

IV. FINANCIAL SYSTEMS AND BUDGETS

Q.30 Please state your understanding of PREB's directive discussing the relationship between this rate case and the process to set the utility's budgets.

A. In an order dated February 12, 2025, the PREB noted that this rate review proceeding will function simultaneously as a budget proceeding and a rate proceeding. The budgets approved by the PREB in this proceeding will be the budgets within which PREPA, LUMA, and Genera will operate for the associated fiscal year. The PREB directed LUMA to file Schedules A-1 and A-2, which it ordered should contain an Optimal Budget and a Constrained Budget, as discussed more below, each organized according to the outline in the Appendix to the Order. The PREB also required the filing of Rate Schedules B through J to contain the information needed to calculate rates based on the new budget, and other

information deemed relevant such as renewable portfolio standard compliance costs, and a proposed revenue decoupling mechanism.

Q.31 How did PREB characterize the Rate Schedules A-1 and A-2 in regard to the budgets?

This response answers the PREB's consultants RFI-063 from March 24, 2025

A. The PREB stated that the outline associated with Schedules A-1 and A-2 shall be the table of contents for the proposed budgets/revenue requirement, and noted that it will likely become, with any necessary changes, the table of contents for the final Order in this proceeding.

Q.32 Please explain LUMA's position regarding Rate Schedules A-1 and A-2?

A. The format and content of Schedules A-1 and A-2 are a departure from the costs or expenses contained in any internal (or external) reporting structure that LUMA has used in the past and do not reflect any industry-standard format. LUMA informed the Energy Bureau that ongoing reporting in the customized format of Schedules A-1 and A-2 would require significant effort and significant incremental expense. In direct response to ROI-LUMA-AP-2023-0003-20250324-PREB-063,²⁵ LUMA is minimizing the cost of modifications to existing financial recordkeeping to track costs consistently with Schedules A-1 and A-2 by assuming a one-time, limited use of the A-Schedules and not making system modifications to support continued reporting in this format. LUMA has assigned a number of resources, and they made best efforts to populate the A-Schedules based on information available. However, for some of the items, cost estimates had to be compiled from disparate sources, and for other items LUMA had to make reasonable assumptions in order to get to a number that may be useful to the Energy Bureau's consultant(s). In the

²⁵ See Request for Information No. 63 of the Order dated March 24, 2025.

586 April 29th Technical Conference, the Hearing Examiner acknowledged that after learning
 587 of what the cost of addressing the 100 plus items in the A-Schedules would be, LUMA has
 588 to organize things the way it needs to, and there may not be coverage of everything in
 589 Schedules A-1 and A-2.²⁶ Based on this, I do not recommend modifications to LUMA's
 590 existing financial recordkeeping to track costs consistently with the A-Schedules.
 591 However, in response to PREB requests for specific schedules, LUMA has included an
 592 additional \$0.5 million as part of its provisional rate (to be effective September or October
 593 1st), which would allow LUMA to identify costs (or groups of costs) according to Schedule
 594 A, should the Energy Bureau's consultants find it valuable. An additional \$0.5 million is
 595 not sufficient funding for LUMA to modify the format in which it develops, tracks, or
 596 reports its financial information. Instead, the funding is intended to support limited tracking
 597 and reporting of financial information in a format that is different from the format in which
 598 LUMA currently tracks and reports financial information. LUMA intends to work with
 599 PREB and/or its consultants to identify the reporting to PREB and/or its consultants that
 600 PREB and/or its consultants deem most important that can be produced with the \$0.5
 601 million of funds included for this effort. This funding is only included for FY2027.
 602 LUMA's budget process commences in late September to early October.²⁷

603 Also, LUMA has already explained that there is lack of data to use for a fulsome
 604 rate-setting proceeding due to the current state of PREPA's historical financial records and
 605 lack of a reconciled and current balance sheet, including plant and accumulated

²⁶ See April 29, 2025 Virtual Technical Conference at Mins. 6:02 to 7:36. *Available at*
<https://www.youtube.com/live/paIDy-hYEWY?si=PUfLIV--8UYwtQMI>.

²⁷ See NEPR-AP-2025-0002, LUMA Ex. 2.01 – Temporary Rate Revenue Requirement, Section 2.7, at p.
 18

depreciation balance. Therefore, in my opinion, as discussed in more detail in my testimony below, future rate reviews should be done using the FERC Uniform System of Accounts (“UsoA”), which is the standard among utilities. Moreover, transitioning to FERC will facilitate PREPA’s exit from Title III and return to capital markets and debt financing, which, as I have described above, can help lower base rates for customers.

Q.33 Did the PREB indicate that a bottom-up approach was to be used in setting the budget?

A. Yes. The initial June 30th Resolution and Order contains the Energy Bureau’s expectation that the companies will base their proposed budgets on a bottom-up analysis based on the needs of the system. LUMA has explained what a “bottoms-up” exercise means in response to previous requests for information.²⁸

Q.34 Please explain what information LUMA used to develop the Optimal revenue requirement.

A. Consistent with the directives of the Energy Bureau’s June 30th Resolution and Order and March 15th Resolution and Order, LUMA developed its Optimal revenue requirement based on a “bottom-up” budgeting exercise²⁹ that identified the detailed funding needs of each LUMA Department for FY2026 to FY2028. For Operations and Maintenance expense, each department supported the development of its budget using current and projected headcount to forecast labor costs and forecasting non-labor costs that are

²⁸ See NEPR-AP-2023-0003, Responses to March 15, 2024 Requests, Introduction & RFI-LUMA-AP-2023-0003-2024-0315-PREB-04 available at <https://energia.pr.gov/wp-content/uploads/sites/7/2024/04/20240408-AP20230003-Request-for-Continuance-of-Technical-Conference-and-Motion-Submitting-Responses-to-Attachment-One-to-the-Resolution-and-Order-of-March-15-2024.pdf>.

²⁹ See June 30, 2023 Resolution and Order at page 4 & March 15, 2024 Resolution and Order at page 5.

necessary to support LUMA’s overall objective plans.³⁰ This bottom-up approach is similar to what LUMA uses to establish its annual budget which LUMA describes in further detail in its Responses to March 15, 2024 Requests,³¹ but without the revenue limitations created by the 2017 Base Rates. For the Optimal Budget, LUMA’s Departments were then tasked to develop *executable* plans (meaning that they could be executed in any given fiscal year) that targeted overall improvements, without the 2017 Rate Order limitation and with a key focus on reliability and safety, among others, for the three-year test period. Cross-departmental review meetings were then held to ensure wide-range planning across LUMA. For some costs, such as labor and materials, inflation factors were applied to the FY2026 bottom-up budget to produce reasonable Optimal Budgets for FY2027 and FY2028. Please refer to the section on the Finance Department below and the testimony(ies) of my colleagues for an explanation of the inflation factors that were applied. For some activities, such as vegetation management, where discrete projects are a component of the FY2027 and FY2028, those discrete projects were budgeted. For non-federal capital, the budget was built at a program brief level based on reasonable estimates for each individual year of the three years in the test period. The Optimal revenue requirement was used to populate the schedules described in the Energy Bureau’s February

³⁰ See Motion Submitting Responses to Requests of Information issued on December 20, 2024 and January 10, 2025, RFI-LUMA-AP-2023-0003-20241220-PREB#1. Available at <https://energia.pr.gov/wp-content/uploads/sites/7/2025/01/20250118-AP20230003-Motion-Subm-Responses-to-Req-of-Inf-issued-on-Dec-20-2024-and-Jan-10-2025.pdf>.

³¹ See LUMA’s Request for Continuance of Technical Conference and Motion Submitting Responses to Attachment One to the Resolution and Order of March 15, 2024, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2024/04/20240408-AP20230003-Request-for-Continuance-of-Technical-Conference-and-Motion-Submitting-Responses-to-Attachment-One-to-the-Resolution-and-Order-of-March-15-2024.pdf>

12th Resolution and Order, and it's February 27th Resolution and Order establishing two additional filing requirements.³²

Following this, the Optimal Budget was reviewed and approved by LUMA's executive leadership team, including me, and the President and Chief Executive Officer. Finally, the Optimal Budget was presented to LUMA's Board of Directors. Throughout the process, LUMA considered cost-effectiveness and prioritized key needs to avoid unnecessary rate increases that could result from an otherwise undisciplined budget.

LUMA submits that its Optimal revenue requirement is supported by the testimony and exhibits and workpapers of the various departments provided in this Rate Review Petition and is consistent with sound fiscal and operational practices as required by Act 57-2014.³³

Q.35 Did LUMA consider debt service obligations in its capital planning process, particularly as it relates to balancing debt repayment with necessary infrastructure investments and operational expenditures? Answer to March 24, 2025 Response for Information No. 68.

A. No. LUMA built its Optimal Budget from the bottom up, as described above in my testimony, and, as directed by the Energy Bureau, it is reflective of the needs of the T&D System. LUMA did not consider debt service obligations as part of its capital planning process. Implicit in LUMA's approach is the Energy Bureau's June 30, 2023 Resolution and Order stating that, "[t]his rate review needs to establish new revenue requirements from

³² See NEPR-AP-2023-0003, Order Establishing Scope and Procedures for Rate Case, Rate-Case Filing Requirements: Schedules B through H; and NEPR-AP-2023-0003, Resolution and Order Adding Two Filing Requirements, dated February 27, 2025.

³³ Section 6.25(a) of Act 57-2014, The Puerto Rico Energy Transformation and RELIEF Act, as amended.

a “bottom-up” assessment of the current needs of the system.”³⁴ However, LUMA understands that balancing debt repayment with necessary infrastructure investment and operational expenditures is something the Energy Bureau must consider when making its final Order because they are ultimately the rate setting entity. That is one reason why the scope of this rate review is *substantive*, covering the full scope of revenues, other income and costs involved in providing electric service in Puerto Rico, inclusive of legacy debt.³⁵ As described further below, to assist the Energy Bureau, and to meet the filing requirements, LUMA includes in Schedule B-3, high and low Legacy Debt scenarios pertaining to Title III.

Q.36 Did LUMA file historical financial information with its application?

A. Yes. Historical results are filed with this application in schedule B-2. Consistent with LUMA’s previous annual reports, historical information provided herein shows that in each of the recent historical periods utility expenses have significantly exceeded revenues. Historical information is also provided in schedules C-7 and C-9.

Q.37 Given that the company is proposing Base Rates on prospective budgeted information, do you have an analysis of how the company’s actuals compared to its budgets?

A. Yes. LUMA has provided detailed information comparing its financial results to its budgets in LUMA’s Quarterly and Annual Reports, filed with PREB under Docket NEPR-MI-2021-0004. It should be noted that LUMA’s Annual Report for FY2024, filed with the

³⁴ See NEPR-AP-2023-0003, Resolution and Order Initiating Rate Review, p. 4 *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2023/06/20230630-AP20230003-Resolution-and-Order.pdf>.

³⁵ See February 12th Resolution and Order, Section I(A) Substantive Scope: All costs, revenues and income.

PREB on October 28, 2024, reported a 0% variance between the FY2024 Budget and FY2024 Actuals.³⁶ LUMA's Annual Report for FY2023, filed with the PREB on October 30, 2023, reported a 1% variance between the FY2023 Budget and FY2023 Actuals.³⁷ Similarly, LUMA's Annual Report for FY2022, filed with the PREB on October 29, 2022, reported a 1% variance between the FY2022 Budget and FY2022 Actuals.³⁸ These results demonstrate LUMA's meticulous fiscal discipline and spending prioritization to remain within PREB's approved budget for each year.

Q.38 Will revenue information for FY2026 be presented using the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts ("UsoA")? If not, why?

A. No. LUMA's ability to implement FERC's USoA's accounting guidance depends on completing PREPA's balance sheet remediation activities, which are the responsibility of PREPA and the Government of Puerto Rico, and, is entirely outside of LUMA's control.

In addition, since commencing operations, LUMA has faced significant time and resource constraints that have resulted in deferral of the configuration of FERC accounts in Oracle, in favor of prioritizing the most critical initiatives that focused on the safety and

³⁶ See NEPR-MI-2021-0004, *Motion Submitting LUMA's Annual Report for Fiscal Year 2024 and Report on Efficiencies*, filed on October 28, 2024, Exhibit 1, at p. 22. Available at <https://energia.pr.gov/wp-content/uploads/sites/7/2024/10/20241028-MI20210004-Motion-Submitting-FY2024-Annual-Report.pdf>.

³⁷ See NEPR-MI-2021-0004, *Motion Submitting LUMA's Annual Report for Fiscal Year 2023 and Report on Efficiencies*, filed on October, 30, 2023, Exhibit 1, at p. 21. Available at <https://energia.pr.gov/wp-content/uploads/sites/7/2023/11/Motion-Submitting-LUMAS-Annual-Report-for-Fiscal-Year-2023-and-Report-on-Efficiencies-NEPR-MI-2021-0004.pdf>.

³⁸ See NEPR-MI-2021-0004, *Motion Submitting LUMA's Annual Report for Fiscal Year 2022 and Report on Efficiencies*, filed October, 29, 2022, Exhibit 1, at p. 10. NEPR-MI-2021-0004. Available at <https://energia.pr.gov/wp-content/uploads/sites/7/2022/11/Motion-Submitting-Lumas-Annual-Report-for-Fiscal-Year-2022-and-Report-on-Efficiencies-NEPR-MI-2021-0004.pdf>.

698 reliability of the T&D System, building a skilled workforce, improving processes and
699 procedures, and ensuring that the utility is able to perform its day-to-day operations under
700 the limited budget and revenue described elsewhere in this testimony. LUMA provided
701 more detail on these delays in its “Submission of Modifications to System Remediation
702 Plan and Request for Confidential Treatment” filed with the Energy Bureau on December
703 22, 2023.³⁹

704 **Q.39 How does PREPA’s balance sheet need to be remediated?**

705 A. PREPA’s balance sheet needs to be separated into its T&D, generation, and other
706 components and a set of regulatory accounting books will need to be established for each
707 operating company.

708 **Q.40 Why does the implementation of FERC’s USoA’s accounting guidance depend on**
709 **proper remediation of PREPA’s balance sheet?**

710 A. Without proper remediation of PREPA’s balance sheet deficiencies, a beginning balance
711 for asset accounts cannot be achieved. For instance, in order to set up FERC accounts under
712 the USoA, the adjustments to the fixed asset subledger must be updated significantly.
713 Without these updates being incorporated, LUMA cannot effectively proceed with
714 establishing the balances for the assets using the USoA moving forward.

715 **Q.41 Has LUMA ensured that the Energy Bureau can rely upon the produced revenue**
716 **requirement to review existing Base Rates? Please explain.**

717 A. Yes. LUMA completed a thorough bottom-up budgeting process and multiple cross-
718 functional review cycles to develop its Optimal revenue requirement. I described this
719 process in more detail earlier in my testimony. LUMA has also implemented and continues

³⁹ Motion Submitting Modifications to System Remediation Plan and Request for Confidential Treatment, Dec. 22, 2023, NEPR-MI-2020-0019.

720 to enhance internal controls.⁴⁰ Through these efforts, LUMA's Optimal revenue
721 requirement proposal provides a comprehensive perspective into the T&D System's needs
722 and the resources necessary for LUMA to deliver on its contractual and regulatory
723 obligations that can be relied on by the Energy Bureau in reviewing existing Base Rates.
724 As described in my testimony, LUMA's annual budget forecast and actuals have varied by
725 a maximum value of only 1%.

726 **Q.42 What is the status of the Balance Sheet Remediation Effort?**

727 A. LUMA is not a party to the current phase and cannot provide an update to PREPA's balance
728 sheet remediation activities. As stated in RFI-LUMA-AP-2023-0003-20241220-PREB-#6,
729 LUMA is aware that FTI Consulting was awarded the first phase of the contract. LUMA
730 repeatedly has requested information on the status of PREPA's balance sheet remediation
731 activities, including FTI's efforts, but to date, PREPA and the FOMB have refused to
732 provide it. Any further updates should be sought from PREPA or the Puerto Rico
733 Department of the Treasury.

734 **Q.43 When does LUMA believe it will have the necessary systems and data in place to be**
735 **compliant with FERC's USoA?**

736 A. LUMA's ability to implement FERC USoA's accounting guidance depends on the
737 completion of PREPA's balance sheet remediation activities. As LUMA is not a party to
738 this work, LUMA does not have a date when this work must be completed and must stand
739 by until the unbundling is completed. Any enabling activities that support an industry-
740 standard cost of service study and the balance sheet remediation will not be in place before

⁴⁰ For more information on LUMA's internal controls refer to RFI-LUMA-AP-2023-0003-20240314-PREB-03, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2024/04/20240408-AP20230003-Request-for-Continuance-of-Technical-Conference-and-Motion-Submitting-Responses-to-Attachment-One-to-the-Resolution-and-Order-of-March-15-2024.pdf>

Fiscal Year 2028. Furthermore, the constrained budget requested as part of this filing does not include funding for the accounting work, advisory work, information technology work and systems infrastructure investment that will be necessary for LUMA to comply with FERC's USoA.

Meanwhile, LUMA is undertaking remediation of transmission and distribution financial data, through the programs on Critical Financial Controls (submitted as LUMA Ex. 2.01 of this testimony) and the Critical Financial Systems (submitted as LUMA Ex. 2.02 of this testimony), which are part of LUMA's System Remediation Plan. I describe in further detail the initiatives for each of those programs later in my testimony. It is worth noting that in these program briefs, LUMA projects as the modified remediated state milestone for these programs as FY2027 and FY2030. LUMA had stated that the timeline for the Critical Financial Controls Program was delayed "to reflect financial and internal resource constraints causing activities to take longer than planned and complexities due to legacy issues,"⁴¹ which "cannot be fully remediated until PREPA is up to date with [year-end] financial audits and PREPA's balance sheet is split between the various new entities."⁴² There is also the Oracle Enterprise Resource Planning ("ERP") project, which is a migration from LUMA's current on-premise ERP to a cloud-based system. The current on-premise ERP system has an expiration date of service in 2032.

In addition to LUMA's finance-related improvement programs, LUMA needs to become compliant with FERC's accounting regulations, which effort is estimated to extend

⁴¹ See NEPR-MI-2020-0019, *Motion Submitting Modifications to System Remediation Plan and Request for Confidential Treatment*, filed on December 22, 2023, Exhibit 1, at p. 11. Available at <https://energia.pr.gov/wp-content/uploads/sites/7/2023/12/20231222-MI20200019-Motion-Submitting-Changes-to-SRP-2024.pdf>.

⁴² *Id.*, at p. 232.

through FY2028 if the work begins in FY2026. For LUMA to become FERC-compliant, LUMA would have to implement significant changes to its cost recording and reporting structure at a granular level, which would entail a detailed review of approximately 15,000 combinations of general ledger accounts, and likely the disaggregation of some accounts to align with the FERC USoA. Following this analysis, LUMA would update its chart of accounts and complete system configuration work required to automate the reporting of results in accordance with FERC, along with educating employees throughout LUMA on FERC requirements and implementing the updates to the cost structure and associated accounting reporting processes going forward.

V. REVENUE REQUIREMENT

Q.44 Does your testimony support the revenue requirement for PREPA as the overall utility?

A. No. LUMA is only supporting its portion of the System-wide revenue requirement. Although the total revenue requirement is the compilation of the revenue requirements of LUMA, Genera and PREPA as set forth in schedules B-1 and B-2. I am sponsoring LUMA's Optimal and Constrained Revenue Requirements for FY2026, FY2027 and FY2028 set forth in those two Rate Schedules and others that I am sponsoring. *See* Rate Schedules B-1 at columns E, K, and Q Line No. 7. Witnesses from each of Genera and PREPA support the revenue requirements from these entities.

Q.45 What do you mean by the Optimal Budget?

A. According to the Filing Requirements set forth in this proceeding in the February 12th Order, the Optimal Budget means the budget that is necessary to provide electricity to customers at the quality of service required by (a) Puerto Rico statutes and (b) the contracts

under which LUMA and Genera provide that service. The Optimal Budget must include the full-Service Fee (which includes the fixed and incentive fees). The Optimal Budget must also include the costs necessary to give each operator, if it performs prudently, a reasonable opportunity to earn its respective incentive fee.⁴³

Q.46 Is the Optimal Budget that you sponsor for LUMA supported by the costs and activities that are just and reasonable and prudent given the unique circumstances faces by Puerto Rico?

A. Yes. I believe that LUMA's Optimal Revenue Requirement for O&M Services for FY2026, 2027, and 2028 are supported by the extensive testimony of LUMA's witnesses in this case, who describe in detail the activities reflected in the Optimal Budget revenue requirements for each year and explain how those activities are related to the T&D OMA Contract Standards for prudent operation of the T&D System in light of the unique circumstances faced by Puerto Rico, and therefore are just and reasonable.

Q.47 How did the PREB describe the Constrained Budget?

A. According to the PREB, a Constrained Budget means, for a particular Fiscal Year, a budget whose total cost is less than the Optimal Budget by the amount that the Energy Bureau deems necessary to provide a customer-sensitive transition from the status quo (Fiscal Year 2025) to an Optimal Budget in FY2028.⁴⁴ The difference between the proposed Optimal Budget and the proposed Constrained Budget must reflect PREPA's, LUMA's, and Genera's recommendations about which costs and activities in the Optimal Budget should be deferred. These recommendations should consider, but need not be bound by,

⁴³ See February 12th Order, ps. 5-6.

⁴⁴ See February 12th Order, p. 6.

consultations that the three companies hold with interested entities, including but not limited to, the Independent Consumer Protection Office; the bondholders; government, industrial, and commercial customers; and providers of renewable energy. Pursuant to the February 12th Order, the Constrained Budget must include costs to give a prudently performing operator a reasonable opportunity to earn its respective incentive fee. That opportunity might be affected by the proposed cost reductions and activity deferrals. The Constrained Budget, therefore, may include proposed adjustments to (a) the existing metrics and (b) the allocation of compensation among the cost categories. Because a budget determines the rates, and because the rates must satisfy the statutory just-and-reasonable standard, the budget document must show that the derivation of the costs associated with earning the incentive fee satisfies two conditions: (1) The performance level that drives the costs and activities reflected in the Optimal Budget must not exceed a just-and-reasonable performance level; and (2) the cost level proposed in the Optimal Budget to achieve any particular metric must not exceed the cost level that a prudently performing operator would incur to achieve that same metric if that utility were facing Puerto Rico's unique circumstances.⁴⁵

Q.48 How did LUMA develop the Constrained Budget?

A. After completion of the Optimal Budget, my colleagues were asked to identify and prioritize activities that are critical to the stabilization and reliability of the system and that cannot be deferred or delayed. My colleagues were then asked what activities could be deferred or delayed for FY2026, even though delaying or deferring the activity would result in also delaying or deferring benefits from those activities. The reason my colleagues were

⁴⁵ See NEPR-AP-2023-0003, February 12th Order Establishing Scope and Procedures for the Rate Case, page 6 of 34.

each tasked with this exercise is because each function best understands its business needs and is best positioned to understand the impacts to customers of delayed progression in their areas. In my view, this approach produces a better result than a “top-down” percentage or dollar value reduction that may not be reflective of the immediate needs of the system or result in reductions that are so deep that the utility becomes dysfunctional. An inflation factor of five (+5.0%) was then applied to produce the constrained budgets for subsequent years (i.e., FY2027 and FY2028). For more information on how the teams developed their individual constrained budgets, please refer to the testimonies for the individual LUMA departments.

Q.49 Can you describe the results of your effort to develop this budget?

A. The result of our collective efforts is a total O&M and NFC budget of \$1.206 billion, an approximately twenty-six (26) percent reduction from the optimal budget. The biggest O&M reductions are in the Operations, Engineering, Customer Experience, IT/OT, Regulatory, Legal and Procurement departments, along with my Finance department. The biggest NFC reductions are, similarly, in the Operations, Engineering, IT/OT, Facilities and Fleet departments, as well as my Finance department. My colleagues and I, in addition to explaining the rationale for the development of the optimal budget(s), include a brief discussion on the constrained budget(s) in our respective testimonies. In certain testimonies such as Operations, Engineering and Capital Programs, my colleagues include discussion on the Energy Bureau’s performance metrics that may be impacted by the Constrained Budget. The approach taken and resulting Constrained Budget, is consistent with sound fiscal and operational practices and provides for reliable and adequate service at the lowest reasonable cost that is achievable within the spending reductions and associated foregone

or deferred activities reflected in the constrained budget.⁴⁶ I note that while the onus was on LUMA (and PREPA and Genera) to prepare a Constrained Budget, it is also an “amount that the *Energy Bureau deems necessary* to provide a customer-sensitive transition from the status quo (FY2025) to an Optimal Budget in FY2028 [emphasis added].”⁴⁷

The Optimal Budget remains an appropriate revenue requirement based on LUMA’s bottoms-up budgeting and its executability and should be approved, but, recognizing the Energy Bureau’s expressed desire for a “customer-sensitive transition from the status quo to an Optimal Budget in FY2028,”⁴⁸ nothing less than LUMA’s Constrained Budget should be approved as part of the overall utility revenue requirement. The explanation of both budgets provided herein, along with the testimony(ies) of my colleagues should, in my respectful submission be informative to the Energy Bureau.

Q.50 Did LUMA consider the availability of Federal funding when developing its Optimal and Constrained budgets?

A. Yes. LUMA evaluates investment in the T&D System that can be eligible for federal reimbursement. LUMA’s overall capital planning cycle is then developed to coordinate with the federal capital programs and is also designed to maximize the value to customers of the combined federally funded and non-federally funding capital investment.

Q.51 Why does LUMA require additional revenue from customers for its operations when it has large amounts of federal funding available to it?

A. Federal funds are available to rebuild the electric infrastructure damaged by Hurricanes

⁴⁶ Act 57-2014, Section 6.25(b).

⁴⁷ See NEPR-AP-2023-0003, February 12th Order Establishing Scope and Procedures for the Rate Case, page 6 of 34.

⁴⁸ *Ibid.*

Irma, María, and Fiona, but federal funds are only available to repair damaged infrastructure and mitigation of future hazards. For example, if a utility pole was damaged in one of the three storms, federal funds can be available to repair the damaged pole. If the damaged pole was a wooden pole, and replacing the damaged wooden pole with a metal, concrete, or composite pole will make that pole more resistant to damage in future natural disasters, then federal funds may also be available to fund the investment in the improved infrastructure that should mitigate damage from future natural disasters. However, LUMA must use revenues collected from Base Rates to pay for all other activities. PREPA's Base Rates revenue funds LUMA's day-to-day operating expenses. For example, line workers patrol for system damage and outage restoration. For that activity, Base Rates pay for the line worker's wages, pay for the light- or heavy-duty truck used for the patrol, pay for fuel for the truck, etc. LUMA's Base Rates must also pay to upgrade equipment and infrastructure that is at, or past, the end of its useful life and/or invest in modernizing equipment that has deteriorated due to lack of historical maintenance. For example, necessary replacement of old equipment is funded through Base Rates. Likewise, repairing essential infrastructure that has deteriorated due to lack of maintenance is also funded through Base Rates. For example, if a warehouse roof has not been maintained, and the roof develops leaks as a result, Base Rates are the source of revenue to pay for the repairs. Base Rates are also used for the inspection and maintenance of assets, to extend their useful life and minimize the need for repair or replacement. As described in the testimony of my colleague Pedro Melendez, sufficient NFC funding is required in order to effectively deploy federal funding.

Q.52 Did the February 12th Order list rate schedules that needed to be filed in the rate case?

893 A. Yes, the Order listed the rate schedules in Appendix A to the order. This portion of the
894 Filing Requirements addresses Schedules B through H. The Definitions appear first,
895 followed by instructions for the schedules.

896 **Q. 53 Do the definitions refer to the Uniform System of Accounts in the definitions of**
897 **Accounting Systems and Accumulated Depreciation?**

898 A. Yes, but as discussed in my testimony above, the system remediation must be completed
899 prior to LUMA being able to adopt the USoA.

900 **Q.54 Please discuss Schedule B-1, the Determination of Base Rates Revenue Requirements.**

901 A. Schedule B-1 includes detailed spreadsheets showing the computation of the revenue
902 requirement requested by PREPA for the Rate Year and the Extension Years and a
903 comparison, for each year, of revenues at current rates, Optimal Base Rates, and
904 Constrained Base Rates. This schedule summarizes the revenue requirement for the utility,
905 and presents the revenue deficiency, when compared to the revenues expected to be
906 generated from present rates.

907 **Q.55 Please discuss Schedule B-2, Rate Year Result of Operations with Pro Forma**
908 **Adjustment.**

909 A. Schedule B-2 contains a summary of the projected Results of Operations for the Rate Year.

910 **Q.56 Please discuss Schedule B-3, Debt Service Requirement?**

911 A. Yes. Schedule B-3 contains a summary of debt service requirements. For the Rate Year
912 and each Extension Year, it contains each of the following (with each expressed as total
913 absolute dollars, and as an annualized amount for placement into the revenue requirement):

914 (a) a summary of the debt service requirement associated with any debt not subject to
915 the Title III process; and

(b) for the debt that is subject to the Title III process, the debt service requirement associated with each of two scenarios: the Legacy Debt-Low Scenario and the Legacy Debt-Full Scenario.

(c) PREPA's obligation to the SREAEE (Sistema de Retiro de los Empleados de la Autoridad de Energía Eléctrica, i.e., PREPA's pension association), is broken down as follows:

(i) accrued debt due to unpaid employer contributions.

(ii) future obligations under any applicable payment or restructuring plan.

(iii) impact on revenue requirements and rates.

Q.57 What is the source of the information in this schedule and where are the calculations shown for this schedule?

A. This information was provided to LUMA by PREPA. The purpose of PREPA's Title III case is to restructure its legacy debt. These figures are provided for illustrative purposes, and to meet the Energy Bureau's filing requirements, because PREPA's Title III bankruptcy process remains ongoing.

Q.58 Please discuss Schedule B-4, Proposed Margin for Debt Service Requirement.

A. Yes. Schedule B-4 contains, for each of the debt service requirements identified in Schedule B-3, including PREPA's proposed Margin. For more information on "margin." Margin in Schedule B-4 will be expressed as a Debt Service Coverage Ratio multiplied by the debt service payments in Schedule B-3 to calculate Net Income. Net Income is an amount of revenue in excess of PREP's spending for each test year. The authorized Margin is an important lender satisfying criteria.

Please refer to LUMA response to the Hearing Examiner's Two Follow-Up

Question dated March 17, 2025 filed in this proceeding.⁴⁹ To summarize, the margin (or net income) is a function of the debt service coverage ratio and is necessary for PREPA to have positive cash flow to satisfy future lenders when PREPA emerges from bankruptcy.

Q.59 Please discuss Schedule B-5, Plant in Service and Accumulated Depreciation.

A. PREB describes Schedule B-5 as PREPA's best estimate, accompanied by all necessary documentation, of Plant in Service and Accumulated Depreciation for the Audited Year Interim Years Rate Year and Extension Years. Due to the similarities with Schedule C-7, LUMA has provided the combined information requirement as part of Schedule C-7. It should be noted that this information does not impact the revenue requirement because unlike investor-owned utilities that are allowed to earn an authorized return based on investment in plant, PREPA is a municipal utility. This information is provided as part of the filing requirements established by the Energy Bureau.

Q.60 Please discuss Schedule B-6, Capital Lease Detail.

A. Schedule B-6 includes information about all capital leases and the related payment obligations for the Rate Year and the Extension Years.

Q.61 Please discuss Schedule B-7, Revenues Excluding Sale of Electricity.

A. Yes. Schedule B-7 identifies all revenues and income other than revenues from sale of electricity, including, without limitation, revenue from pole attachments, revenue from the federal and Commonwealth governments, interest income, and miscellaneous charges and fees. This figure reflects all discounts, such as discounts to residents of public housing.

Q.62 Please discuss Schedule C-1, Balance Sheets.

A. Schedule C-1 shows PREPA's balance sheets for the beginning and end of the Audited

⁴⁹ See Exhibit 1, RFI-LUMA-AP-2023-0003-20250314-PREB-02, available at [20250317-AP20230003-LUMAs-Response-to-Hearing-Examiners-1.pdf](#).

Year and Interim Years at present rates; and the Rate Year and Extension Years at present rates, Optimal Rates, and Constrained Rates.

Q.63 Please discuss Schedule C-2, Results of Operations.

A. Yes. Schedule C-2 shows PREPA's Results of Operations for the Audited Year and Interim Years at present rates; and projected for the Rate Year at present rates, Optimal Rates, and Constrained Rates.

Q.64 Please discuss Schedule C-3, Statement of Changes in Financial Position.

A. Schedule C-3 shows a statement of PREPA's changes in financial position for the Audited Year and Interim Years at present rates; and the Rate Year and Extension Years at present rates, Optimal Rates, and Constrained Rates.

Q.65 Please discuss Schedule C-4, Statement of Changes in PREPA's Net Position.

A. Yes. Schedule C-4 shows a statement of PREPA's changes in Net Position (Deficit) balance for the Audited Year and Interim Years at present rates; and the Rate Year and Extension Years at present rates, Optimal Rates, and Constrained Rates.

Q.66 Please discuss Schedule C-5, Audited Financial Statements for Historical Year.

A. Schedule C-5 includes audited financial statements and an independent auditor's opinion on such financial statements for the Audited Year, which is FY2022.⁵⁰ Currently, the FY2023 audit is underway but has not been completed at this time. LUMA supports PREPA in achieving completed audits respecting LUMA's areas of responsibility; however, PREPA is the entity that is ultimately charged with audit completion/sign off from PREPA Management.

⁵⁰ As stated in response to RFI-LUMA-AP-2023-0003-20241220-PREB-#7, PREPA's most recent available audited financial statements are FY2022 *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2025/01/20250118-AP20230003-Motion-Subm-Responses-to-Req-of-Inf-issued-on-Dec-20-2024-and-Jan-10-2025.pdf>

Q.67 Please discuss Schedule C-7, Utility Plant in Service and Accumulated Depreciation.

A. Schedule C-7 lists all Utility Plant in Service and Accumulated Depreciation by account for the Audited Year and Interim Years. Where PREPA has different levels of confidence in different accounts, it identifies and describes those different levels of confidence in the estimates. I note that these schedules, too, are provided for illustrative purposes and to meet the Energy Bureau's filing requirements. Due to the yet-to-be-completed balance sheet remediation and the lack of opening balance information, as well as PREPA's cash financing regime described herein, Utility Plant in Service and Accumulated Depreciation information is **not** informative for the purpose of approving a revenue requirement or for ratemaking in this proceeding.

Q.68 Please discuss Schedule C-8, Billing Determinants.

A. Yes. Schedule C-8 presents billing determinants (customer counts, kW and kWh) by rate class for the test years. There is also a separate Schedule C-8 just for lighting customers.

Q.69 Please discuss Schedule C-9, Various Operating Statistics.

A. Yes. LUMA has provided the number of employees (in full time equivalents) for the Audited Year and Interim Years at present rates; and the Rate Year and Extension Years at present rates, Optimal Rates, and Constrained Rates. Schedule C-9 also includes projections of payments to SREAEE.

Q70. Please discuss Schedule C-10, Contributions in Lieu of Taxes ("CILT").

A. Yes. Schedule C-10 provides a forecast of subsidies for the test period, including CILT. Other subsidy values listed in Line Nos. 1 through 14 include but are not limited to Life Preserving Equipment Discount, Common Areas for Condominiums, Downtown Commerce Rider etc.

1005 **Q.71 Can you discuss Schedule C-11, Accounts Receivable as of the Beginning of Rate**
1006 **Year?**

1007 A. Yes. Schedule C-11 shows a schedule of accounts receivable. The most current information
1008 available as of the beginning of the rate year. It shows the aging amounts for all PREPA
1009 government customers and separates customers to which CILT applies from customers to
1010 which CILT does not apply.

1011 **Q.72 Please discuss Schedule D-1, Projected Total Construction and Decommissioning**
1012 **Capital Expenditure.**

1013 A. Schedule D-1 summarizes projected total construction and decommissioning capital
1014 expenditures for the Rate Year and Extension Years, at the Optimal and Constrained
1015 Budgets separated between the following improvement program portfolio categories:
1016 Customer Experience, Transmission, Distribution, Substations, Control Center &
1017 Buildings, Enabling and Support Services.

1018 **Q.73 Please discuss Schedule D-3, Projected Construction and Decommissioning Capital**
1019 **Expenditure for Transmission Plant.**

1020 A. Schedule D-3 lists projected construction and decommissioning capital expenditures for
1021 transmission plants at the Optimal and Constrained Budgets, by program brief.

1022 **Q.74 Please discuss Schedule D-4, Optimal Projected Construction and Decommissioning**
1023 **Capital Expenditure for Distribution Plant.**

1024 A. Schedule D-4 lists projected construction and decommissioning capital expenditures for
1025 distribution plants at the Optimal and Constrained Budgets, by program brief.

1026 **Q.75 Did the February 27th Order include other filing requirements?**

1027 A. Yes, the order added two Requirements: (i) **Schedule I** will be a revenue decoupling
1028 mechanism; and (ii) **Schedule J** will be a storm rider.

1029 **Q.76 Where are those addressed in this filing?**

1030 A. Schedule I is addressed in the testimony of LUMA's rate design consultant Sam Shannon
1031 (See LUMA Exhibit 20.0). Mr. Shannon also addresses the rate design schedules in this
1032 filing as listed in his testimony. Schedule J respecting the storm rider is addressed in the
1033 testimony of my colleague Alejandro Figueroa (see LUMA Exhibit 1.0 and LUMA Exhibit
1034 1.03).

1035 **Q.77 Does this rate filing address any other costs that were not anticipated in the revenue**
1036 **requirement?**

1037 A. Yes. As described herein and included in the testimony of my colleague Alejandro
1038 Figueroa, LUMA proposes that the \$209 million (outstanding balance through February
1039 2025) that has been spent on Outage Events but have not been funded by PREPA as per
1040 the terms of the OMA are requested to be included in the provisional rates, and any
1041 remaining amounts to be recovered in FY2027 through the storm rider once it is approved
1042 by the Energy Bureau. Please refer to Schedule C-2, Column E, Row 53.

1043 **Q.78 Did the March 24th Order add requirements for the filing?**

1044 A. The March 24th Order, issued 37 days before the April 30th filing deadline contained 82
1045 requests for information from LUMA that the Energy Bureau's consultants asked to be
1046 incorporated to pre-filed testimony or include responses as a separate document.

1047 **Q.79 How has LUMA addressed these requests for information?**

1048 A. Responses to the requests for information are filed as an attachment to this Rate Review
1049 Petition. *See* Attachment B. The responses are incorporated in the filing in testimony(ies)

where practicable, with reference to the Request for Information by number. In other cases, LUMA responded to the question directly.

VI. FINANCE DEPARTMENT OPTIMAL BUDGET

A. Background

Q.80 What are the key functions of the Finance Department?

A. The Finance Department oversees and manages LUMA's day-to-day financial management, helping LUMA departments effectively forecast, manage, account for and prioritize their spending. In addition, the Finance Department manages cash and banking, risk and insurance, and internal audits. The Finance Department also plays an integral role in the compliance and reimbursement of investments qualifying for federal funding from FEMA.

Q.81 How do these functions benefit PREPA's customers?

A. The efforts of the Finance Department benefit customers by ensuring LUMA is effectively managing its Base Rate revenue. The Finance Department conducts several essential functions that allow the LUMA's departments to operate efficiently and reliably in support of achieving operational excellence. The Finance Department is responsible for a range of finance and risk-mitigation activities, such as accounting, treasury bank account and cash management, payment processing, payroll, risk management and insurance, financial planning and analysis, financial business partnering and tax. LUMA's internal auditing activities also reside within finance with a "dotted" reporting line to me. This means to ensure corporate governance, independence and objectivity, LUMA's General Auditor, and by extension the internal audit function, ultimately reports, and is accountable, directly to the chairperson of the Audit Risk Committee,

which is a committee formed by LUMA's board of directors. However, Internal Audit collaborates with the CFO for developing a three-year audit plan and support on audit findings and required management solutions, hence the "dotted" reporting line to the CFO. This direct reporting to the chairperson structure was adopted last year to reflect a corporate governance best practice that helps ensure the independence of a company's internal audit activities. Risk Management is also an essential function of the Finance Department, as this allows the department to conduct work related to assessing, mitigating and tracking enterprise risks, insurance, and claims. LUMA, through a shared services arrangement leads and administers the insurance programs for the utility system.

Q.82 Are there any historical factors from the time when PREPA operated the utility that impacts the operations of the Finance Department today?

A. Yes. LUMA's 2021 SRP contained a gap assessment that highlighted several high-risk gaps in LUMA's financial systems and financial controls that impact the Finance Department's ability to produce accurate and timely financial results today, and to respond accurately to audit and regulatory information requests. It is important to note that the risks and deficiencies outlined in the SRP were limitations that were inherent in the system and processes LUMA inherited from PREPA. LUMA has been working on the remediation of the identified gaps and assessed the progress on these financial systems and control gaps in 2025. In this section of my testimony, I will describe what some of the original financial gaps were, and what gaps still exist in the system. In short, progress has been limited to minor system enhancements and manual controls and processes because prior budgets have not accommodated meaningful system enhancements or ERP replacement. In addition, while LUMA has made significant

1096 improvements to the accuracy and timeliness of our financial statements, this progress is
1097 specific to the income statement *only* as the PREPA balance sheet remediation has not
1098 been completed.

1099 **Q.83 Does the Finance Department have standardized processes?**

1100 A. Not entirely. The Finance Department operates with many non-standardized operations,
1101 procedures and inefficient process flows from the financial systems inherited from
1102 PREPA and historical process flows. Many processes are manual and/or require a
1103 combination of manual work as well as automated systems work. Other processes require
1104 the combination or interaction of information from two separate systems that do not
1105 communicate, thus requiring the intervention of a manual intermediary (process) to make
1106 the information from the two systems interact. LUMA would like to update its processes
1107 but has been forced to defer the cost of such important upgrades.

1108 **Q.84 Does the Finance Department have updated software?**

1109 A. Not entirely. Some software is up to date. For example, the Finance Department operates
1110 with the current version of Microsoft Office (Outlook, Excel, PowerPoint, etc.), In other
1111 instances, the Finance Department is limited by outdated or inadequate software, and
1112 consequently, must dedicate significant time and resources on manual operations. For
1113 example, the management of bank accounts, cash reporting and the management and
1114 accruals for ~\$30 million of invoices monthly is performed manually or by utilizing excel
1115 formulas and macros which still requires some manual intervention. The Department also
1116 lacks a risk management information system that could help ensure the timely
1117 identification, analysis, and remediation of enterprise risks.

1118 **Q.85 Does the Finance Department have adequate staffing?**

1119 A. As a whole, the Finance Department is understaffed with a significant workload driven,
1120 in part, by the system deficiencies described in my testimony and the SRP program
1121 briefs. All of which results in a substantial amount of manual work related to accounting
1122 entries, financial performance reporting and analysis, account reconciliations, and bank
1123 account/cash management. As a result of the heavily manual processes, the financial
1124 results require extensive review(s) to mitigate and avoid human error.

1125 **Q.86 Do these constraints affect the Finance Department's ability to operate? Please**
1126 **explain.**

1127 A. The constraints described above complicate the Finance Department's capacity to
1128 manage essential functions such as meeting audit and regulatory requests, managing
1129 certification standards, providing data to support key business decisions, automating
1130 processes to lessen manual risk of fraud and error, tracking and monitoring enterprise
1131 risks, providing support for requests for reimbursement to FEMA and deploying federal
1132 funding. The Finance Department is implementing process improvements and technology
1133 patches, where possible within its current limited operating budgets. However, with
1134 limited resources, it will be extremely difficult, if not impossible, for the department to
1135 perform as a best-in-class finance function. As a result, LUMA may continue to struggle
1136 to comply with audit requests and the accurate statement of financial results, which could
1137 increase the risk of losing federal funding and/or making misinformed business decisions.
1138 With the use of improved tools, processes and technology, the Finance Department can
1139 systematically manage processes and effectively deliver on projects and provide more
1140 effective information to the business. Clearly, the assessment of LUMA's state of
1141 remediation and ongoing repair not only applies to the electrical infrastructure but also to

1142 other supporting infrastructure and systems, including the utility's financial system(s).

1143 **Q.87 Can you discuss the impact of the need for PREPA's balance sheet remediation?**

1144 A. Much of the following information is available on the record of this docket but some
1145 bears repeating. Specifically, PREPA's balance sheet remediation project has yet to be
1146 completed. As a result, the utility's income statements after LUMA began operating are
1147 materially correct; however, balance sheet values are inaccurate because of the lack of
1148 accurate opening balances from PREPA's operation of the utility. Absent opening
1149 balances and a remediated balance sheet, it is unclear the extent that balance sheet assets
1150 are correctly reflected. For example, it is unclear if assets have been reviewed for
1151 impairment and are recorded at an accurate asset value. This is particularly problematic
1152 given the three hurricanes that impacted Puerto Rico described in my testimony.
1153 Furthermore, the value of inventory on hand is unclear because, without a beginning
1154 inventory balance and ongoing inventory cycle counts, the value of inventory on hand is
1155 uncertain. LUMA's ability to implement FERC accounting depends on the completion of
1156 PREPA's balance sheet remediation, the unbundling and reformatting of LUMA financial
1157 information, and the training of LUMA financial reporting personnel on FERC USoA.
1158 These conditions can likely be met at the time of PREPA's next rate case, which I
1159 understand that the Energy Bureau may envision being filed in FY2028 for FY2029 and
1160 subsequent years. But ultimately, it will depend on the level of funding provided by the
1161 Energy Bureau. As shown in Tables 5 and 7 below, there are significantly more funds for
1162 remediation of Critical Financial Systems in the Optimal Budget than there are in the
1163 Constrained Budget. I (re)emphasize that the progression of this initiative depends largely
1164 on available funding.

1165 **Q.88 Has this situation affected LUMA's ability to provide the rate schedules in this case?**

1166 **Please explain.**

1167 A. Yes. LUMA has made concerted efforts to respond to requests related to all components
1168 of the revenue requirement for this rate case but has struggled particularly to provide
1169 information related to B-5 and C-7 schedules, involving plant-in-service and accumulated
1170 depreciation values largely due to the lack of a remediated balance sheet, as described
1171 above. This has presented great challenges in the development of accurate balance sheet
1172 and plant in service information. Given the inherited nature of processes and historical
1173 data, LUMA is attempting to provide financial information that is required by the Energy
1174 Bureau's February 12th Order, but LUMA struggles to determine how much of this
1175 information is accurate. Fortunately, this does not negatively impact this rate case and the
1176 setting of new Base Rates because the current regime is a cash financing model which
1177 does not depend on this information. This contrasts with typical utility rate cases where
1178 the utility has a debt-financing regime. Where a return on equity and debt financing
1179 would be applied to the rate base (which is based on plant in service and depreciation) to
1180 determine the allowed return dollars for the utility. In my opinion, until PREPA's balance
1181 sheet remediation is complete, this balance sheet and plant in service information should
1182 not be used for ratemaking purposes.

1183 **Q.89 Does the Finance Department face other obstacles?**

1184 A. Yes. LUMA's Finance Department deals with additional – and compounding –
1185 complications that do not always affect other electric utilities. These include: 1) the
1186 aforementioned gaps in legacy PREPA critical financial systems and controls, 2)
1187 unreliable and inaccurate historical balance sheet information and associated plant in

service and accumulated depreciation figures, 3) aging and deteriorating financial infrastructure that requires regular upkeep, 4) significant federal capital to be reimbursed from natural disaster associated programs, but also 5) the current shared services model whereby LUMA continues to provide accounting and related services to PREPA and Genera, despite the contractual and statutory mandate to separate these services, and 6) multiple oversight bodies that each require different and complex levels of reporting and disclosure along with responding to customized information requests, sometimes on an ad hoc and unpredictable timelines. The Genera shared services agreement ended earlier this year, but LUMA continues to be involved in some of the transition of Genera to a stand-alone accounting organization. Finally, LUMA faces additional challenges in finance workforce recruiting and development.

Q.90 Please describe the functions of the Finance Department.

A. LUMA's Finance Department is comprised of the CFO office. Reporting into the CFO office are verticals which are each led by one of my direct reports. The functional areas are the Controller's Department, Financial Planning and Analysis ("FP&A") including, Finance Business Partners, Risk Management, Federal Reimbursements, and Finance Transformation. Finance Transformation was specifically created to address the context in which LUMA operates and the system capabilities gaps in the financial systems and controls that LUMA inherited from PREPA when LUMA took over operations. For example, part of Finance Transformation's responsibility is operating a finance policies and procedures task force which is tasked with modernizing outdated policies and procedures and developing best-practice policies and procedures in cases where none exist. As described previously in this testimony, the internal audit function also resides in

1211 finance with a “dotted” reporting line to me. Table 5 below provides a mapping of the
 1212 cost centers in the budget to the functional activities described above.

Table 5. Finance Department by Cost Center

Functional Area	Cost Center(s)/Subdepartment
CFO Office	CFO Office
Controller’s Office	Finance – AP and Accounting Services Finance – General Accounting Finance – LUMA Accounting
Financial Planning & Analysis	Financial Planning & Analysis Finance Business Partners Finance – Plant and Project Accounting Treasury
Risk Management	Risk Management
Federal Reimbursements	Finance Operations FEMA Compliance
Finance Transformation	Finance Transformation
Internal Audit	Internal Audit

1213 **Q.91 Please describe the CFO Office**

1214 A. The CFO Office includes 3 Vice President (“VP”) positions and all current Director-level
 1215 leaders within Finance.

1216 **Q.92 Please describe the Controller’s function.**

1217 A. The Controller’s Department is responsible for overseeing the company’s general ledger
 1218 accounting operations and associated activity. Generally, the Controller’s office ensures
 1219 accurate external financial reporting and maintains the integrity of financial data, critical
 1220 for transparency and trust with customers of LUMA and PREPA. Additionally, the
 1221 Controller’s Department, along with internal audit, is heavily involved in PREPA’s
 1222 external audit and responds to multiple information requests, provides multiple requested
 1223 data samples, provides account reconciliations, and provides additional accounting

1224 support for external audits. Accounts payables, cash management, payroll processing, and
 1225 tax and Treasury functions are also included within the controller's sub-department.

1226 **Q.93 Please describe the financial planning and analysis ("FP&A") functions.**

1227 A. This group oversees budgeting, long-term planning, external PREB and FOMB reporting,
 1228 internal reporting, forecasting, and finance business partners which connect the finance
 1229 department with broader LUMA operations, and project costing. FP&A and the finance
 1230 business partners form a critical link between finance and LUMA's operations. Finance
 1231 business partners are aligned with various operational functions within LUMA to support
 1232 the financial needs of the operational areas and provide tailored financial resources that
 1233 not only provide better financial information to the business, but also better business
 1234 information to finance.

1235 **Q.94 Please describe the risk management function.**

1236 A. The Risk Management Department currently focuses on two primary functions: i)
 1237 enterprise risk management ("ERM") planning and ii) implementation and managing the
 1238 insurance program. The ERM function includes a system and processes to identify,
 1239 assess, and mitigate, monitor and report risks that could impact the utility's operations
 1240 and financial stability. The ERM function is led by risk management, and risk
 1241 management is the repository for ERM, but developing the full ERM for LUMA requires
 1242 the input of all LUMA departments to identify and evaluate risk. LUMA has an
 1243 enterprise-wide risk identification and evaluation process, but the process is not
 1244 automated. Currently, the ERM system is in the planning and design phase. The Risk
 1245 Management area manages obtaining insurance for property, casualty, directors and
 1246 officers, and other insurance. It is responsible for all insurance claims and associated

revenue which is a critical component for a utility that is prone to dealing with natural disaster-related claims, as is the case for PREPA.

Q.95 Please describe the primary focus and role of the federal reimbursements function.

A. LUMA is executing a large investment program funded by federal reimbursements. The process of compiling, analyzing, validating, and submitting complete submittals for reimbursements is complex. The federal reimbursements team is responsible for this process. The federal reimbursements team is also working with LUMA's Capital Programs department and other teams that are executing federally funded projects to ensure that front-end documentation, processes, etc. are compliant with federal requirements. In addition, the federal reimbursements team is responsible for tracking and reporting federal reimbursement activities both internally and externally and serving as LUMA's finance liaison to external stakeholders engaged in the federal reimbursement process.

Q.96 Please describe the finance transformation function.

A. The Finance Transformation team is primarily concerned with documenting Standard Operating Procedures ("SOPs"), Guidelines, Policies, and Process Flows for all the financial cycles and business processes that occur within the Finance and Accounting department at LUMA as well as how those processes impact, or are impacted by, functions outside of the finance department. Through this , the team is able to identify duplicative processes, inefficiencies, and opportunities for improvement of the finance operations. The Finance Transformation subdepartment was created to address the identified capabilities gaps in financial systems and controls in the 2021 SRP. The transformation that is planned for the Finance Department in the medium to long-term is

to continue addressing the identified gaps in Critical Financial Controls and Critical Financial Systems, and the corresponding update in FY2025.

Q.97 Please describe the primary focus and roles of the internal audit function. This response answers the PREB's consultants RFI-071 from March 24, 2025.

A. Internal Audit is responsible for planning, executing and reporting on LUMA's operational, financial, and regulatory compliance audits and other reviews including developing and modifying risk assessments and audit programs to address emerging and changing risks. Internal Audit is also responsible for monitoring the observations and findings from past audit reviews/reports, as addressed by management.

The primary focus of internal audit activities is safeguarding of assets, which are owned by PREPA, which is a municipally-owned utility, so the assets of PREPA ultimately belong to the ratepayer. Its role is centered on evaluating and improving the company's internal processes, identifying areas of operational and compliance risk, and offering recommendations to enhance efficiency and control. All of this is done in accordance with Annex I(VI)(D)(2) of the T&D OMA and Act 17-2019, which I elaborate further in this testimony. Delayed audits or cancelled audits due to limited funding reduces or eliminates a key independent function's review of LUMA's activities. The reduced internal audit activities can increase the operational, financial, reputational, and legal risk to LUMA.

Rather than following a one-size-fits-all checklist, the internal audit process at LUMA begins with a thorough risk assessment. This involves using a standardized questionnaire to pinpoint areas that may be vulnerable to issues such as fraud or recurring problems identified in previous audits. The actual audit work, often referred to as "field

work,” is methodical and internally focused. Auditors document their findings using tools like Excel and Word, prepare detailed work papers, and conduct interviews with staff to understand daily operations. They test processes based on the risks identified and compile lists of issues that need to be addressed. The findings are shared internally and are not intended for external publication or regulatory review.

Once the audit work is complete, reports undergo several rounds of internal review before a draft is shared with the relevant department. Departments are then required to develop action plans to address the findings, and the audit team provides recommendations and sets deadlines for corrective actions. The process concludes with an exit meeting to review all findings, followed by the issuance of a final, confidential report.

The Internal Audit Department does not perform external audits as is typically thought of in the sense of financial statement audits performed by third-party accounting firms such as PwC or KPMG. Instead, its focus is on helping the organization identify and manage risks, improve internal processes, and maintain strong internal controls. The department’s work is consultative and supportive, aimed at fostering continuous improvement rather than providing external assurance or regulatory certification.

Q.98 Please describe the shared services function.

A. LUMA performs shared Finance and Accounting Services for PREPA’s HydroCo₂, PropCo, and HoldCo units. The Shared Services sub-department is within the Controller’s office and performs the Finance and Accounting functions that LUMA is responsible for as part of the Shared Services Agreements that were originally set up between PREPA, the P3A, LUMA and Genera beginning in 2021.

The Shared Services Agreements between PREPA, P3, Genera, and LUMA were amended and restated in January of 2024. The Shared Services Agreement between Genera and LUMA was amended and restated to terminate on February 28, 2025, and it has been successfully terminated. The Shared Services Agreement between PREPA and LUMA was amended and restated multiple times to terminate on June 30, 2025. It is unclear if PREPA will terminate its shared services agreement on June 30, 2025, given the multiple prior restatements and extensions of the agreement. While active, these Shared Services have enabled clear and consistent harmonization of all utility-wide Finance and Accounting data and reporting in order to meet all obligations of the utility to the people of Puerto Rico and to the Puerto Rico oversight bodies the FOMB and the PREB.

Q.99 Are any of these initiatives linked to LUMA’s duties as Operator of the Transmission and Distribution (“T&D”) System?

A. Yes. Annex I(VI)(D)(2) of the T&D OMA states that LUMA shall be responsible for auditing operations, including: internal audit function to perform annual risk assessment related to the T&D System for the purpose of developing the appropriate risk-based audit universe and associated annual audit plan as well as performing financial, regulatory and third-party contract compliance and operational audits and reviews, including review of the associated internal controls, based on the results of the annual risk assessment and associated annual audit plan.⁵¹

Moreover, Internal Audit enables LUMA to comply with Act 17’s efficiency principle that compels the correct allocation and use of resources to guarantee that

⁵¹ See T&D OMA, Annex I(VI)(D)(2), at I-9.

1338 services are rendered at the lowest possible cost and that resources which compose the
 1339 Electrical System are developed according to the best industry practices.⁵² See Act 17-
 1340 2019, Section 1.4(i). Additionally, the Act 17-2019’s continuity principle, which implies
 1341 that services shall be rendered without interruptions, even in the event of an audit.⁵³

1342 **Q.100 Please explain the statutory or contractual role that the Finance Department serve.**

1343 A. The Finance Department is responsible for fulfilling the requirement in Annex I (VI) of
 1344 the T&D OMA, which requires that LUMA “shall be responsible for all finance,
 1345 accounting, budgeting, longer-term financial forecasting and treasury operations related
 1346 to the T&D System.” Additionally, this addresses the requirement in (VI)(D)(3) that
 1347 LUMA shall be responsible for “provision of all necessary information and assistance to
 1348 [PREPA’s] external auditors...”

1349 **B. Proposed Optimal Budget**

1350 **Q.101 What is the FY2026 Optimal Budget for the Finance Department?**

1351 A. The FY2026 Optimal Budget for the Finance Department is \$63.12 million comprising
 1352 an O&M budget of \$46.92 million and an NFC budget of \$16.20 million.

1353 **Q.102 What is the FY2027 Optimal Budget for the Finance Department?**

1354 A. The FY2027 Optimal Budget for the Finance Department is \$62.67 million, comprising
 1355 an O&M budget of \$48.60 million and an NFC budget of \$14.07 million.

1356 **Q.103 What is the FY2028 Optimal Budget for the Finance Department?**

1357 A. The FY2028 Optimal Budget for the Finance Department is \$94.45 million, comprising
 1358 an O&M budget of \$51.05 million and an NFC budget of \$43.40 million.

⁵² See Act 17-2019, Section 1.4(i), 22 LPRA § 1141c (2025).

⁵³ *Id.*, Section 1.4(iii), 22 LPRA § 1141c (2025).

1359 **Table 5. Summary of Finance Budget Request for FY2026-2028 (\$ millions)**

Program / Activity	FY2025 Approved Budget		FY2026 Amount Required		FY2027 Amount Required		FY2028 Amount Required	
	O&M	NFC	O&M	NFC	O&M	NFC	O&M	NFC
Staffing	\$12.20		\$15.57		\$15.85		\$16.66	
Material and Supplies	\$0.09		\$0.05		\$0.05		\$0.06	
Transportation, Per Diem, and Mileage	\$0.34		\$0.15		\$0.16		\$0.16	
Technical and Professional Services	\$3.63		\$8.09 7.94		\$8.33		\$8.75	
Utilities, Rent and Other ¹	\$5.61		\$4.96		\$5.21		\$5.47	
Insurance	\$22.66		\$18.10		\$19.00		\$19.95	
PBFM4 – Critical Financial Systems		\$1.57		\$16.20		\$14.07		\$43.40
Subtotal²	\$44.53	\$1.57	\$46.92 90	\$16.20	\$48.6	\$14.07	\$51.05	\$43.40
Total²	\$46.10		\$63.12 10		\$62.67		\$94.45	

¹ Includes IT Service Agreements, Rent, Postal & Communications Expenses and Miscellaneous expenses
² Figures may not exactly match the working papers due to rounding

1360 **Q.104 What are the costs included in staffing?**

1361 A. Staffing costs include the wages, salaries, and benefits for the Finance Department's 150
 1362 employees. The Finance Department is also requesting an increase in labor costs to hire
 1363 34 new full-time employees. As shown in Table 6-2, additional employees are required
 1364 for FEMA reimbursements and compliance, finance business partners, financial planning
 1365 and reporting, finance transformation, general accounting, plant and project accounting,
 1366 and risk management. For FY2027 and FY2028, the Finance Department applied a 5%
 1367 inflation factor for salaries/wages/benefits for FY2027 and FY2028 to estimate general
 1368 inflation and cost escalation representing the growth of the department. The headcount
 1369 for FY2026, as shown below is 184, and the estimated headcounts for FY2027 and
 1370 FY2028 are forecast to be 193 and 198, respectively. The increase will enable my
 1371 Department to have additional capacity to prioritize the risk areas detailed earlier in my
 1372 testimony, specifically as it relates to controls, processes, systems and best practices. As
 1373 the organization is looking to execute on its capital plan, more employees are needed in
 1374 Finance to support strategic decision making, report to the Energy Bureau and other

agencies on progress and spend, and to seek FEMA reimbursements (both on the front-end and back-end of those processes) etc. If the Finance Department is unable to obtain funding for additional full-time employees, it will be unable to prioritize the goals and initiatives laid out as part of the critical financial systems and processes that will help not only the Finance Department but the organization as a whole.

There will be a reduction in seconded employees in FY2026 because seconded employees whose engagements are ending are planning to be replaced with direct-hire employees. Transportation Per Diem and Mileage also decrease from FY2025 to FY2026.

Table 6. Summary of Finance FY2026 Headcount

Summary of Finance FY2026 Headcount			
	FY2026		
Finance by subdepartment	FTE Summary (Current)	New Hires (FY2026)	LUMA Comment
Finance-Accounts Payable and Accounting Services	19	0	
Finance Operations (FEMA reimbursements)	23	6	To replace consultant/contractors with internal resources and additional increase commensurate with increase FEMA reimbursement(s)
FEMA Compliance	6	3	Required to assist with up-front formulation/eligibility of FEMA projects, which are technical in nature
CFO Office	11	2	VP, Financial Controller VP, Federal Funds Office
Finance Business Partners	21	6	6 Business partners (2 Managers and 4 analysts to support Capital Programs and Corporate Services Departments)
Finance Transformation	6	3	For implementation and support of new programs (Oracle EBS)
Financial Planning and Analysis	10	9	As the organization grows the more financial planning and analysis, and reporting is needed, mostly analyst level staff
Finance-General Accounting	7	1	Analyst
Finance-LUMA Accounting	13	0	
Finance-Plant and Project Accounting	16	1	Increased in expected capitalizations and project work in the coming years
Finance-Risk Management	6	1	One (1) analyst
Treasury	12	2	One (1) Manager and one (1) Lead

Subtotal	150	34	
Finance Total	184		

1385 **Q.105 Please provide a description of the work performed by the Accounts Payable team.**

1386 A. This team manages LUMA’s outgoing payments, ensuring suppliers, vendors and
 1387 contractors are paid accurately and on time, which is crucial for maintaining strong
 1388 relationships and smooth business operations. When there is insufficient funding in the
 1389 services accounts with which to make these important payments, the team closely and
 1390 carefully manages cash. The team also ensures compliance with *Oficina del Contralor de*
 1391 *Puerto Rico* (“OCPR”) rules. No new FTEs are being requested.

1392 **Q.106 Please provide a description of the work performed by the Finance Operations**
 1393 **team.**

1394 A. The Finance Operations team is responsible for requesting FEMA Reimbursements. They
 1395 gather all the relevant data and submit data to the Central Office for Recovery,
 1396 Reconstruction and Resiliency (“COR3”) to support reimbursement by FEMA. Labor will
 1397 increase commensurate with capital growth (including FEMA reimbursable replacement of
 1398 assets). This team requires additional headcount to support the efforts to obtain FEMA
 1399 reimbursements. This group is also seeking to reduce the number of consultants and move
 1400 toward internal employees and retaining consultants only for specialized, or one-time tasks
 1401 that do not require the addition of full-time internal resources. Three (3) of the six (6) new
 1402 hires are to reduce consultants and replace them with internal hires. The remaining three
 1403 (3) hires are commensurate with the increase in FEMA spend to ensure timing submission
 1404 of Request For Reimbursement (“RFR”) for cash reimbursement. The Finance Operations
 1405 team is largely federally funded.

Q. 107 Please provide a description of the work performed by the FEMA Compliance Team.

A. FEMA Compliance is different than FEMA Reimbursements because FEMA compliance focuses more on the front-end of the process to ensure that projects will be FEMA compliant. In contrast, LUMA's FEMA reimbursements team requests repayment of those monies on the back end. FEMA Compliance is an important and technical function; therefore, this team reports directly to the CFO. Three additional hires are required to support FEMA project formulation to ensure timely reimbursement upon project completion. The FEMA Compliance team's cost is federally funded when costs are eligible for reimbursement.

Q. 108 Please provide a description of the work performed by the CFO Office.

A. Finance requires two additional VPs to support the management of finance workload, provide ongoing strategic guidance, and to drive process improvement. All of which is commensurate with an increasingly mature and sophisticated organization. There is a need for a VP, Federal Funds Office because LUMA anticipates a ramping up of federal reimbursement activity. This person will oversee both Finance Operations and FEMA compliance. An additional VP to be hired in the Office of the CFO is a Financial Controller. This person will report to the CFO and oversee all financial aspects of LUMA's financial systems and accounting.

Q. 109 Please provide a description of the work performed by the Finance Business Partners.

A. The Finance Business Partners work directly with the business to help them manage costs and make financially informed and strategic decisions. This is a newly created

department. The Finance Department has had to expand to catch up to the \$1.5 billion spending and be able to scale in line with the increased capital spend. The Finance Business Partners are a critical evolution, where these employees work hand-in-hand with the LUMA departments and have proven effective at managing and monitoring spend and aligning operational reality with strategic priorities. The six (6) additional business partners are part of the continued development of the Department including two (2) managers and four (4) analysts to support the two (2) directors, specifically, supporting Capital Programs and the departments comprising Corporate Services.

Q110. Please describe the need for additional employees in Finance Transformation.

A. Technical support is required to drive the Oracle EBS replacement from a business transformation and a three-year program plus managing it.

Q.111 Please provide a description of the work performed by the Financial Planning and Analysis team.

A. Financial Planning and Analysis ("FP&A") is broken down into three (3) sub-functional groups: i) Regulatory Reporting, ii) Financial Reporting and iii) Budget and Planning. The nine (9) additional hires pertain to the Financial Reporting and Budgeting functions. The budgeting and forecasting team are responsible for compiling monthly and annual budgets and reporting internally and externally on financial results versus budget. The nine (9) planned hires are based on analysis of the current requirements. Four (4) employees are needed to provide reporting continuity and also absorb additional workload in the sub-function of Financial Reporting requirements. An additional five (5) employees are needed to expand the Budget and Planning sub-function. Two (2) for continuity purposes and development, and three (3) to expand the use of analytics such as

Key Performance Indicators, and other benchmarking analysis and reporting. These are mainly analyst-level employees who can be developed to support future career growth within the organization.

Q.112 Please provide a description of the work performed by the General Accounting team.

A. Financial statements/general ledger and other services for GridCo. The work includes handling all prepaid revenue and bank reconciliations for GridCo, recording entries in the general ledger related to financial reporting, inventory entries, accounting re-classes and monthly accounting. One (1) analyst is required to replace an employee who resigned. The position's purpose is to prepare and maintain accurate financial records, including general entries and account reconciliations and support month end, quarterly, and yearend financial close processes.

Q.113 Please provide a description of the work performed by the LUMA Accounting team.

A. The LUMA Accounting team handles the finance, accounting, and treasury functions for the two legal entities of LUMA, i.e., LUMA Energy, LLC and LUMA Energy ServCo, LLC. The key responsibilities performed by the LUMA Accounting team are as follows:

- Perform month end accounting close and financial statement preparation
- Track accounts payable and accounts receivable processing
- Prepare and issue seconded labor/non-labor and passthrough expenditure invoices
- Prepare and issue the monthly service fee invoice
- Perform financial planning & analysis to include preparation of budgets and forecasts

- Manage the joint venture's cash flow, liquidity, and financial risk
- Serve as a liaison between Parent Members and the LUMA joint venture

No additional headcount is being requested in this subdepartment.

Q.114 Please provide a description of the work performed by the Plant and Project

Accounting team.

A. This team manages the creation of projects, job costing for all payroll, O&M, NFC, FEMA, and plant accounting. The team works with accruals for capital projects (i.e. entries recorded in the project accounting subledger) and reports on capital projects. Plant and Project Accounting reconciles accumulated depreciation, plant in-service, construction work in progress ("CWIP") and retirement work in progress ("RWIP") balance sheet accounts.⁵⁴ The team collaborates closely with other departments to ensure accurate financial data and compliance with company policies and regulatory requirements. The team also prepares detailed financial reports on project progress, costs, and forecast, supporting management decision-making. The team also plays a vital role in supporting internal and external audits related to project costs and plant assets, ensuring compliance with applicable standards and policies. One (1) employee is required to backfill of a vacant position for an employee who left the LUMA Plant and Project Accounting team. The position will be responsible for tracking, monitoring, and reporting on capital projects, including preparing and maintaining accurate financial records. The role specifically reviews general entries, completes account reconciliations and supports monthly, quarterly, and yearend financial close processes.

⁵⁴ PREPA still has a balance sheet; however, the accuracy of it is impaired because of outstanding issues that pre-date LUMA's commencement such as the lack of an opening balance that required a broader remediation effort by PREPA to be resolved.

Q.115 Please provide a description of the work performed by employees in Risk

Management.

A Risk Management is responsible for enterprise risk management, procurement of all insurance policies/coverages, and addressing insurance claims for the entire utility. This group continually monitors a risk register to consider emerging or newly discovered or contemplated risks to keep the program relevant and effective (risks are mapped out among over 50 areas/departments within LUMA). Under Annex I of the T&D OMA, LUMA is responsible for “risk management operations consistent with Parent Company enterprise management practices.” LUMA is also responsible for “maintaining the appropriate level of insurance as to cover claims . . . consistent with Prudent Utility Practices and with the requirements of the Agreement,” and must “develop a comprehensive insurance program,” and “prepare and submit insurance claims.” In addition, Annex XII of the T&D OMA sets forth specific insurance coverage that LUMA must “purchase and maintain . . . from the Service Commencement Date and for the remainder of the Term.” The Risk Management subdepartment needs to hire a one (a) additional analyst. The Risk Management manager directs all technical and strategic work related to Enterprise Risk Management and Insurance and Claims, following the best practices and laws. The work involves effective internal and external communication to secure adequate risk management and insurance program cost efficiencies. This function is essential to manage LUMA’s corporate risk. As the Department manages a significant workload pertinent to insurance and bonds recommendations and certificates of insurance and bonds reviews, an additional analyst will assist in maintaining adequate workflow in conforming contracts and contact risk management.

1519 **Q116. Please describe the additional headcount for the Treasury Department**

1520 A. The Treasury Department requires one (1) Director and one (1) Lead financial
1521 professionals who oversees and manages LUMA's treasury operations and financial risk
1522 management.

1523 **Q.117 Please describe the risks if the additional headcount is not approved.**

1524 A. The risks if the additional headcount is not approved are the lack of necessary personnel
1525 which could stall financial transformation and the growth and development of the
1526 Finance function to support the other LUMA departments, and the overall progress of
1527 LUMA as an organization. I need a strong team of VPs underneath me to support
1528 initiatives because of the scope and complexity of LUMA's operations (and, therefore, its
1529 risks) is too broad to be handled by one leader. Constraints on headcount can also slow
1530 progress on the SRP. To the extent Finance is underfunded, or the requested headcount is
1531 not approved, it could also create weaknesses in financial controls and risks in the area of
1532 financial compliance.

1533 **Q.118 Please explain why nine (9) additional employees in FY27 and seven (7) in FY28 are**
1534 **necessary.**

1535 A. There has been an expectation that the Finance Department would evolve at a much
1536 quicker pace than our budgets have permitted. The proposed FY2026 budget is
1537 insufficient to meet the regulatory requirements for budget cost reporting as well as
1538 FERC Accounting. The extensive manual work and current inefficient processes and
1539 outdated systems in finance described elsewhere in my testimony requires a large(r)
1540 workforce, which is further augmented with consulting resources. Furthermore, in order

to improve accuracy, timeliness and relevance of the financial data, additional headcounts are needed.

For FY27, nine additional employees are added across the organization to scale growth and responsibilities within the finance department. In FY27, seven new employees are added, mainly in general accounting to support the new Oracle ERP system, and balance sheet remediation efforts. In general, over the test period, LUMA Finance plans to reduce or eliminate seconded resources and replace them with locally sourced and trained resources where possible.

Q.119 Can LUMA hire 48 employees in 3 years?

A. Yes. LUMA will be able to hire 48 employees over the entire Finance and Accounting groups. There are many gaps in knowledge and skillset that need to be acquired and developed to continue making progress towards accomplishing our SRP(s). LUMA has successfully hired a similar number of employees in prior years and will work with our Human Resources Department to find appropriate individuals.

Q.120 What costs are included in Materials and Supplies?

A. FY2026 is based on the number of employees (~\$500 per employee per year) and inflation adjusted by 5% for FY2027 and FY2028. The amount is assigned to cover day-to-day office supplies and materials for employees to perform their job functions excluding computers, which are covered in the IT/OT budget.

Q.121 What costs are included in Technical and Professional Services?

A. Generally, Technical and Professional Services are consultants engaged in process mapping, business process assessments, software development in the finance transformation team, and additional expert support provided in financial reporting and

analysis. The primary reason for the increase from FY2025 to FY2026 is for Oracle ERP project. For FY2027 and FY2028 LUMA applied the same 5% inflation factor to the FY2026 value.

Technical and professional services also relate to staff augmentation and process mapping and improvement. Until Finance has a sufficient level of full-time resources to support day-to-day operations, professional services are required to augment gaps in internal resources. There is a focus from 2027 onward on replacing consultants who are augmenting internal resources with internal labor. However, some external technical expertise will continue to be required to support certain activities, such as rate review. Process mapping is important as LUMA works toward implementing FERC accounting and prepares to implement an upgrade and migration to the cloud for its ERP system (or identifies, adopts, and migrates some alternative ERP solution). In addition, some of the costs cover support for Change Management. Change Management refers to efforts to ensure that the organization is ready to engage with change, in terms of organizational structure, systems architecture, processes, procedures, controls, reporting, or a combination of some, or all, of the foregoing. Effective Change Management is critical to ensure that a company receives the maximum benefit from such an impactful organizational change.

Q.122 Please explain what the replacement of ERP Oracle entails and its need.

A. Currently LUMA is utilizing an ERP System (Oracle EBS) that has an End of Life / End of Support Scheduled by end of 2032. This requires LUMA to assess its needs and pursue a project that would allow the migration of such a critical system with minimal disruptions. When an organization as complex as LUMA changes a critical financial

system the costs associated are not only related to the replacement of the ERP system but also any other component parts that need to be reconfigured and/or redeployed to be able to interact with the new system. For example, LUMA's peripheral systems that interact with Oracle EBS are highly complex and the costs for the project reflect this reality. In 2026, a fulsome review of the system is expected to occur to determine whether or not to make significant changes to, or replace, LUMA's current ERP. The research will inform the ultimate decision to upgrade the financial system to reduce manual work, improve timeliness of financial data and allow increased analysis to support business decisions having regard for efficient and effective spending and the fact that the ERP impacts every department within LUMA and the risks, costs and organizational impacts are expected to be significant.

In 2027 and 2028, the assumption is that the changes to the ERP will commence. The costs are high as substantial changes or replacement of a system is a labor-intensive process requiring system integrators, consulting partners, design workflows, implementation, testing and change management.

Q.123 What are the components of ERP Oracle that LUMA forecasts will be completed in FY26 and thus, are not costs to be incurred in FY27 and FY28?

A. FY26 will be focused on a detailed assessment and inventory of our current ERP infrastructure and its peripheral systems that would establish the basis for LUMA to identify the best solution for its go-forward ERP, procure the necessary ERP, and achieve implementation by FY28. Under the Optimal Budget, there is \$10 million in funding for Oracle patches and immediate system requirements and/ or enhancements to facilitate improved financial management and reporting such as Procure-to-Pay (*see* Juan Rogers

1610 testimony LUMA Ex. 15.0) and grants management. In 2027 and 2028, there is
1611 additional funding to commence the evaluation of an Oracle upgrade or replacement
1612 system to move from an unsupported system to a supported system. As part of the
1613 process, solutions to address complex manual financial workload through an ERP
1614 upgrade or other system solutions are to be addressed.

1615 **Q.124 What costs are included in Utilities and Rent?**

1616 A. These are ancillary housing costs for seconded employees. LUMA retains seconded
1617 employees on a temporary basis where specialized knowledge is required, for example,
1618 specialized knowledge of operations budget, finances, processes and standards.

1619 **Q.125 What costs are included in the Critical Financial Systems program (“PBFM4”)?**

1620 A. This cost includes optimization of LUMA Technology to support critical financial data
1621 that is needed to comply with regulatory requirements, FEMA requirements, and internal
1622 or external Audits. These systems are complex and require expertise that is not usually
1623 staffed within the organization to configure and optimize, so this effort is supported by
1624 outside consulting resources.

1625 **Q.126 What costs are included in Other Expenses?**

1626 A. Other Expenses includes volume of business tax (like municipal construction tax), bank
1627 charges, and employee training (\$1,500 per employee per year) to develop employee’s
1628 skills and proficiency and maintain professional licenses (CPA licenses for example).

1629 **Q.127 Why does the budget project an increase in NFC for Critical Financial Systems**
1630 **program from FY2025 to FY2026?**

1631 A. This increase is attributable to the ERP Oracle replacement as described above.

Q.128 Why does the budget project a decrease in NFC from FY2026 to FY2027 and increase from FY2027 to FY2028?

A. In FY2026, LUMA requires a grant management system that will occur in FY26 and be substantially completed by the end of FY26, resulting in a FY27 plan being lower than FY26. Furthermore, LUMA will also substantially complete the procure-to-pay system in FY26, with lower costs planned in FY27. The substantial completion of these two projects results in lower spending for FY27 before FY28 ramps up significantly on the Oracle ERP replacement program.

Q.129 Do the costs and activities reflected in the Optimal Budgets reflect a just and reasonable performance standard?

A. Yes, this budget significantly advances the transformation of LUMA Finance and moves the department towards a functional financial utility organization. Without this funding, LUMA will continue to operate in a manual, labor-intensive manner. Furthermore, Oracle is moving the ERP system to the cloud, and the migration to Oracle in the cloud, or transition to an alternative ERP, is necessary or LUMA's ERP system will cease to be supported by Oracle. These are necessary changes to the long-term prudent financial management of the T&D system.

Q.130 Do the Optimal Budgets reflect the cost level that a prudently performing operator would incur to achieve the performance metrics, if that utility were facing Puerto Rico's unique circumstances?

A. Yes, LUMA Finance's proposed 3-year Optimal Budget is prudent considering the unique circumstances facing Puerto Rico. As described elsewhere in this testimony, the financial systems, processes, and procedures within LUMA are in many instances

performed manually, and are inefficient, and outdated. LUMA's finance function currently reflects underinvestment in processes, systems, development of its workforce, and modernization of the finance function to reflect best financial practices. If these investments had been made over time, the finance department would not require the level of investment, consultant support, processes redesign, etc. that the Finance Department currently faces in a relatively short time. In the test period, LUMA Finance is predominantly proposing expenditure increases on systems, including grant management, procure-to-pay, and the largest cost driver is Oracle ERP replacement. All these systems are prudently incurred to manage the business. For example, the Oracle ERP system that PREPA currently operates under is facing obsolescence. LUMA finance must prepare for, and manage, not only the obsolescence of its ERP, but also the modernization of its other systems, processes, and procedures along with investing in its workforce development.

C. Constrained Budget

Q.131 Is the Department proposing a Constrained Budget?

A. Yes, please see below.

Table 7. Summary of Constrained Finance Budget Request for FY2026-2028 (\$ millions)

Program / Activity	FY2025 Approved Budget		FY2026 Amount Required		FY2027 Amount Required		FY2028 Amount Required	
	O&M	NFC	O&M	NFC	O&M	NFC	O&M	NFC
Staffing	\$12.20		\$14.52		\$15.25		\$16.01	
Material and Supplies	\$0.09		\$0.05		\$0.06		\$0.06	
Transportation, Per Diem, and Mileage	\$0.34		\$0.15		\$0.16		\$0.16	
Technical and Professional Services	\$3.63		\$5.7969		\$6.07		\$6.38	
Utilities, Rent and Other ¹	\$5.61		\$4.96		\$5.21		\$5.47	
Insurance	\$22.66		\$18.09		\$19.00		\$19.95	
PBFM4 – Critical Financial Systems		1.57		\$3.69		\$12.63		\$13.48

Subtotal ²	\$44.53	\$1.57	\$43.564 7	\$3.69	\$45.75	\$12.63	\$48.03	\$13.48
Total ²	\$46.10		\$47.2516		\$58.38		\$61.51	

¹ Includes IT Services Agreements, Rent, Postal & Communications Expenses and Other Miscellaneous Expenses
² Figures may not match the working papers due to rounding

Q.132 How did the Finance Department develop the Constrained Budget?

A. To determine a Constrained Budget, the Finance Leadership team determined what potential optimizations could be deferred to reduce costs. It should be noted that if the Finance Department's approved FY2026 budget is the Constrained budget, the inherent risks of errors, issues with timeliness of information, etc., that result from the manual processes that I described elsewhere in my testimony will likely persist. Importantly, the cost of reporting going forward will not include necessary enhancements in LUMA's ERP for future reporting requested by PREB, which would require an enabling effort to adopt FERC UsoA, are deferred to FY2028. This could put reporting under FERC accounting at risk for the next rate review.

Q.133 What specific activities will not be funded under the Constrained Budget?

A. Finance slowed down the Oracle ERP Implementation and reduced consulting expenses. This means preparation for Oracle ERP will continue but the implementation of automated controls and process improvements will all be delayed. Until process automation and process improvements occur, the Finance Department will continue to rely on manual processes that create risks to financial reporting.

Q.134 What is the expected impact of not funding those specific activities?

A. Slowing of the Oracle ERP implementation could also result in slowed project execution for the business because decision-making also requires manual processes. All controls related to cash management will remain manual and will not be able to be automated. Finally, without a plan to address its Oracle ERP, LUMA will continue to use an old

system that is expensive and difficult to maintain. Given the age of the existing system, it also does not include functionality that a modern, current system can provide.

Q.135 Does the Finance Department directly support performance metrics?

A. Yes, the LUMA Finance department directly supports performance metrics by using our systems and tools to report and track the financial performance metrics, ensuring oversight and management of overtime, along with ensuring annual progression and tracking of planned expenditures, both Operational Expenditures and Capital Expenditures. While Finance directly supports these metrics, they are LUMA department wide metrics, Finance supports financial analysis, accuracy, and reporting of the information to the LUMA teams for overtime tracking and budget to actuals compliance.

Q.136 Does the Finance Department indirectly support performance metrics? If so, which ones?

A. Yes – the Financial Metrics include the following:

1. Overtime
2. Operational expenses versus budget
3. Capital expenses versus budget

Q.137 Will the Finance Department's ability to meet the performance metrics be affected by the constrained budget?

A. No. Whatever budget is approved, with the Optimal Budget as the preferred revenue requirement, the Finance Department will work with the other LUMA departments to meet established targets with available resources. However, as described above, under a Constrained Budget, there will be delays to the Oracle ERP and slowed progress on the needed finance transformation.

D. Provisional Rate Proposal

Q138. Is the Finance Department requesting additional funding above and beyond the Temporary Default Budget through the provisional rates request?

A. Yes.

Q139. What specific activity(ies) will be funded by the provisional rate request (if approved)?

A. The Finance Department is requesting an additional \$0.5 million in funding to support LUMA's efforts to budget costs (or groups of costs) in a format similar to the A-Schedules in the February 12th Order for FY2027.

Q140. Please explain why LUMA views this activity as high priority and noncontroversial.

A. As described above and outlined in the February 12th Order, the Energy Bureau's consultants viewed that the A-Schedules would contain the proposed budget(s) and also become the table of contents for the final Order in this proceeding. However, LUMA informed the Energy Bureau's consultants that its budgeting and financial recordkeeping is not directly mappable to, nor reconcilable with, the 103 cost items (divided among seven categories) that were identified by the Energy Bureau's consultants. However, LUMA dedicated some outside consulting resources to determine cost estimates for the items in the A-Schedules, including a verbal discussion about them and provide references to testimony(ies), filing schedules and/or workpapers. If the Energy Bureau and its consultants view what LUMA provides as being valuable, then the additional funding to be provided to the Finance department through the provisional rate will allow LUMA to budget FY2027 costs by category(ies) that are closer aligned with those in the A-Schedules. LUMA's budget process commences in September and continues through

April; therefore, sufficient funding must be available to execute desired changes in tracking and reporting information in alignment with LUMA’s budget cycle. In the absence of additional funding, a budget could be developed in a manner that is (again) inconsistent with the Energy Bureau’s desired basis of presentation; therefore, it is a high priority item. Moreover, if the A-Schedules serve as a bridge to help the Energy Bureau and its consultants to classify costs – that are ultimately passed on to customers through rates – until FERC accounting can be implemented across the utility, then the requested costs to assist with those efforts should be viewed as noncontroversial. To be clear, this would not facilitate future reporting against the requested schedules.

Q.141 Are there any other costs that you are requesting as part of the provisional rate?

A. Yes. As per Section 7.3(d) of the T&D OMA,⁵⁵ LUMA applied an inflation adjustment to the FY2025 approved Budget and requests an incremental \$23.814 million in LUMA’s provisional rate request. The T&D OMA defines the CPI Factor as the amount equal to the CPI Value (“CPI-U”)⁵⁶ for the calendar year immediately prior to the date of any adjustment *divided* by the CPI Value for the calendar year two (2) years prior rounded to the fifth decimal place.

Table 1 – Calculation of CPI Value

	Year	CPI-U
(a)	2024	318.983
(b)	2023	308.381
(a) / (b)	CPI Factor	1.03438

Based on the T&D OMA, LUMA applied a 1.03438 per cent inflation factor to the

⁵⁵ T&D OMA, Section 7.3(d) at 89.

⁵⁶ Where, CPI Value means the “Annual Value of such year obtained from “Consumer Price Index-All Urban Consumers-US All Items Less Food and Energy (“CUUR000SA0LIE”) published by the Bureau of Labor Statistics

1757 PREB-approved Budget for FY2025. Said increase will help to offset some of the real cost
1758 increases that LUMA has seen, as described above in my testimony.

1759 **VII. REPORTING REQUIREMENTS**

1760 **Q.142 Are you familiar with the Energy Bureau's orders requiring that LUMA file four**
1761 **quarterly reports on financial activities, as well as an annual report?**

1762 A. Yes.

1763 **Q.143 Does LUMA have a position and request to the Energy Bureau regarding the**
1764 **requirement to file four quarterly reports and an annual report on financial**
1765 **activity?**

1766 A. Yes.

1767 **Q.144 Please explain.**

1768 A. As further explained by Eduardo Balbis, LUMA Exhibit 3.0, regulators require annual
1769 reporting of actual financial activities, which I endorse. The purpose of said reporting is
1770 to give the regulator (and the public) insight into utility expenditures thereby ensuring
1771 that ratepayer funds are spent for the benefit of the utility's customers. LUMA proposes
1772 filing three quarterly reports, and then an annual report within 120 days after the fiscal
1773 year end.

1774 Moreover, as Eduardo Balbis further explains and proposes in his testimony,
1775 LUMA requests that the Energy Bureau eliminate the current requirement to also file a
1776 report for the fourth quarter of each fiscal year in order to improve efficiency and avoid
1777 duplicative effort.

1778 **Q.145 Are you familiar with the Energy Bureau's orders requiring that after an annual**
1779 **budget is approved, LUMA seek prior approval by the Energy Bureau for budget**

1780 reallocations and leave to amend an approved budget to account for changes in
 1781 spending?

1782 A. Yes. The Energy Bureau requires pre-approvals of changes in spending within approved
 1783 budgets, requires that LUMA track when a reallocation in spending exceeds five percent
 1784 (5%) of a portfolio or budget line item to seek approval from the Energy Bureau, and
 1785 established a cutoff for budget amendments forty-five (45) days after the third quarter of
 1786 a fiscal year closes, with an exception when emergency action is needed.⁵⁷

1787 **Q.146 Does LUMA have a position on the Energy Bureau's requirements regarding**
 1788 **budgetary oversight and current orders regarding budget reallocations and**
 1789 **amendments?**

1790 A. Yes.

1791 **Q.147 Please explain LUMA's position.**

⁵⁷ See Energy Bureau's orders issued in Case No. NEPR-MI-2021-0004 of August 3, 2022, *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2022/08/20220803-MI20210004-Resolution-and-Order.pdf>, November 11, 2022, *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2022/11/20221111-MI20210004-Resolution-and-Order.pdf>, December 14, 2022, *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2022/12/20221214-MI20210004-Resolution-and-Order.pdf>, June 29, 2023 *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2023/06/20230629-MI20210004-Resolution-and-Order.pdf>, July 17, 2024, *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2024/07/20240717-MI20210004-Resolution-and-Order.pdf>, September 17, 2024, *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2024/09/20240917-MI20210004-Resolution-and-Order.pdf>, and March 5, 2025, <https://energia.pr.gov/wp-content/uploads/sites/7/2025/03/20250305-MI20210004-Resolution-and-Order.pdf>. <https://energia.pr.gov/wp-content/uploads/sites/7/2022/08/20220803-MI20210004-Resolution-and-Order.pdf>, November 11, 2022, *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2022/11/20221111-MI20210004-Resolution-and-Order.pdf>, December 14, 2022, *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2022/12/20221214-MI20210004-Resolution-and-Order.pdf>, June 29, 2023 *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2023/06/20230629-MI20210004-Resolution-and-Order.pdf>, July 17, 2024, *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2024/07/20240717-MI20210004-Resolution-and-Order.pdf>, September 17, 2024, *available at* <https://energia.pr.gov/wp-content/uploads/sites/7/2024/09/20240917-MI20210004-Resolution-and-Order.pdf>, and March 5, 2025, <https://energia.pr.gov/wp-content/uploads/sites/7/2025/03/20250305-MI20210004-Resolution-and-Order.pdf>.

1792 A. LUMA understands that it is inconsistent with standard regulatory practices to require
1793 that a utility, such as LUMA, seek prior approval from the regulator, in this case the
1794 Energy Bureau, to reallocate funds for expenses that exceed 5% of an approved budget
1795 and to seek leave to amend an approved budget. As explained by Eduardo Balbis,
1796 standard regulatory oversight of electric utilities is limited to a rate approval process. In
1797 other words, once the regulator sets the rates that the utility will charge its customers,
1798 utilities then are permitted to manage their operations and assess cash flow considerations
1799 and make spending decisions using the revenues generated by the approved rates. As I
1800 describe earlier in my testimony, LUMA has demonstrated financial responsibility over
1801 its term as operator of the T&D System and as such, LUMA should be granted the
1802 flexibility that other utilities generally retain to spend their revenue. This flexibility is
1803 necessary because circumstances change, and a utility must be able to modify its
1804 spending to meet whatever situation it faces in order to best serve its customers. The
1805 Budget Amendment process as it exists requires significant effort across the Finance
1806 Department and other departments.

1807 **Q.148 Does LUMA have a position on the cutoff for budget amendments forty-five (45)**
1808 **days after the third quarter of a fiscal year closes, with an exception when**
1809 **emergency action is needed?**

1810 A. Yes.

1811 **Q.149 Please explain.**

1812 A. In order for a public utility to operate prudently and meet its contractual and legal duties to
1813 customers, it is not practical or appropriate to set a deadline for a public utility to make
1814 decisions on spending in a fiscal year. A cut-off date before a fiscal year ends for budget

1815 reallocations or to amend a budget interferes with the utility's ability to reasonably adapt
1816 to changed needs to maintain system integrity, ensure compliance with new directives, and
1817 to respond to emergencies.

1818 **Q.150 Does LUMA have a request to the Energy Bureau regarding budgetary oversight**
1819 **and current orders regarding budget reallocations and amendments?**

1820 A. Yes.

1821 **Q.151 Please explain.**

1822 A. LUMA requests that the Energy Bureau release it from the current requirements to seek
1823 authorization from this Energy Bureau for reallocation of funds within approved budgets.

1824 **Q.152 Are there any reasons why LUMA should be granted flexibility in spending after the**
1825 **Energy Bureau sets the utility's revenue requirement and approves annual budgets,**
1826 **as the Energy Bureau will do in this rate case proceeding?**

1827 A. Yes. As explained by Eduardo Balbis, standard regulatory oversight of electric utilities is
1828 limited to a rate approval process. Once the regulator sets the rates that the utility can
1829 charge its customers, utilities then are permitted to manage their operations and assess
1830 cash flow considerations and make spending decisions using the revenues generated by
1831 the approved rates. Furthermore, LUMA, unlike most other utilities, operates a T&D
1832 System that has significant safety, maintenance and reliability gaps. Given the dire state
1833 of the T&D System and considering financial constraints that limit funding available to
1834 operate and transform the T&D System, resource allocation determinations are made on a
1835 day-to-day basis to meet the most urgent needs of the system, while still operating within
1836 the approved budget and Base Rates which I explained earlier in my testimony.
1837 Incorporating an approval process by the Energy Bureau into those judgments, makes that

resource allocation incredibly difficult and can prevent the utility from being able to act in a timely manner. While LUMA can plan effectively, it is common for all electric utilities to face unexpected costs that arise throughout the year. Similar to other prudent utilities, LUMA needs operational and managerial flexibility to conform spending to changed needs and exigencies, within the constraints of the revenues generated under the current rate structure and approved budgets necessary for LUMA to operate in accordance with public policy objectives and to serve customers to the best of our ability.

Q.153 Has LUMA identified any impact on its operations stemming from the current Energy Bureau requirements on budgetary oversight and approvals of funding reallocations and budget amendments?

A. Yes.

Q.154 Please explain.

A. The requirement for LUMA to seek approval from the Energy Bureau for budgetary variances makes resource reallocations of funds difficult and materially hinders LUMA's ability to make managerial spending decisions around a System whose needs are dynamic. The Energy Bureau's requirements regarding prior approval for line-item spending place LUMA in the difficult situation of delaying activities while seeking approval for managerial decisions on spending. There are instances where LUMA must respond immediately to the unforeseen needs of its customers. Restrictions on the ability to quickly execute necessary reallocations in spending have tangible consequences like, for example, delays in initiatives due to the Energy Bureau's requirement to approve budgetary variances.

Also, complying with the Energy Bureau's requirements to seek prior approval

for budget reallocations demands significant time commitments not only from the Finance and Regulatory Departments, but also from multiple LUMA Departments involved in budget-related activities contingent on the line item and portfolio being impacted and add unnecessary costs.

On average, the Energy Bureau took thirty-six (36) days to respond to LUMA's budget amendment and reallocation notices in FY2024.⁵⁸ A delay of one month before LUMA may incur each of the adjusted expenses, adversely impacts the utility's day-to-day operational activities and ability to respond to unplanned needs, thereby degrading an already fragile T&D system.

Q.155 To your knowledge, are there other regulatory mechanisms available to the Energy Bureau to supervise LUMA's compliance with public policy with regards to spending?

A. Yes. The Energy Bureau has other means, such as oversight over performance and authority to impose fines, to ensure that LUMA operates the utility in compliance with public policy and applicable law.

VIII. OTHER COSTS

Q.156 Aside from the Finance Department's Optimal and Constrained Budgets, are there any other costs that you are identifying and speaking to?

A. Yes. There is a cost center entitled "Corp Services, Chief Corporate Service Officer," as well as the costs for the Internal Audit department that ~~is~~are not identified or spoken to

⁵⁸ See Exhibit 1, Section 1.0, p. 3 of *LUMA's Response to September 17th Order and Motion Submitting Evidence Regarding Requirements of Pre-Approvals of Budget Reallocations and Expenditures and Challenging Validity of Orders Setting Those Requirements*, available at <https://energia.pr.gov/wp-content/uploads/sites/7/2024/11/20241101-MI20210004-Response-to-September-17th-Order-and-Submission-of-Evidence.pdf>.

in any other testimony, but there are dollars forecast and included in the LUMA's revenue requirement for the test period.

Q.157 What are the amounts?

A. The Optimal Budget for the Chief Corporate Service Officer is detailed below in Table 8.

Table 8. Summary of Chief Corporate Services Officer Optimal Request for FY2026-2028 (\$ millions)

Program / Activity	FY2025 Approved Budget		FY2026 Amount Required		FY2027 Amount Required		FY2028 Amount Required	
	O&M	NFC	O&M	NFC	O&M	NFC	O&M	NFC
Staffing	\$0.58		\$0.72		\$0.64		\$0.67	
Material and Supplies	-		\$0.00		-		-	
Transportation, Per Diem, and Mileage	-		-		-		-	
Technical and Professional Services	-		-		-		-	
Misc. Expenses	\$0.03		\$0.03		\$0.04		\$0.04	
Total¹	\$0.61		\$0.75		\$0.68		\$0.71	

¹ Figures may not match working papers due to rounding

The Optimal Budget for the Internal Audit department is detailed below in Table 9.

Table 9. Summary of Internal Audit Department Optimal Request for FY2026-2028 (\$ millions)

Program / Activity	FY2025 Approved Budget		FY2026 Amount Required		FY2027 Amount Required		FY2028 Amount Required	
	O&M	NFC	O&M	NFC	O&M	NFC	O&M	NFC
<u>Staffing</u>	<u>\$0.60</u>		<u>\$1.01</u>		<u>\$1.42</u>		<u>\$1.75</u>	
<u>Material and Supplies</u>	<u>\$0.00</u>		<u>\$0.00</u>		<u>\$0.00</u>		<u>\$0.00</u>	
<u>Transportation, Per Diem, and Mileage</u>	<u>\$0.00</u>		<u>\$0.00</u>		<u>\$0.00</u>		<u>\$0.01</u>	
<u>Technical and Professional Services</u>	<u>\$0.05</u>		<u>\$0.19</u>		<u>\$0.20</u>		<u>\$0.21</u>	
<u>Misc. Expenses</u>	<u>\$0.00</u>		<u>\$0.01</u>		<u>\$0.02</u>		<u>\$0.02</u>	
Total¹	<u>\$0.66</u>		<u>\$1.22</u>		<u>\$1.64</u>		<u>\$2.00</u>	

¹ Figures may not match working papers due to rounding

Q.158 What ~~is~~ are ~~this~~ these budgets for?

A. LUMA is in ~~included~~ including monies in this budget for a future Chief Corporate Services Officer. Last year, LUMA's Chief Corporate Services Officer resigned from LUMA and the position was not and has not yet been filled. Corporate Services is an umbrella term that includes the following departments: Corporate Security, Emergency

Preparedness, Corporate Communications, Health, Safety & Environment (together “HSE”) and Facilities. [The roles and focus of the internal audit department are described above, among others, in Q/A 97.](#)

Q.159 What costs are included in staffing?

A. Staffing costs include base salaries, fringe benefits and bonuses (if any) for the Chief Corporate Service Officer’s Department, which includes two (2) employees and one (1) vacancy. The Chief Corporate Services Officer position will remain vacant until filled. The other two (2) employees in this cost center continue to support subdepartments in Corporate Services such as Facilities, and, in the absence of a Chief Corporate Services Officer, temporarily report to the Chief People Officer. [For internal audit, the department intends to hire additional internal auditors in FY2026, FY2027 and FY2028. Please refer to the table below for the summary of internal audit headcount.](#)

Table 10. Summary of Internal Audit Headcount

	<u>FY25</u> <u>(Current)</u>	<u>New</u> <u>Hires</u> <u>FY2026</u>	<u>New</u> <u>Hires</u> <u>FY2027</u>	<u>New</u> <u>Hires</u> <u>FY2028</u>	<u>LUMA comment</u>
Internal Audit	<u>5</u>			-	N/A
Internal Audit		<u>4</u>		-	Additional (new) auditors to handle medium/high risk internal audits, as well as support external audit
Internal Audit			<u>4</u>	-	
Internal Audit				<u>3</u>	Additional new auditors for LUMA’s operational audit(s)
Internal Audit Total	<u>5</u>	<u>9</u>	<u>13</u>	<u>16</u>	-

Q.160 What costs are included in materials and supplies, and miscellaneous expenses?

A. Materials and supplies are amounts to cover day-to-day office supplies and materials for employees to perform their job functions excluding computers, which are covered in the IT/OT bucket. Miscellaneous expenses is an estimate of infrequent costs related to the department. Miscellaneous expenses were estimated for FY2026 and then, a three (3)

percent inflation factor was applied for FY2027 and FY2028. Materials and supplies are the same for the internal audit department, i.e., general office supplies and equipment for employees. However, miscellaneous expenses for the internal audit department is mostly due to training of current and future staff. Auditors are required to complete professional development hours every year in order to retain their designations. Training also ensures staff are up to date on evolving audit standards. There are also professional fees that are reimbursed/paid for by LUMA that are captured in miscellaneous expenses.

Q.161 What costs are included in Technical and Professional Services?

A. The main driver of Technical and Professional Services costs for the internal audit department is IT Licenses for the Workiva audit software (comprehensive tool for documentation, tracking and reporting on audits).

Q.161 Does the Chief Corporate Services Department and internal audit department have a Constrained Budget?

A. Yes. Please refer to Tables 9-11 and 12 below.

Table 911. Summary of Chief Corporate Services Officer Constrained Budget for FY2026-2028 (\$ millions)

Program / Activity	FY2025 Approved Budget		FY2026 Amount Required		FY2027 Amount Required		FY2028 Amount Required	
	O&M	NFC	O&M	NFC	O&M	NFC	O&M	NFC
Staffing	\$0.58		\$0.72		\$0.76		\$0.79	
Material and Supplies			\$0.00		\$0.00		\$0.00	
Transportation, Per Diem, and Mileage			-		-		-	
Technical and Professional Services			-		-		-	
Misc. Expenses	\$0.03		\$0.03		\$0.04		\$0.04	
Total¹	\$0.61		\$0.75		\$0.80		\$0.83	

¹ Figures may not match working papers due to rounding

Table 12. Summary of Internal Audit Department Constrained Budget for FY2026-2028 (\$ millions)

Program / Activity	FY2025 Approved Budget		FY2026 Amount Required		FY2027 Amount Required		FY2028 Amount Required	
	O&M	NFC	O&M	NFC	O&M	NFC	O&M	NFC
<u>Staffing</u>	<u>\$0.60</u>		<u>\$1.00</u>		<u>\$1.05</u>		<u>\$1.12</u>	
<u>Material and Supplies</u>	<u>\$0.00</u>		<u>\$0.00</u>		<u>\$0.00</u>		<u>\$0.00</u>	

<u>Transportation, Per Diem, and Mileage</u>	<u>\$0.00</u>		<u>\$0.00</u>		<u>\$0.00</u>		<u>\$0.01</u>	
<u>Technical and Professional Services</u>	<u>\$0.05</u>		<u>\$0.19</u>		<u>\$0.20</u>		<u>\$0.21</u>	
<u>Misc. Expenses</u>	<u>\$0.00</u>		<u>\$0.01</u>		<u>\$0.01</u>		<u>\$0.01</u>	
Total¹	<u>\$0.66</u>		<u>\$1.22</u>		<u>\$1.28</u>		<u>\$1.34</u>	

¹ Figures may not match working papers due to rounding

Q.162 Why is the Constrained Budget higher than the Optimal Budget for the Chief Corporate Services Officer?

A. The Optimal Budget was developed from a bottom's up approach for each fiscal year in the test period. The Constrained Budget, on the other hand, was developed for FY2026 and then inflation factors were applied to the FY2026 numbers for FY2027 and FY2028. Because of this process the Constrained Budget numbers are higher than the Optimal.

Q.163 Why should ~~placeholder~~ costs for these two departments be included in LUMA's revenue requirement ~~for this cost center~~?

A. Provided there is sufficient funding, LUMA reasonably expects to hire a Chief Corporate Services Officer. This was a position that previously existed, vacated and not yet backfilled. It is required because the departments that make up Corporate Services are roughly 300 employees under four different leaders all of whom currently report to LUMA's Chief Executive Officer. The Chief Corporate Services officer position is needed to align the activities of these independent but interrelated departments and reduce the number of positions reporting to the CEO in order to allow him to focus on organizational alignment and strategy than managing people. Most organizations have Chief Corporate Services Officers who oversee(s) a company's internal operations and support functions, ensuring smooth and efficient business operations.

For the internal audit department, in addition to being a T&D OMA requirement, an adequately funded internal audit department directly contributes to: financial oversight

1947 and therefore proper use of ratepayer funds; strong regulatory compliance to reduce
1948 LUMA's legal and reputational risk; and operational audits that designed to make
1949 improvement recommendations and help reduce potential cost overruns or wasted effort.
1950 All of which should contribute to customer confidence and transparency in operational
1951 and financial decisions. Also, most utilities have an internal audit function.

1952 **Q.164 Does this complete your testimony?**

1953 A. Yes.

1

ATTESTATION

Affiant, Andrew Smith, being first duly sworn, states the following:

The prepared Direct Testimony, the attached exhibits and the schedules that I am sponsoring, constitute my Direct Testimony in the above-styled case 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 herein, including the exhibits and schedules, are my Direct Testimony and to the best of my knowledge are true and correct.

Andrew Smith

Affidavit No. _____

Acknowledged and subscribed before me by Andrew Smith, in his capacity as Chief Financial Officer of LUMA of legal age, single/married, and resident of San Juan, Puerto Rico, who is personally known to me.

In San Juan, Puerto Rico, this 22nd day of ~~October~~July 2025.

Notary Public

1

2

3

LUMA Exhibit 2.01

4

Critical Financial Controls Program Brief (PBFM2) (FY2026)

1

2

LUMA Exhibit 2.02

3

Critical Financial Systems Program Brief (PBFM4) (FY2026)

1

2

LUMA Exhibit 2.03

3

Optimal Budget Workpapers

1

2

LUMA Exhibit 2.04

3

Constrained Budget Workpapers

1

LUMA Exhibit 2.05

2

NFC Long Term Investment Panel (LTIP)FY2026-20235 Unconstrained

1

LUMA Exhibit 2.06

2

NFC Long Term Investment Panel (LTIP)FY2026-20235 Constrained

3

Exhibit 4
Revised Testimony of Eduardo Balbis (redline)

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

IN RE:

PUERTO RICO ELECTRIC POWER
AUTHORITY RATE REVIEW

CASE NO.: NEPR-AP-2023-0003

Direct Testimony of
Eduardo Balbis
Partner, Guidehouse
~~June 30 - 30~~ October 21, 2025

**Summary of Prepared Direct Testimony of
EDUARDO BALBIS
ON BEHALF OF
LUMA ENERGY LLC AND LUMA ENERGY SERVCO, LLC**

Mr. Eduardo Balbis, who is a Partner in the Energy, Sustainability, and Infrastructure practice at Guidehouse, Inc., an international consulting firm, and a former Commissioner of the Florida Public Service Commission, presents Prepared Direct Testimony on behalf of LUMA Energy LLC and LUMA Energy ServCo, LLC (collectively, “LUMA”). The purpose of Mr. Balbis’ testimony is to provide insights based on his experience as a former regulator and make policy recommendations to enhance cost savings and efficiencies.

First, Mr. Balbis recommends that the Puerto Rico Energy Bureau amend the annual budgeting process to replace the current full adjudication of budgetary limits of LUMA, Genera, and Puerto Rico Electric Power Authority (“PREPA”) (collectively, “the Parties”) with the requirement that LUMA submits to the Energy Bureau, for informational and review purposes only, the consolidated fiscal year budget of the Parties as determined by the Puerto Rico Public-Private Partnerships Authority (“P3A”), as established in the Puerto Rico Transmission and Distribution System Operation Maintenance Agreement (“T&D OMA”), executed by PREPA, P3A, and LUMA dated June 22, 2020, and the Puerto Rico PREPA - GenCo - HydroCo Operating Agreement (“PGHOA”), dated September 15, 2022. This recommendation is consistent with those jurisdictions requiring utilities to file annual budgets. In addition, this recommendation leverages the existing P3A process and avoids potentially contradictory outcomes from the overlapping processes experienced currently.

Second, Mr. Balbis recommends that the Energy Bureau no longer adjudicate budget amendment deviations to align with generally accepted best practices of utility regulation in the United States.

Third, Mr. Balbis recommends that the Energy Bureau remove the current requirement of a fourth quarterly report and instead continue requiring three quarterly reports and an annual report only (four total reports) to eliminate additional administrative burden and remove redundancy while maintaining oversight.

Fourth, Mr. Balbis recommends that the Energy Bureau accept LUMA’s quarterly reporting on more than 584 performance metrics, as well as ongoing annual reporting on stated efficiencies and cost savings, as sufficient to satisfy the Energy Bureau’s Efficiencies and Cost Savings reporting requirement. This recommendation eliminates the need for additional burdensome tracking and data analyses, requiring additional resources and technology upgrades to reduce the efficiencies and cost savings LUMA is trying to achieve.

~~Fifth, Mr. Balbis provides some general observations regarding how net metering can impact utilities and non-participating customers based on his experience as a regulator in the state of Florida.~~

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I. INTRODUCTION

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

A. My name is Eduardo Balbis. My business address is PO Box 363508, San Juan, Puerto Rico, 00936-3508. I am a Partner with Guidehouse, an international consulting firm with over 18,000 employees. Within Guidehouse, I help lead the firm's Communities, Energy and Infrastructure segment, which includes a dedicated staff of over 700 employees spanning four continents. Guidehouse provides advisory services to 55 of the largest utilities in North America, with an emphasis on helping utilities strategize for and navigate the energy transition within complex and ever-changing regulatory and policy environments.

Q. 2 On whose behalf are you testifying before the Puerto Rico Energy Bureau ("the Energy Bureau")?

A My testimony is on behalf of LUMA Energy, LLC and LUMA Energy ServCo, LLC (together, "LUMA") as part of the Puerto Rico Energy Bureau's ("PREB" or "Energy Bureau") Case No. NEPR-AP-2023-0003, *In Re: Puerto Rico Electric Power Authority Rate Review* (Rate Review).

Q. 3 Are there any exhibits attached to your testimony?

A. Yes, there are three exhibits attached to my testimony:

- LUMA Ex. 3.01: Eduardo Balbis Curriculum Vitae
- LUMA Ex. 3.02: Electric Utilities - Annual Budgeting Requirements by State
- LUMA Ex. 3.03: Electric Utilities - Annual Reporting Requirements by State

Q. 4 What documents did you consider for your testimony?

A. The documents that I reviewed included:

- Puerto Rico Transmission and Distribution System Operation 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 June 22, 2020.

- Puerto Rico PREPA - GenCo - HydroCo Operating Agreement (“PGHOA”), dated September 15, 2022.
- Final Resolution and Order (Case No. CEPR-AP-2015-0001), dated January 10, 2017 (“2017 Rate Order”) and order on reconsideration dated March 8, 2017.
- May 31, 2021 Resolution and Order (Case No. NEPR-MI-2021-0004).
- FY2024 Annual Report.

Q. 5 What is your educational background?

A. I received a Bachelor of Science degree in Environmental Engineering from the University of Florida in 1995. Following my undergraduate education, I received my Florida Professional Engineering License in 2000 and worked at several engineering firms focusing on infrastructure planning, design, and construction. My CV is included as LUMA Ex. 3.01 to my testimony.

Q. 6 Do you have any licenses or certifications?

A. Yes, I am currently a registered Professional Engineer in the state of Florida.

Q. 7 Please describe your professional experience.

A. I have over twenty-five years of professional experience, in both the private and public sectors, supporting, regulating, and managing municipal and investor-owned utilities in the state of Florida and across the United States. This has included the development of revenue requirements and appropriate rate structures, as well as cost recovery mechanisms. I have also testified in state legislative proceedings on appropriate utility investment and policies to encourage economic development. I also have professional

engineering experience overseeing the design, permitting, construction, and business development efforts of numerous utility and transportation infrastructure projects in the state of Florida. Prior to joining Guidehouse as a Partner in 2020, for five years, I served as Managing Director with Accenture, one of the world's largest consulting firms helping utilities achieve operational efficiencies in complex regulatory environments. Prior to that role, I was appointed as Commissioner of the Florida Public Service Commission by Governor Charlie Crist and reappointed by Governor Rick Scott, serving from 2010 to 2015. During this time, I was also a member of the National Association of Regulatory Utility Commissioners ("NARUC") as well as the Southeastern Association of Regulatory Utility Commissioners ("SEARUC"), which includes Puerto Rico. I was also a member of NARUC's Critical Infrastructure and Natural Gas Committees as well as the Eastern Interconnection States Planning Council ("EISPC"), dealing with transmission planning at the inter-regional level. From 2008 to 2010, I was Assistant City Administrator for the City of West Palm Beach and concurrently served as the Chairman of the East Central Regional Water Reclamation Facility and as a Councilmember with the Treasure Coast Regional Planning Council.

Q. 8 Please describe your professional experience in the consulting industry.

A. My experience in the consulting industry includes helping clients develop transformative business models, achieve operational efficiencies, and implement regulatory strategies in the face of an evolving industry landscape. Additionally, I have helped investor-owned utilities on numerous engagements, including the development of business models for large scale solar facilities, implementation of technology projects for operational efficiencies as well as identification and development of strategies for securing federal funding.

Q. 9 Please describe your experience as Commissioner at the Florida Public Service Commission.

A. As Commissioner of the Florida Public Service Commission, I helped ensure that essential utility services like electricity, natural gas, water, and wastewater services were furnished safely and reliably through rates that were just and reasonable. Additionally, as Commissioner, I helped set annual demand side management, environmental compliance and fuel and purchased power cost recovery factors. I also presided over numerous rate cases to establish appropriate revenue requirements and rate structures while considering additional factors such as resiliency, fuel diversity, economic development, and preparation and restoration from devastating hurricanes.

Q. 10 Please describe your professional experience as Assistant City Administrator for the City of West Palm Beach.

A. As Assistant City Administrator for the City of West Palm Beach, I oversaw the Public Utilities, Public Works, and Engineering Departments. In this role, I spearheaded the rebuilding of a century-old utility system that required the issuance of a \$100 million Bond Series to fund major capital improvements required by a Consent Decree from the Florida Department of Environmental Protection. Additionally, operational efficiencies and new technologies were implemented along with appropriate rates to minimize ratepayer impact. In addition to my work overseeing the Utilities Department, I also oversaw the Engineering and Public Works Departments, providing essential services, including municipal solid waste collection and transportation infrastructure construction and maintenance. During my time in this role, I helped optimize operations to achieve significant efficiencies during a time of declining revenues.

Q. 11 Please describe your experience as Chairman of the East Central Regional Water Reclamation Facility.

As the Chairman of the East Central Regional Water Reclamation Facility, setting appropriate capital and operational budgets as well as rates for the largest wastewater facility in a county of over 1.3 million people.

Q. 12 Are there particular accomplishments that you would like to highlight from your time as a Commissioner?

A. Similar to Puerto Rico, Florida is regularly impacted by hurricanes and other natural disasters, which can cause severe and widespread damage to property and infrastructure in the state, including and especially the electric grid. As an example, restoration costs to the electric grid for just one utility in Florida, Florida Power and Light, exceeded \$1.3 billion after Hurricane Irma in 2017. These costs would have been much higher if myself and my colleagues had not encouraged storm hardening and developed effective frameworks. During my time as Commissioner, I worked with Florida electric utilities to implement mechanisms ensuring they could immediately respond to storm impacts to restore essential electric service. To facilitate utility operational and financial resiliency, we funded a storm reserve, as well as enacting a storm recovery mechanism, whereby utilities could immediately recover storm recovery costs up to \$4/month on a 1,000 kWh basis over 12 months, followed by a prudence review of the costs incurred. This enables affected utilities to aggressively address outages and storm recovery funded by those reserves and mechanisms without delays caused by a lack of access to resources or lengthy regulatory proceedings. I am also proud of the fact that we completed 322 MW of one of the largest uprating of a nuclear facility in the United States. We facilitated the construction of a third natural gas pipeline into the state to mitigate supply interruptions

as we set the framework for Florida to increase its renewable generation capacity to over 1,000 MW. We utilized incentive mechanisms to encourage efficiencies in generation to improve reliability and lower fuel costs to customers. Additionally, we also established other incentive mechanisms to encourage utilities to optimize their assets and share those savings with customers.

Q. 13 Have you previously testified before the Energy Bureau?

A. No.

II. PURPOSE OF TESTIMONY

Q. 14 Please describe the purpose of your testimony.

A. My testimony is intended to provide my insights as a former regulator on certain utility regulation industry practices in the United States and how those practices can inform the regulatory oversight measures applied by the Energy Bureau going forward. My conclusions, which are informed by both my review of the relevant documents previously mentioned, my understanding of the Puerto Rican regulatory and operating environment, and my experience as a regulator, are intended to streamline regulatory processes while preserving effective oversight. Specifically, I believe that the existing annual budgeting process and reporting requirements can be modified to provide more planning certainty, enhance and streamline reporting, while maintaining the Energy Bureau's ability to manage utility outcomes.

Q. 15 Please provide an overview of your testimony.

A. My testimony will cover five topics. First, I will discuss the role and importance of effective utility regulatory oversight generally. I will then discuss my recommended modifications to the Energy Bureau's annual budgeting oversight process considering the current Rate Review. Next, I will discuss LUMA's annual and quarterly reporting

requirements and how that process should be modified. I will also discuss how LUMA's identified efficiencies and cost savings provide benefits to ratepayers. ~~Finally, I will provide some general observations regarding how net metering can impact utilities and non-participating customers, based on my experience as a regulator in the state of Florida.~~

Q. 16 Please summarize your testimony in this proceeding.

A. My testimony is as follows:

- I. the Energy Bureau should amend the existing annual budgeting process established through the 2017 Rate Order which currently involves full adjudication of LUMA's budgetary limits leading into each fiscal year. I am proposing instead, beginning with FY2027, that LUMA should be required to officially submit to the Energy Bureau, for informational and review purposes only, the budget as determined through the process with P3A, as established in the T&D OMA and PGHOA.¹ This leverages the existing P3A process and avoids potentially contradictory outcomes from the overlapping processes experienced currently;
- II. the Energy Bureau should remove the current requirement that LUMA submit a fourth quarterly report on financial activities and instead continue requiring three quarterly reports and an annual report only (four total reports) to eliminate additional administrative burden and remove redundancy while maintaining oversight;

¹ See the Puerto Rico PREPA-Genco-HydroCo Operating Agreement (PGHOA), Article 3 Budgets and Accounts, pg 11 for discussion of the contractually mandated annual budgeting process required of the Parties and Section 7.3(a) of the T&D OMA.

III. the Energy Bureau should accept LUMA's quarterly reporting on more than 594 performance metrics², as well as ongoing annual reporting on stated efficiencies and cost savings³, as sufficient to satisfy the Energy Bureau's Efficiencies and Cost Savings reporting requirement. This eliminates the need for additional burdensome tracking and data analyses requiring additional resources and technology upgrades that would reduce the efficiencies and cost savings LUMA is trying to achieve.

III. ROLE OF REGULATORY OVERSIGHT

Q. 17 What is the role of regulatory oversight of utilities like the Puerto Rico Electric Power Authority (PREPA)?

A. The Energy Bureau's regulatory oversight ensures that PREPA, and the system operators, LUMA and Genera, supply safe, adequate, and reliable service at just and reasonable rates. Rates must be sufficient to compensate those entities for the costs they incur to serve electricity to the island of Puerto Rico and encourage maintenance and prudent investments. As the operator of electric transmission and distribution facilities in Puerto Rico, LUMA has a responsibility to ensure that its approximately 1.5 million customers have access to safe and reliable electricity at the lowest reasonable cost. PREPA and Genera have similar responsibilities. The people and businesses within any jurisdiction depend on essential electric service and it is the regulator's duty that the regulatory compact is maintained. The Energy Bureau is responsible for implementing regulations,

² See LUMA's quarterly filings in Case No. NEPR-MI-2019-0007, *In Re: The Performance of the Puerto Rico Electric Power Authority*.

³ See Submission of LUMA's Annual Report For Fiscal Year 2022 and Report on Efficiencies, October 29, 2022, Docket No. NEPR-MI-2021-0004 and Submission of LUMA's Annual Report For Fiscal Year 2023 and Report on Efficiencies, Oct 30, 2023, NEPR-MI-2021-0004.

as necessary, to ensure the reliability, safety, and efficiency of electric service, while also keeping rates just and reasonable, which can be a delicate balance. Regulatory obligations imposed by the Energy Bureau should not diminish LUMA, PREPA, and Genera’s ability to deliver on their core obligations.

Q. 18 What are the principles that govern utility regulation generally?

A. As opposed to other industries, utility regulation is governed by a regulatory compact. As part of this compact, due to the high fixed costs associated with utility operations, and to avoid duplication of infrastructure, the government grants the utility natural monopoly privileges to provide services (e.g., electricity, natural gas, or water) within its jurisdiction. Additionally, under traditional regulation, the regulator permits the utility to set the rates it charges to customers at a level that allows for recovery of its prudent and necessary costs. In exchange for such liberties, the utility is obligated to provide services within its designated territory, and it must receive regulatory approval to construct new facilities or change its rates. Due to the absence of market competition, United States case law (*Federal Power Commission v. Hope Natural Gas* (“*Hope*”)) dictates that a utility’s rates cannot be too low or too high. Instead, *Hope* asserts that rates must be “just and reasonable.”⁴

These principles are encoded in Puerto Rican law through Act 57-2014, Sec 6.25(b), which states, in part:

The Bureau shall approve a rate that: (i) allows electric power service companies to recover all operating and maintenance costs, capital investments, financing costs, statutory costs, as well as any other cost lawfully incurred in the provision of electric power services and that, except for statutory costs, have been determined by the Bureau to be prudent, reasonable, and consistent with the sound fiscal and operating practices which help provide a reliable service at the lowest possible cost; (ii) covers the costs of the contribution in lieu of taxes and other

⁴ 320 U.S. 591 (1944).

contributions and statutory subsidies; (iii) allows electric power companies to perform maintenance works and prudent capital investments as are necessary to provide electric power service in accordance with the parameters and quality standards established by the Energy Bureau

In short, the regulator is tasked with ensuring that the utility delivers on its obligation to provide safe, reliable, and adequate service while keeping rates just and reasonable. The regulator carries out its role by managing the utility's outcomes and performance and by approving rates, rather than applying ongoing, detailed budgetary oversight.

Q. 19 What was your general approach to regulation during your time as a Commissioner?

A. During my time as a regulator, my decision-making was guided foremost by the applicable laws and rules that we had to abide by while ensuring the adequate, safe, and reliable supply of electricity. Additionally, I strove to balance the interests of ratepayers with those of the utilities and their investors, who, at times, had differing objectives. My intent was always to strike a balance of effective oversight and customer protection, while enabling and incentivizing utilities to invest in infrastructure, resiliency, and grid-hardening improvements to maintain long-term system reliability, all while keeping customer rates low. I also considered factors such as economic development, fuel diversification, and protection of critical infrastructure.

IV. RECOMMENDATIONS FOR THE ANNUAL BUDGETING PROCESS

Q. 20 Are you familiar with the procedural background and key documents in the budgeting process and this Rate Review?

A. Yes. I'm familiar with the PGHOA, the T&D OMA, and the 2017 Rate Order. In addition, I am generally familiar with the procedural background of this Rate Review

(Docket NEPR-AP-2023-0003) and LUMA's Initial Budgets Docket (NEPR-MI-2021-0004).

Q. 21 Can you describe your understanding of the annual budgeting process for the PREPA system?

A. Yes. I understand the annual budgeting process to proceed as follows. Before each fiscal year begins on July 1st, LUMA, PREPA, and Genera (collectively, the "Parties") prepare and submit individual budgets to the P3A. Following its receipt of the component proposed budgets, the P3A mediates the allocation of the fiscal year's budget between the Parties. This process ensures that the combined authorized spending of the entities does not exceed the revenue collected from customers and all other revenue sources during the subsequent fiscal year. Once this process is settled and budgets are set to match forecasted revenues, the Parties submit the budgets to the Energy Bureau to undergo the same process. It is my understanding that this requirement to submit annual spending plans to the Energy Bureau dates back to the 2017 Rate Order where the Bureau understandably raised the concern of PREPA's expenditures consistently exceeding revenues over many years. In response, the Energy Bureau began an annual process to apply budgetary discipline and avoid unnecessary rate increases. The annual process is in addition to the three-year rate review process mandated by Act 57.

Q. 22 Do you have an opinion on whether the annual budgeting process is a reasonable application of regulatory oversight, given the circumstances?

A. Up to today? Yes. PREPA's expenses exceeded revenues for many years, ultimately culminating in bankruptcy. Given these circumstances, the Energy Bureau was correct in applying extraordinary measures to approve all spending levels, thus ensuring expenses did not exceed revenues. This was an appropriate and reasonable step taken by the

Energy Bureau in the 2017 Rate Order. However, in the current environment, the annual rate budget review process and the three-year rate case described in the 2017 Rate Order are duplicative and, at times, in contradiction to one another.

Q. 23 Please explain your opinion that the annual budget review process and the rate case are duplicative.

A. Revisions and duplicate filings, often many months into the fiscal year, can be disruptive to business planning and can undermine the operator's ability to carry out planned projects aimed at improving system reliability and stability. Utilities, as with any other business, benefit from certainty. Undergoing multiple rounds of budgeting processes undermines the certainty needed to effectively plan and execute. In addition, LUMA Witness Andrew Smith describes how resource-intensive preparing and defending its budgets through two separate budgeting processes, the P3A budget approval and subsequent approval by the Energy Bureau, has been for LUMA.

Q. 24 Do you have an opinion on whether the annual budgeting process adopted by the Energy Bureau in the 2017 Rate Order should be amended?

A. Yes.

Q. 25 Please state and explain your opinion.

This Rate Review presents an opportunity to amend the current process. Budgetary discipline is essential for all utilities. This is especially true in the case of the PREPA system and its operators. The Energy Bureau is overseeing this Rate Review to identify prudent and necessary spending by all parties to provide safe and reliable service. One of the key objectives of this proceeding is to set rates that are just and reasonable, which the Energy Bureau is tasked with doing. Coming out of this case, the Energy Bureau will authorize a revenue requirement for the PREPA's electric power system, and it will set

new rates to recover the funds necessary to cover those expenses. The allocation percentages of the revenue between LUMA, Genera and PREPA should remain the same between rate cases. During the multi-year rate plan (FY2027 and FY2028), the annual P3A process will have the Energy Bureau's authorized revenue requirement as a basis for apportionment of the revenues collected by PREPA.⁵ Once this P3A process is complete, LUMA should be required to file with the PREB the consolidated schedules of projected revenue and expense for the Energy Bureau. This ensures that the PREB is fully informed of the PREPA system's continued budgetary discipline on an ongoing basis, with spending kept within revenues and rate increases avoided.

Q. 26 Do you have a proposal for how the budget process would work going forward?

A. Yes. I am recommending that the Energy Bureau eliminate the adjudicative annual budgeting process established through the 2017 Rate Order, and instead require LUMA to file the annual consolidated budgets approved by the P3A with the Energy Bureau for informational purposes prior to each fiscal year.

Q. 27 Is the Energy Bureau's current annual budget process in line with other U.S. jurisdictions?

A. No. A regulator determining individual areas of spending each and every fiscal year is inconsistent with standard industry practice. Across the United States, very few jurisdictions require utilities to file annual budgets, and those that do collect budgets for informational purposes only. *See LUMA Exhibit 3.02* to my testimony for a listing of

⁵ Specifically Section 3.1(b)(ii) of the PGHOA states, "Administrator shall...determine the final allocation of the base rate among the Budgets for such Fiscal Year; provided that such determination shall be proportionate to, and consistent with, the cost allocation among the Budgets in the applicable Rate Order." Rate Order is defined as "any rate order reflecting determinations and directives of, and requirements established by, PREB through its review of a Rate Order Modification Request and the subsequent rate review proceeding."

the states that require informational budget filings. Rate regulation with a forward-looking test year sets a revenue requirement based on costs expected to be incurred in the test year. But the decisions on how best to spend that revenue requirement is left up to the utility. The regulator retains general oversight through rate cases by disallowing expenses and prudence reviews.

I believe that a similar framework will uphold the Energy Bureau's oversight of LUMA's financial operations, while offering the Parties an opportunity to efficiently allocate resources towards a single budgetary cycle with P3A. Of course, the Energy Bureau will continue to oversee applications to change customer rates, riders, as well as the Integrated Resource Plan, annual reporting, and all other important regulatory matters.

Q. 28 Should the current process where the Energy Bureau approves budget amendments for deviations in actual spending continue after this rate case?

A. No. The budget amendment process is an artifact of the current situation in which utility spending was capped by the revenue at present rates. The primary purpose of this rate case is to reestablish standard methods to fund PREPA's activities, specifically, the use of a revenue requirement to set rates. The Energy Bureau will adjudicate the revenue requirement by deciding what spending is considered necessary for the utility to provide safe and reliable service to customers. At this point, the rates will be set to generate enough revenue to cover these operations. In the interim years between rate cases, PREPA and its operators will need the flexibility to perform necessary functions and direct spending to projects as needed.

Q. 29 Are you aware of any other jurisdictions that require prior approval for a utility to deviate from its authorized budget?

A. No. The operation of the utility is left to the management of the utility. The current requirement is Puerto Rico is contrary to generally accepted best practices of utility regulation in the United States.

Q. 30 What mechanisms are available to the Energy Bureau to monitor spending?

A. Other jurisdictions use annual budget filings to get information on how a utility spends its funds. These filings are informational only and provide an after-the-fact view to the regulator. The regulator does not approve, reject, or require any modification of any spending based on such financial reports. When PREPA begins using a depreciation-based revenue requirement, the Energy Bureau could use the ratebase as a mechanism for controlling utility capital spending.

V. RECOMMENDATIONS FOR ANNUAL AND QUARTERLY REPORTING

Q. 31 You have commented on the annual budgeting process. Are you aware of the general reporting required by the Energy Bureau after each fiscal quarter and year?

A. Yes. The T&D OMA Annex I, Section VI(B), Paragraph 4 requires that LUMA submit financial reports within 120 days of the close of the fiscal year and 45 days of the close of each fiscal quarter. In compliance with such requirements, as of this date, LUMA has submitted annual reports for FY2022 and FY2023, as well as quarterly reports from FY2022 Q1 through FY2025 Q2 (12 in total).⁶

Q. 32 What are the objectives of these reporting requirements?

⁶ See LUMA's ongoing reporting in Case No. NEPR-MI-2021-0004.

A. My understanding is that these reporting requirements are intended to enable ongoing oversight of LUMA's fiscal discipline to remain within budgetary limits as ordered by the Energy Bureau.

Q. 33 Do you have an opinion on whether the current reporting requirements adopted by the Energy Bureau should be maintained?

Yes.

Q. 34 Please state and explain your opinion.

I agree that given the history on the island of the municipal utility's lack of fiscal discipline, regular reporting is a reasonable and prudent measure by the Energy Bureau. Given that the rate request by the Parties is based on a future test period in which costs and revenues are forecasted, I recognize the purpose and value of requiring quarterly reports to ensure timely oversight to ensure revenue and spending do not fall out of alignment. In addition, requiring an annual report within 120 days is appropriate and consistent with industry standards.⁷

Q. 35 Would you recommend any modification to financial reporting requirements applicable to LUMA?

A. Yes. I recommend that the Energy Bureau maintain the existing 120-day timeline for filing annual reports, as outlined in the T&D OMA, but eliminate the current Q4 report requirement. The 120-day annual reporting requirement is adequate and generally in line with industry standards. Conversely, the Energy Bureau's Q4 reporting requirement is duplicative and superseded by the annual report filed within 120 days. Additionally,

⁷ See Exhibit 3.02 to my testimony for a summary table of the reporting requirement timeline by state. 120 days is the most common requirement, existing in 19 of 50 states, with another 13 states having longer or no reporting requirements at all.

quarterly reporting requirements are relatively uncommon across the United States.

However, if the Energy Bureau elects to maintain its quarterly reporting requirement, I recommend it eliminate the current Q4 report requirement.

Q. 36 Why do you recommend that the Energy Bureau eliminate the Q4 report?

The content comprising LUMA's Q4 report is duplicative of that provided in the annual report, rendering the effort of providing both reports redundant and unnecessary. This report also is subject to revisions associated with the closing of the fiscal year. To maximize LUMA's operational efficiency, while maintaining proper regulatory oversight, the Energy Bureau should only require Q1, Q2, and Q3 reports, each with a 45-day filing timeline, and an annual report with a 120-day filing timeline.

VI. EFFICIENCIES REPORTING

Q. 37 Can you describe your understanding of the efficiencies reporting required by the Energy Bureau?

A. Yes. In the May 31, 2021, Resolution and Order (Case No. NEPR-MI-2021-0004), the Energy Bureau set forth that LUMA must provide annual reports on the implementation of improved efficiencies and quantification of cost savings. The Energy Bureau reiterated its expectation of how this information should be provided in subsequent orders, the most recent dated June 26, 2024.

Q. 38 What are the efficiencies that have been identified previously?

A. In the past, the Energy Bureau has identified expected efficiencies related to:

- i) efficient contracting of services,
- ii) revenue collection from past due bills,
- iii) transmission line losses,
- iv) mitigating energy theft,

v) addressing missing or malfunctioning meters, and

vi) collecting revenue from third-party attachments.

Q. 39 Do you believe these efforts by LUMA translate into savings for customers?

A. LUMA's progress in each of these areas allows it to furnish electric service in a more cost-effective manner. These efforts ultimately lead to customers paying lower rates while receiving better quality service. Each year, there is a budgeting process using rate-generated revenue to establish spending levels (as has been done in FY2023 and FY2024), or in years where rates are reset, such as the current Rate Review, investments in revenue protection (e.g., addressing energy theft) or in cost reduction (e.g., reducing line losses) bear fruit in the form of the utility being able to do more with its revenues. However, at this time, it is premature to calculate direct reductions to customer rates generated by any of these specific efforts.

Q. 40 Can you summarize how efficiencies in the areas of revenue protection and cost reduction lead to lower bills for customers and how?

A. The following table provides a breakdown of what efforts generally lead to reductions in customer bills:

Efficiency	Impact	Effect on Customer Bills
i. Efficient contracting of services	Enables LUMA to procure services more efficiently, converting ratepayer and grant funds into grid improvements.	Can maximize grant and other funds, thereby offsetting the need to utilize future ratepayer funds.
ii. Collecting on past due debt	As collections are received financial solvency of the PREPA system is improved and funding of working capital needs are lessened.	Can minimize the size and frequency of rate increase requests.
iii. Reducing line losses	More generated electricity arrives to end customers.	Can reduce generation costs incurred.
iv. Mitigating energy theft	Creates billed revenue where otherwise there wouldn't be, absent intervention.	Can minimize the size and frequency of rate increase requests.

v. Addressing missing or malfunctioning meters	Creates billed revenue where otherwise there wouldn't be, absent intervention.	Can minimize the size and frequency of rate increase requests. ⁸
vi. Collecting Third Party Attachment Revenue	Creates billed revenue where otherwise there wouldn't be, absent intervention.	Can minimize the size and frequency of rate increase requests.

Q. 41 Can you give an example by discussing the ratepayer savings one could expect to be achieved by mitigating energy theft?

A. When energy theft occurs, the utility delivers electric service and incurs the costs to serve, but does not recover any revenue to offset those costs. If the problem is material and persistent enough, it ultimately leads to inferior service by the utility because the utility is unable to collect the proper amount of revenue needed to provide all of the actual electricity delivered. As a result, costs in other areas must be curtailed, and service suffers. Similarly, when rates are being reset, the effect is significant because the forecasted revenue is lower than it otherwise would be if revenue were being collected from those customers stealing service, leading to a higher required increase in customer rates to recoup the deeper rate-generated insufficiency. Therefore, by mitigating energy theft, the utility directly reduces the increase in rates customers will experience.

Q. 42 How does addressing energy theft provide savings for customers?

A. Because of LUMA's efforts, customer accounts that previously were stealing electricity, thus contributing to revenue shortfalls, may now be either disconnected completely or paying customers. These customers contribute revenue to fund LUMA's utility operations and will continue to do so into the future, reducing the shortfall amount

⁸ As an example, in this application, prior to the rate increase being requested, the average residential customer's annual bill was approximately \$1,147. Therefore, replacing one non-functional meter can lead to \$1,147 in additional revenue in a forecasted test year. This reduces the calculated revenue insufficiency and rate increase request by the same amount.

LUMA must recover through rate increases, including the one being requested with this petition.

Q. 43 Can you explain the calculation of the ratepayer savings achieved by addressing malfunctioning meters?

A. The savings customers experience when a utility addresses malfunctioning meters are similar to the example of energy theft. Previous customer accounts that were contributing diminished or no revenue are restored as full revenue-generating accounts, thereby reducing the shortfall to be made up for in a rate increase request.

Q. 44 Do you know if LUMA has quantified its efforts in the areas of malfunctioning meters?

A. Yes. As described in its FY2024 Annual Report, LUMA states it has replaced over 16,900 meters and repaired another 3,900 through its Distribution Meter Replacement and Maintenance Improvement Program. This will improve the ability for LUMA to measure and bill for electricity that is used.

Q. 45 Can you explain third-party attachment revenue and how it can impact rates?

A. Third party attachments refer to telecommunications or other devices installed on distribution system poles and facilities owned and operated by the electric utility. Typically, those third parties pay for the right to attach and occupy the space on the utility's facilities.

Q. 46 How are pole attachments regulated in the United States?

A. Investor-owned utilities must charge a rate established by the Federal Communication Commission ("FCC"). Municipal utilities and electric cooperatives are exempt from these regulations and negotiate attachment rates individually with the various companies that

wish to have pole attachments. Puerto Rico requires PREPA to use the FCC Pole Attachment rate as the basis for establishing pole attachment charges with third-party attachers.

Q. 47 Do you know if LUMA is attempting to correct this “lost revenue” opportunity?

A. Yes. As has been described by LUMA previously, there is significant work being done toward realizing the benefits of Third-Party Attachment (“TPA”) revenue. LUMA has an entire System Remediation Plan (“SRP”) program dedicated to Third Party Use & Attachments. As part of this rate case, LUMA is including an amount as part of the test year revenue requirements for TPA contracts.

Q. 48 In what way will these efforts result in ratepayer savings?

A. Third-Party Attachment revenue represents additional revenue to the PREPA system, thereby reducing the amount needed to be recovered by ratepayers. LUMA will continue to report on progress in this area through its annual SRP submissions.

Q. 49 Please summarize your testimony in the area of Efficiencies Reporting.

A. Each of the areas above where LUMA is making efforts to either protect revenue or reduce costs ultimately leads to customers paying lower rates while receiving better quality service. The Energy Bureau should accept the positive impacts detailed above, along with LUMA’s quarterly reporting on more than 594 performance metrics and continued annual reporting on stated efficiencies and cost savings as sufficient to satisfy the Energy Bureau’s Efficiencies and Cost Savings reporting requirement.

VII. NET METERING

Q. 50 Are you familiar with the state of the distributed rooftop solar market in Puerto Rico?

471 A. I'm aware that rooftop solar receives ~~generous~~ policy support and incentives on the island
472 and that many customers are choosing to install rooftop solar arrays on their roof. LUMA
473 states that they have interconnected more than 119,600 accounts.

474 **Q. 51 Do you know how electricity generated by rooftop solar is compensated by the**
475 **utility in Puerto Rico?**

476 A. My understanding is that the current net metering construct in Puerto Rico requires that
477 distributed generation exports to the grid are compensated at the full retail energy rate, or
478 what is called "full retail net metering." Therefore, if customers export enough to the
479 grid, they are able to offset their electric bill completely, with only the \$4 customer
480 charge being due. Also, the netting period (i.e., the period of time for which production is
481 netted with consumption) is monthly. Therefore, customers can export their system's
482 excess energy during periods of peak sun and turn around and use grid-provided energy
483 during evening or nighttime hours. ~~Therefore, because of how the net metering construct~~
484 ~~is currently designed, their billed usage nets to zero even though they are using grid-~~
485 ~~provided energy. Some in the industry have characterized this as customers essentially~~
486 ~~using the grid as a battery. They charge it during the day when they do not need the~~
487 ~~energy produced by their system, and then draw it back out at night for no cost to them.~~

488 ~~Does this create problems, in your opinion?~~

489 A. ~~It can. If adoption becomes significant, it can lead to a significant cost shift to non-~~
490 ~~participating customers. Florida, similar to Puerto Rico, has a full retail net metering~~
491 ~~construct. In 2008, the Florida Commission promulgated a net metering rule to~~
492 ~~incentivize rooftop solar adoption at a time when the installation costs were prohibitive.~~
493 ~~Later, in 2014, when I was a Florida Public Service Commissioner, we ended a pilot~~

rebate program for rooftop solar systems after realizing that these systems were being subsidized by non-participants who were not realizing their benefits.

By 2020, customer adoption had taken off, and the Commission held a workshop (Docket No. 20200000) to discuss net metering. In that proceeding, the four investor-owned utilities stated that given the robust acceleration of customer adoption, the cumulative cross subsidy forecasted to be absorbed by non-NEM customers from 2020 through 2025 would be more than \$700 million.⁹ It is one of the regrets that I have upon leaving office; that we did not address this issue and appropriately compensate participants with the true value of solar.

Can you further describe the laws and regulations governing the implementation of net metering in the state of Florida?

A.—— As I mentioned, the current net metering construct in Florida is similar to that of Puerto Rico. During any billing cycle, excess customer-owned renewable generation is credited to the customer's energy consumption at the retail electricity rate for the next month's billing cycle. Credits may be carried over monthly, but at the end of the annual billing cycle, any leftover credits are paid to the customer at the utility's lower avoided cost rate.

Can you describe the impact that net metering has on the utility and non-participating customers?

A.—— In part because of the outcomes I have described previously, the Florida legislature sought to modify net metering in the state. Specifically, in November 2021, the introduction of Senate Bill (SB) 1024 sought a redesign of net metering to avoid cross-

⁹ See Page 6 of Florida Power & Light Company and Gulf Power Company's Post-Workshop Comments, October 8, 2020, Florida Public Service Commission Docket No. 20200000 *In Re: Customer-Owned Renewable Generation*.

subsidization of electric service costs between classes of ratepayers and reduce the compensation net-metered customers receive from the utility's retail rate to the lower avoided cost rate. SB 1024 also would have ensured that utilities recover fixed costs from net-metered customers, addressing the cost shift issue mentioned above.¹⁰ This bill passed the legislature but was ultimately vetoed by the governor.

How do you think the Energy Bureau should take this into account regarding net metering?

A. — As LUMA Witness Andrew Smith discusses in his testimony, the penetration of solar adoption in Puerto Rico is robust, and LUMA is actually requesting NFC for system upgrade costs that are being driven by increasing NEM adoption. And the draft report issued in docket NEPR MI 2024-006 comes to the conclusion that Puerto Rico is ready for successor pricing mechanisms to NEM. I agree. The time is ripe for the Energy Bureau to re-examine net metering in Puerto Rico.

VIII. SUMMARY AND CONCLUSION

Q. 56 Can you summarize your conclusions in this proceeding?

A. I conclude the following:

- 1) the Energy Bureau should amend the annual budgeting process, which currently involves full adjudication of budgetary limits of LUMA, Genera and PREPA ("the Parties") leading into each fiscal year. I am proposing instead, beginning with FY2027, and for every year thereafter in which PREPA is not in a rate case,

¹⁰ It is worth noting that this cost shift only takes place if customer rates are reset regularly. During a resetting of rates, costs are re-apportioned based on billed volumetric sales. Volumetric rates are increased in order to recover revenue over fewer billed units. Since net metering customers can have minimal or no-billed usage, they are shielded from these increasing rates. In a case where rates are not reset regularly, there is less of a shift, and instead, the utility's operations go underfunded. The PREPA system's last rate review before the PREB was conducted in 2016-2017.

that LUMA should be required to officially submit to the Energy Bureau, for informational and review purposes only, the consolidated fiscal year budget of the Parties as determined by the P3A, as established in the T&D OMA and the PGHOA. This leverages the existing P3A process and avoids potentially contradictory outcomes from the overlapping processes experienced currently;

2) the Energy Bureau should remove the current requirement of a fourth quarterly report and instead continue requiring three quarterly reports and an annual report only (four total reports) to eliminate additional administrative burden and remove redundancy while maintaining oversight;

3) the Energy Bureau should accept LUMA's quarterly reporting on more than 584 performance metrics, as well as ongoing annual reporting on stated efficiencies and cost savings, as sufficient to satisfy the Energy Bureau's Efficiencies and Cost Savings reporting requirement. This eliminates the need for additional burdensome tracking and data analyses, requiring additional resources and technology upgrades to reduce the efficiencies and cost savings LUMA is trying to achieve.

Q. 57 Does this complete your testimony?

A. Yes.

ATTESTATION

Affiant, Eduardo Balbis, being first duly sworn, states the following:

The prepared Direct Testimony and the exhibits attached to the Direct Testimony, constitute my Direct Testimony in the above-styled case 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 herein are my Direct Testimony and, to the best of my knowledge, are true and correct.

Eduardo Balbis

The foregoing instrument was acknowledged and subscribed before me by Mr. Eduardo Balbis, whose full name is as described herein, of legal age, married, business executive, and resident of Jupiter, Florida, in his capacity as Partner at Guidehouse, and testifying in support of LUMA Energy, LLC and LUMA Energy ServCo, LLC, who has been identified by means of his driver's license/~~U.S. Passport~~ with registration number _____, having appeared by means of online notarization.

In Jupiter, Florida, this ~~21st~~^{30th} day of ~~June~~October, 2025.

Notary Public

LUMA Ex. 3.01: Ed Balbis CV

LUMA Ex. 3.02: Annual Budgeting Requirement by State

Line No.	State	Are electric utilities required to file annual budgets with the state regulator?
1	Alabama	No
2	Alaska	No
3	Arizona	No
4	Arkansas	No
5	California	No
6	Colorado	No
7	Connecticut	No
8	Delaware	No
9	Florida	No
10	Georgia	No
11	Hawaii	No
12	Idaho	No
13	Illinois	No
14	Indiana	No
15	Iowa	No
16	Kansas	No
17	Kentucky	No
18	Louisiana	No
19	Maine	No
20	Maryland	No
21	Massachusetts	No
22	Michigan	No
23	Minnesota	No
24	Mississippi	No
25	Missouri	Yes¹¹
26	Montana	No
27	Nebraska	No
28	Nevada	No
29	New Hampshire	Yes¹⁰
30	New Jersey	No
31	New Mexico	No
32	New York	No
33	North Carolina	No

¹¹ Utilities submit annual iteration of budget to the docket. Commission acknowledges receipt. Budget details collected for informational purposes only. No procedural review by the Commission or intervening parties follows.

34	North Dakota	No
35	Ohio	No
36	Oklahoma	No
37	Oregon	Yes¹⁰
38	Pennsylvania	Yes¹⁰
39	Rhode Island	No
40	South Carolina	No
41	South Dakota	No
42	Tennessee	Yes¹⁰
43	Texas — PUC	No
44	Utah	No
45	Vermont	No
46	Virginia	No
47	Washington	Yes¹⁰
48	West Virginia	No
49	Wisconsin	No
50	Wyoming	No

LUMA Ex. 3.03: Electric Utilities - Annual Reporting Requirements by State

Line No.	State	Reporting requirement details	Timeline (days)
1	Alabama	AL Code § 37-1-58 Every utility doing business in this state must, within 90 days after the close of business for its preceding fiscal or calendar year, make to the commission in the manner prescribed, and upon the blanks to be furnished by said commission, annual returns of the business of such utility, and any such utility failing to make such reports unless granted an extension by the Alabama Public Service Commission, shall forfeit to the state \$50.00 for each day of failure	90
2	Alaska	AK Stat § 42.05.45 Within 90 days after the close of its authorized annual accounting period, or additional time granted upon a showing of good cause, a public utility shall file with the commission a verified annual report of its operations during the period reported, on forms prescribed by the commission	90
3	Arizona	Ariz. Admin. Code § R14-2-212 Administrative and Hearing Requirements Each utility shall submit an annual report to the Commission, through the Utilities Division, on a form prescribed by the Utilities Division. The annual report shall be filed on or before the 15th day of April for the preceding calendar year. If the utility has received a report on the utility prepared by a certified or licensed public accountant, the utility shall include a copy of the report with its annual report submission	105
4	Arkansas	Rule 6.13 Annual Reporting Requirements Each jurisdictional utility shall submit an annual report on the form required by the Commission by March 31 for the preceding calendar year ending December 31 in accordance with Ark. Code Ann. §§ 23-2-308, 23- 3-109, and 23-3-112	90
5	California	GO 104-A Each public utility now subject, or which hereafter may become subject, to the jurisdiction of the PUC an annual report of its operations, A warehouseman authorized by the PUC to maintain records on a fiscal year basis shall file the report for each fiscal year within 90 days after the close of the fiscal year. Every other utility shall file the report for each calendar year on or before March 31st of the following year, or such other date as the PUC may designate	90
6	Colorado	Rule 4 CCR 723-3-3006 On or before April 30th of each year, each utility shall file with the Commission an annual report for the preceding calendar year. Shall include the utility's total gross operating revenue from intrastate utility business transacted in Colorado for the preceding calendar year	120

7	Connecticut	CT Gen Stat § 16-27 PURA shall, on or before December 31st, annually, furnish to each public service company, except community antenna television companies, duplicate blank report forms, which may be in such format as the authority prescribes or the same blank report forms required by FERC. Each such company shall return one report form with all questions fully answered to the authority not later than the following May thirty-first or, where the authority has authorized an accounting period other than December thirty-first, the company shall return its completed form no later than one hundred fifty days following the close of the company's accounting period. The authority may, for good cause shown, grant an extension of such deadline of up to sixty days, provided the company desiring an extension files a request in writing setting forth the reasons for such request	180
8	Delaware	Title 26 1002€ Annual financial reports shall be filed with the Commission no later than one hundred twenty (120) days following the end of the calendar year. Annual financial reports currently filed with federal jurisdictions such as FERC Form Nos. 1 and 2, FCC Form M, and REA Form 7 are a satisfactory format for reporting to the Commission	120
9	Florida	Rule 25-6.135(2) FAC Electric utilities must file an annual report with PSC, including a diversification report, report from independent auditors, copy of Form 10-K, etc.	120
10	Georgia	Rule 515-3-1-.04 Each gas, electric light and power company, and local exchange carrier that is subject to rate of return regulation pursuant to O.C.G.A. § 46-5-165 shall keep and maintain the Uniform System of Accounts prescribed by the Commission for such companies, and file with the Commission on or before the last day of April of each year, a report of operations prepared in accordance therewith, and for the fiscal year immediately preceding	120
11	Hawaii	All electric utilities operating within the State of Hawaii shall make their annual report on this Form 1 in duplicate and file the original, duly verified in the office of this Commission, on or before March 31st of the following year	90
12	Idaho	ID Code § 61-405 Every public utility shall file an annual report with the commission...The originals of the reports subscribed to and sworn to as prescribed by law, shall be filed on or before the fifteenth day of April in each year and preserved in the office of the commission. The commission may extend the time for making and filing such report for a period not exceeding sixty (60) days	105
13	Illinois	Section 5-109 of the Public Utilities Act Each public utility in the State is required to file an annual report with the Illinois Commerce Commission within three months after the close of the current year	90

14	Indiana	§ 8-1-2-16 Accounts shall be closed annually on the thirty-first day of December, and a balance sheet of that date promptly taken therefrom. On or before the thirtieth day of April following, such balance sheet, together with such other information as the commission shall prescribe, verified by an officer of the public utility, shall be filed with the commission	120
15	Iowa	All public utilities subject to Iowa Code chapter 476 are required to file an annual report by April 1 that covers operations for the immediately preceding calendar year	90
16	Kansas	KS Stat § 66-123 Every public utility and common carrier governed by the provisions of this act when, and as required by the corporation commission, shall file with the corporation commission an annual report and such monthly or other regular reports, or special reports, and such other information as the corporation commission may require. When required by the corporation commission such reports and information shall be certified under oath by a duly authorized officer having knowledge of the matters therein contained. The corporation commission may at any time require from any public utility or common carrier specific answers to any questions upon which it may desire information in connection with matters pending before them. The corporation commission may, in its discretion, grant extensions of the time within which reports and information are required to be filed. Annual reports shall be filed on or before May 1 for the preceding calendar year unless otherwise specified by commission order or rule and regulation	120
17	Kentucky	KRS 278.230(3) Each utility shall file its gross annual operating revenue, financial and statistical information, audit reports, etc. before March 31 of each year	90
18	Louisiana — PSC	General Order No. 2 dated July 1, 1921 requires all companies providing utility and telecommunications services within the state of Louisiana and under the jurisdiction of the LPSC to file an annual report of its financial and operating conditions. The filing deadline for the annual reports is 120 days from the end of the calendar year, or the applicable fiscal year	120
19	Maine	Chapter 305 Licensing Reqs, Annual Reporting, Enforcement & Consumer Protection Provisions for Competitive Provision of Electricity Each competitive electricity provider must file an annual report on or before July 1 of each year for the previous calendar year	180
20	Maryland	§ 6-205 of the Public Utilities Article, Annotated Code of Maryland Each electric utility under the jurisdiction of tPSC is required to file an Annual Report of their operations. A public service company shall file its annual report with PSC within the time PSC sets after the end of the year that the report covers	150
21	Massachusetts	220 CMR 79.04 On or before March 31 of each year, electric companies shall file an annual return with DPU, including condense return of business and financial condition	90
22	Michigan	Form is authorized by 1919 PA 419, as amended, being MCL 460.55 et seq.; and 1969 PA 306, as amended, being MCL 24.201 et seq. Filing of this form is mandatory. Failure to complete and submit this form will place you violation of state law	120
23	Minnesota	Rule 7610 All electric utilities authorized to do business in Minnesota are required to file an annual data report pursuant to MN Rules Chapter 7610. This information will be used to identify emerging energy trends based on supply and demand, conservation and public health and safety factors, and to determine the level of statewide and	182

		service area needs	
24	Mississippi	MS Public Utilities Rules of Practice and Procedure Rule 16 Accounts, Records and Reports Each utility shall establish and maintain a system of accounts in accordance with the orders of this Commission. Every regulated utility shall file on or before May 1st of each year an annual report on the published form of the Commission or a form approved by the Commission	120
25	Missouri	4 CSR 240-3.165 - Annual Report Submission Requirements for Electric Utilities rescinded on January 30, 2019	None
26	Montana	Mont. Admin. R. 38.5.2602; Mont. Code Ann. § 69-3-203 require Utility Annual Reports	120
27	Nebraska		None
28	Nevada	NRS 703.191 Public utilities must submit annual reports to the PUCN each calendar year. The reports must be submitted no later than May 15 of the year following the year for which the report is submitted. Utilities must: (a) Keep uniform and detailed accounts of all applicable business transacted in this State as required by the Commission by regulation, and render them to the Commission or an affected governmental entity upon its request. (b) Furnish an annual report, with respect to all applicable business transacted in this State, to the Commission and each affected governmental entity in the form and detail which the Commission prescribes by regulation	135
29	New Hampshire	N.H. Code Admin. R. Puc 308.10 - Annual Report, FERC Form No. 1 Each utility shall file with the commission one signed original and one electronic copy of its completed FERC form No. 1 "Annual Report of Major Electric Utilities, Licensees and Others," as described in 18 C.F. R. § 141.1, at the same time it files such report with the FERC	90
30	New Jersey	An original of this report form properly filled out and verified shall be filed with the Secretary of the New Jersey Board of Public Utilities, 44 South Clinton Avenue, 1st Floor, Post Office Box 350, Trenton, New Jersey 08625-0350 on or before the last day of the third month following the close of the calendar year	90
31	New Mexico	Each utility affected by 17.3.510 NMAC shall report to the commission annually for each calendar year not later than April 30 of the following year upon forms provided by the commission. Attached to this report shall be the company's most recently filed SEC form 10K, if applicable, 17.3.510 NMAC Form 1 regarding jurisdictional customer numbers, and the company's most recent load growth forecast, if such is prepared routinely by the company. Each utility shall retain one copy of the report in its files. If additional time beyond April 30 is required by any utility it shall request in writing such additional time as may be needed, and the commission in the exercise of its discretion may grant such additional time as it believes is reasonable and necessary	120

32	New York	Electric and Gas Utilities subject to the Public Service Commission's reporting requirements are required to file an Annual Report. Combination gas and electric companies are required to file by April 30	120
33	North Carolina	G.S. 62-36 All public utilities doing business in North Carolina must submit an annual report showing their total operations	120
34	North Dakota	57-06-06. ASSESSMENT AND TAXATION OF PUBLIC UTILITIES Reports of companies. Each company required to be assessed under the provisions of this chapter annually, on or before the first day of May, under oath of the president or other chief executive officer, and the secretary or treasurer or auditor or superintendent of the company, shall make and file with the tax commissioner, in the manner prescribed by the tax commissioner, a report containing the following information, so far as applicable to the company making the report, as of January first of the year in which the report is furnished	120
35	Ohio	ORC 4905.14 Every public utility shall file an annual report with the public utilities commission. The report shall be filed at the time and in the form prescribed by the commission, shall be duly verified, and shall cover the yearly period fixed by the commission. The commission shall prescribe the character of the information to be embodied in the annual report	120
36	Oklahoma	The Annual Report FERC Form 1 - Class A and B Electric Companies and FERC Form 1A - Class C and D Electric Utility Companies promulgated by the FERC and RUS Report Form 7A promulgated by the RUS are hereby adopted for purposes of the annual report to this Commission by all Class A, B, C, and D Electric Utilities filing such reports with the FERC and the RUS	105
37	Oregon	860-027-0070 Annual Report Requirements for Electric, Gas, Steam Heat, and Large Telecommunications Utilities (1) Annual Reports must be submitted by electric, gas, and steam heat utilities. The report must be submitted on or before May 1, using the most current forms approved by the Commission. For energy utilities, the annual reports include but are not limited to the FERC 1 (including the Oregon Supplement) or the FERC 2 (including the Oregon Supplement), and the Results of Operations	120
38	Pennsylvania	52 Pa. Code § 57.47 - Filing of annual financial reports Unless prior permission to do otherwise is granted, a public utility, other than transportation, subject to the jurisdiction of the Commission, shall file annual financial reports with the Commission by April 30 immediately following the reporting year, for reports based upon the calendar year; or by July 31 immediately following, for reports permitted to be based upon the fiscal year ending May 31. A request for an extension of time for filing an annual report shall be submitted to the Commission prior to the filing dates specified in this paragraph	120
39	Rhode Island		None

40	South Carolina	S.C. Code Regs. 103-312 - Data to be Filed with the Commission and Provided to the ORS Each electrical utility operating in this State shall file an Annual Report with the commission and the ORS giving such information as the commission may direct. This Annual Report shall include the same information included in FERC Form 1; thus, the electrical utility can file its FERC Form 1 with the commission and the ORS or an Annual Report with the equivalent information	105
41	South Dakota	49-1A-4. Annual report of gross receipts--Filing date--Verification--Annual rate setting and tax assessment On April first of each year, each company shall file with the Public Utilities Commission, on forms prescribed by the commission, the amount of its gross receipts derived from the company's customers within the State of South Dakota during the preceding calendar year. Such report shall be sworn to and verified by an officer of the company. On May first of each year the commission shall, by order, establish the rate and assess the tax authorized in § 49-1A-3 which, together with any funds remaining from the current fiscal year and the two hundred fifty dollar minimum gross receipt tax, will fund the commission's budget for the next fiscal year and provide a contingency reserve in an amount not to exceed the prior year's budget	90
42	Tennessee	Tenn. Comp. R. & Regs. 1220-04-01-.10 - REPORTS-UNIFORM FINANCIAL REPORT FORMS All companies subject to the jurisdiction of this Authority, as set forth in T.C.A. § 65-4-101, which had operating revenues from operations within Tennessee for the preceding year in excess of \$1,500,000 shall submit monthly to this Authority, Monthly Report Form TRA-3.05 sixty (60) days after the end of the month covered by the report	None
43	Texas — PUC	16 Tex. Admin. Code § 25.73 - Financial and Operating Reports Each electric utility shall file with the commission the same annual report required by the Federal Energy Regulatory Commission (FERC). Such annual reports shall be filed with the commission on the same dates as required to be filed with the FERC. Major electric utilities that are not required to file such reports shall file with the commission an annual report on the form prescribed by the FERC	105
44	Utah	Ch.5 Public Utilities Regulation Fee If any public utility liable for the payment of the fee assessed under Section 54-5-1.5 fails to file a report showing its gross operating revenue from business derived from its operations within the state for the preceding calendar year on or before April 15th, the executive director of the Department of Commerce shall: (a) compute or make an estimate of the amount of the fee to be paid by the utility from available information, records, and data; and (b) assess the fee against the utility	105
45	Vermont	Gross Receipts Annual Report Information For Utilities: 30 V.S.A. § 22 The Guidelines for Utilities to Submit Gross Receipts Annual Reports is provided to help with the completion and submission of the Annual Report form, which is due by April 15th of each year, or the first business day following a weekend	105

46	Virginia	VA Admin Code 5-201-30 Unless modified per a commission-approved alternative regulatory plan, each utility not requesting a base rate increase shall make an annual informational filing consisting of Schedules 1 through 7, 9, 11, 12, 14 through 19, 21, 22, 24, 25, 27, 28, and 40 a and b as identified in 20VAC5-201-90. The test period shall be the current 12 months ending in the same month used in the utility's most recent rate application. This information shall be filed with the commission within 120 days after the end of the test period	120
47	Washington	WAC 480-100-264 Each electric utility must file an annual report summarizing all transactions, except transactions provided at tariff rates, that occurred between the utility and its affiliated interests, and the utility and its subsidiaries. The report is due one hundred fifty days from the end of each reporting period, whether a fiscal or calendar year. The report must include a corporate organization chart of the utility and its affiliated interests and subsidiaries	150
48	West Virginia	W. Va. Code R. § 150-3-2 - Authorization, Application, Definitions, and Records, Reports and Other Information to be Supplied to the Commission: 2.6 Financial and statistical report Each utility shall file annually a financial and statistical report upon. Each utility shall file annually a financial and statistical report upon forms to be furnished by the Commission or in lieu thereof, upon forms approved by the Commission. Said report shall be based upon the accounts set up in conformity with the Commission's order and rule as set out in Rule 2.7. 2.7. Uniform system of accounts - All electric utilities are required to maintain their books and records in accordance with the "Uniform System of Accounts"	90
49	Wisconsin	Wis. Stat. § 196.07 Each public utility shall close its accounts annually on December 31 and promptly prepare a balance sheet of that date. On or before the following May 1 every public utility shall file with the commission the balance sheet; counts of the numbers of meters serving residential, small commercial, and small industrial customers as of December 31	120
50	Wyoming	Commission Rules Chapter 3, Section 32 and Chapter 4, Section 15, state Wyoming PSC Annual Reports will be due on or before May 1, 2023 Annual Report filing letters will be emailed out to companies during the month of February 2023. Every public utility operating within the State of Wyoming, whether engaged in intrastate or interstate business or both, shall file with the Commission on or before May 1st of each year an annual report for the preceding calendar year in the form prescribed by and available from the Commission	120

Exhibit 5
Revised Testimony of Sarah Hanley (redline)

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

IN RE:

PUERTO RICO ELECTRIC POWER
AUTHORITY RATE REVIEW

CASE NO.: NEPR-AP-2023-0003

Direct Testimony of

~~Jessica Laird~~ [Sarah Hanley](#)

Interim Senior Vice President, Customer Experience

LUMA Energy ServCo, LLC

~~July 2~~ October 22, 2025

Summary of Prepared Direct Testimony of
JESSICA LAIRD SARAH HANLEY
ON BEHALF OF
LUMA ENERGY LLC AND LUMA ENERGY SERVCO, LLC

Ms. ~~Jessica Laird~~Sarah Hanley (“Ms. ~~Laird~~Hanley”) is the Interim Senior Vice President of Customer Experience at LUMA Energy ServCo, LLC. The purpose of Ms. ~~Hanley’s Laird’s~~ prepared direct testimony in this proceeding is to provide the proposed Optimal and Constrained Budgets for FY2026, FY2027, and FY2028, attributable to the Customer Experience Department (“Customer Experience” and/or “Department”), requesting Operations and Maintenance (“O&M”) and Non-Federal Capital (“NFC”) on behalf of LUMA Energy LLC and LUMA Energy ServCo, LLC (collectively, “LUMA”).

Ms. ~~Hanley’s Laird’s~~ testimony addresses the budget that the Department requires to allow LUMA to meet key operational and public policy objectives that benefit customers and LUMA’s employees, and deliver safe, reliable, and efficient electric power service. Her testimony describes the existing and projected Department costs for staffing, technical and professional services, materials and supplies, transportation, per diem, meals, and other expenses. Based on the projected workload, Ms. ~~Hanley Laird~~ recommends an Optimal Budget of \$191.3 million for Fiscal Year (“FY”) 2026, \$226.5 million for FY2027, and \$248.2 million for FY2028. Ms. ~~Hanley’s Laird’s~~ testimony for the Customer Experience Department also includes a Constrained Budget, as ordered by the Energy Bureau. Ms. ~~Hanley Laird~~ explains the activities and projects that would be deferred, reduced, or defunded under the Constrained Budget, and identifies the impacts of deferring or delaying those activities and projects.

Finally, Ms. ~~Hanley’s Laird’s~~ testimony supports the costs of the Customer Experience Department that are included in LUMA’s provisional rate application.

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I. WITNESS AND CASE INTRODUCTION

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

A. My name is ~~Jessica Laird~~Sarah Hanley. My business address is LUMA Energy, PO Box 363508, San Juan, Puerto Rico 00936-3508. I am the Interim Vice President of the Customer Experience department for LUMA Energy ServCo, LLC.

Q.2 On whose behalf are you testifying in this proceeding?

A. My testimony is on behalf of LUMA Energy LLC and LUMA Energy ServCo, LLC (hereafter referred to as “LUMA”) as part of the Commonwealth of Puerto Rico Energy Bureau’s proceeding NEPR-AP-2023-0003, the Puerto Rico Electric Power Authority (“PREPA”) Rate Review.

Q.3 What is your educational background?

A. I hold a Bachelor of Science with a major in Psychology from Hartwick College.

Q.4 Please summarize your professional experience prior to joining LUMA.

A. Prior to joining LUMA, I accumulated approximately 15 years of professional experience in the electric and gas utility industry, with a primary focus on Customer Experience. Throughout my career, I have held progressively responsible leadership roles, overseeing key customer-facing and operational functions, including contact center management, billing and back-office operations, walk-in centers, and digital self-service platforms. I have actively contributed to multiple regulatory proceedings, including rate case filings, where I supported customer impact analysis, stakeholder engagement, and compliance documentation. My experience also includes participation in global utility best practice groups, where I collaborated with industry peers to benchmark performance and implement customer-centric innovations.

In addition, I bring extensive expertise in process development, utility billing systems,

operational analytics, utility budgeting, and Key Performance Indicator (KPI) reporting.

My work has consistently focused on aligning customer experience strategies with regulatory requirements and operational excellence. This experience has informed my priorities and approach in my role as Interim Senior Vice President of LUMA's Customer Experience department and in developing this testimony.

Q.5 Have you previously testified or participated in technical conferences before the Energy Bureau?

A. Yes. I have provided testimony under oath in Hearings and Technical Conferences in several proceedings, including the confidential investigation *In re Puerto Rico Electric System Cash Flow and & Cash Position Concerns*, Case No. NEPR-IN-2024-0004 [and this rate review, case no. NEPR-AP-2023-0003-](#)

Q.6 Are you sponsoring any statements, schedules, or exhibits with your direct testimony?

A. Yes. I am sponsoring the cost information for the Customer Experience Department ("Customer Experience" and/or "Department") in LUMA Exhibits -(“Ex.”) No. 2.03 (Optimal Budget Workpapers) and 2.04 (Constrained Budget Workpapers). I am also sponsoring the following LUMA Exhibits 7.01 through 7.05, which are Program Briefs, and LUMA Exhibit 7.06, Schedule E-5.

Q.7 What materials are included in Exhibits No. 2.03 and 2.04?

A. Exhibits No. 2.03 and 2.04 contain the following supporting documents:

- Optimal Budget Workpapers, LUMA Ex. 2.03
- Constrained Budget Workpapers, LUMA Ex. 2.04

Q.8 What materials are included in Exhibits Numbers 7.01-7.05?

A. Exhibits No. 7.01-7.05 contains the following support documents:

- LUMA Exhibit 7.01: Program Brief: Loss Recovery Program (PBUT31)
- LUMA Exhibit 7.02: Program Brief: Billing Accuracy & Back Office (PBCS3)
- LUMA Exhibit 7.03: Program Brief: Modernize Customer Service Technology (PBCS1)
- LUMA Exhibit 7.04 Program Brief: Voice of the Customer (PBCS2)
- LUMA Exhibit 7.05: Program Brief: Electric Vehicle Implementation Support (PBRE7)
- LUMA Exhibit 7.06: Schedule E-5: Bill Count and Bill Frequency Analysis

Q.9 Which other documents did you consider for your testimony?

A. In preparation for this testimony, I reviewed the following documents:

- Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement executed by the Puerto Rico Electric Power Authority (“PREPA”), the Puerto Rico Public-Private Partnerships Authority (“P3A”), LUMA Energy and LUMA Energy ServCo, LLC, dated as of June 22, 2020 (“T&D OMA”).
- System Remediation Plan (“SRP”), filed on February 24, 2021, and re-filed on May 8, 2021, in the proceeding *In Re: Review of the Puerto Rico Electric Power Authority's System Remediation Plan*, Case No. NEPR-MI-2020-0019.¹
- LUMA’s requests to modify the SRP filed on April 14, 2022, December 22, 2023, and June 5, 2024, Case No. NEPR-MI-2020-0019.²

¹ Available at <https://energia.pr.gov/wp-content/uploads/sites/7/2021/02/LUMAS-Submittal-and-Request-for-Approval-of-System-Remediation-Plan-NEPR-MI-2020-0019-3.pdf> and <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>.

² Available at <https://energia.pr.gov/wp-content/uploads/sites/7/2022/04/Motion-Submitting-Changes-to-SRP.pdf>, <https://energia.pr.gov/wp-content/uploads/sites/7/2023/12/20231222-MI20200019-Motion->

- LUMA’s SRP Annual Reports, filed on December 9, 2022, October 30, 2023, October 28, 2024, Case No. NEPR-MI-2020-0019.³
- LUMA Energy ServCo, LLC (LUMA) Annual Budgets, Fiscal Years 2024 to 2026, dated May 15, 2023⁴, and LUMA Annual Budget, FY2025, dated May 24, 2024⁵, filed in Case No. NEPR-MI-2021-0004.

Q.10 Briefly describe the purpose of your Direct Testimony.

A. The purpose of my testimony in this proceeding is to sponsor the Operation and Maintenance (“O&M”) costs and Non-Federal Capital (“NFC”) Funding in the Optimal and Constrained Budgets for FY 2026, 2027, and 2028 attributable to Customer Experience to afford LUMA the ability to meet key operational and public policy objectives that benefit customers and allow LUMA to deliver safe, reliability and efficient electric power service. I am also supporting the Department’s incremental costs from the FY2026 Temporary Default Budget that are included in LUMA’s provisional rates application.

Q.11 Please provide an overview of how your testimony is organized.

[Submitting-Changes-to-SRP-2024.pdf](#), and <https://energia.pr.gov/wp-content/uploads/sites/7/2024/06/20240605-MI20200019-Motion-Submitting-Modifications-to-System-Remediation-Plan.pdf>.

³ Available at <https://energia.pr.gov/wp-content/uploads/sites/7/2022/12/Motion-Submitting-LUMAS-Annual-System-Remediation-Plan-Report-For-FY2022-NEPR-MI-2020-0019.pdf>, <https://energia.pr.gov/wp-content/uploads/sites/7/2023/10/Motion-to-Submit-Annual-Report-for-Fiscal-Year-2023-NEPR-MI-2020-0019.pdf>, and <https://energia.pr.gov/wp-content/uploads/sites/7/2024/10/20241028-MI20200019-Motion-Submitting-FY2024-Annual-Report.pdf>.

⁴ Available at <https://energia.pr.gov/wp-content/uploads/sites/7/2023/05/20230516-MI20210004-Submission-of-FY2024-System-Annual-Budgets.pdf>.

⁵ Available at <https://energia.pr.gov/wp-content/uploads/sites/7/2024/05/20240525-MI20210004-Motion-FY2025-TD-GenCo-and-System.pdf>.

A. In Section II, I provide background on Customer Experience, specifically its objectives, functions, organizational structure, and accomplishments. In Section III, I present the proposed O&M and NFC costs for Customer Experience in the Optimal Budget. In Section IV, I present the proposed O&M and NFC costs for Customer Experience in the Constrained Budget and describe the costs and activities eliminated or deferred under that budget. In Section V, I present the costs proposed to be covered by the Provisional Rate, and in Section VI, I discuss the Energy Efficiency and Demand Response program funding.

II. BACKGROUND

Q.12 Describe the functions of the Customer Experience Department.

A. Customer Experience is vital in supporting and enabling the organization's mission of delivering reliable and cost-effective electric service. The Department is at the forefront of customer interaction. It is responsible for effective customer relations, billing, and collections, enabling many modernizations to the grid and how customers receive and pay for electricity services. Customer Experience establishes and maintains appropriate communication channels with customers, standardizes and improves billing and collection practices, and progresses the modernization of the utility, all while upholding values of empathy, care, efficiency, and prudence. In executing its responsibilities, the Department is committed to continually and sustainably improving the customer experience, including how the organization interacts with its customers and, importantly, how it bills and collects for electricity service provided. The Customer Service team is the cash register for the utility and is committed to account maintenance and the furtherance of revenue collection initiatives. Further, Customer Experience is a key

enabler of many regulatory initiatives related to customer programs and distributed generation.

Q.13 How is Customer Experience organized?

A. Customer Experience is structured into four (4) primary sub-departments: (1) Customer Service, (2) Customer Programs, (3) Process Development and Governance, and (4) Customer Operations. These groups work collaboratively to fulfill LUMA's ongoing commitment to enhancing and improving customer experience by prioritizing customer satisfaction and implementing continuous improvement.

Q.14 Please describe the functions of the Customer Service sub-department.

A. Customer Service's responsibilities include staffing Regional Customer Service Center(s) Contact Centers and supporting Customer Self-Service Programs. Customer Service is also responsible for the Voice of the Customer Program, which LUMA established to monitor customer interactions regularly, measure customer sentiment and feedback, and identify opportunities to improve the overall customer experience. Customer Service supports Quality Assurance, Process Improvement, and Training subfunctions, which are important for consistency and continuous improvement across all teams within Customer Experience. The Quality Assurance team is responsible for monitoring and evaluating various aspects of the customer journey to identify any areas that require improvement. Through comprehensive evaluations and the implementation of effective strategies, the quality assurance team contributes to improving LUMA's overall customer experience and upholding customer satisfaction. The Process Improvement team analyzes and streamlines various customer touchpoints, such as billing and support, to ensure a positive customer experience. By continuously evaluating and refining these processes, LUMA aims to foster long-term customer satisfaction. The Training team is tasked with

developing training programs, conducting workshops and seminars, and evaluating the effectiveness of the training initiatives. The team works closely with various LUMA departments to identify training needs and tailor programs to address specific areas for improvement.

Q.15 Please describe the functions of the Customer Programs sub-department.

A. Customer Programs is responsible for Key Accounts and working collaboratively with the Energy Bureau to deliver customer programs that enhance the customer experience and facilitate the transition towards clean energy. The Key Accounts team manages the administration and maintenance of LUMA’s large commercial and industrial accounts, as well as government accounts, particularly the municipalities. These accounts have special needs due to the various ways in which they use energy and interact with LUMA, and as such, require the support of staff with an understanding of the unique circumstances these customers face to ensure that they have the support that they need to operate, while also focusing on keeping these accounts current.

The Customer Programs team is responsible for implementing and administering customer programs as ordered by the Energy Bureau, including Net Energy Metering, (“NEM”), Energy Efficiency (“EE”), Emergency and Battery Demand Response, Electric Vehicles (“EV”), and Microgrid programs. Only the staff supporting Key Accounts and program management costs for the EV Time of Use pilot project are funded from base rate revenue. The applicable rider funds staff and other program management costs supporting the remaining Customer Programs. For instance, the staff and administration costs for the Customer Battery Energy Sharing program are recovered entirely through the Purchased Power Cost Adjustment (“PPCA”) rider.

Q.16 Please describe the functions of the Process Development and Governance sub-

department.

A. The Process Development and Governance subdepartment is instrumental in improving and maintaining the efficiency and effectiveness of LUMA's processes. Through analysis and evaluation, the team can identify bottlenecks, streamline workflows, and implement best practices to enhance productivity and reduce costs. The Process Development subdepartment is responsible for organizational process development and change management. The Process Development team establishes standards, methodologies, and best practices for process development, ensuring compliance with industry standards and regulatory requirements. It will regularly review and refine processes to adapt to changing business needs and industry trends. In addition, Process Development teams will regularly monitor progress and adjust strategies as necessary to achieve desired outcomes. The team is also responsible for change management, ensuring that when changes are made to processes, the teams responsible for process execution are aware and trained to execute the new version of the process. Finally, this subdepartment will provide ongoing training and development opportunities for employees involved in process development to equip them with the skills and knowledge needed for continuous improvement.

Q.17 Why was Process Development established within Customer Experience?

A. Process Development was established within Customer Experience because, in any utility, the Customer Experience team has the widest breadth of knowledge across the organization due to the fact that every team and almost every process across the utility has a customer impact. The Customer Experience team has end-to-end organizational knowledge, which sets the foundation for the Process Development and Governance Team. Housing this function in the Customer Experience Department also ensures that

every organizational process is developed through a lens of customer impact.

Q.18 How do customers benefit from the work done by the Process Development subdepartment?

A. Customers benefit from the work done by the Process Development team through reduced customer touchpoints and more effective and customer-centric processes. Ultimately, the Department's value lies in its ability to drive continuous improvement, enhance operational efficiency, and ensure compliance, resulting in increased productivity and improved overall performance.

Q.19 Please describe the functions of the Customer Operations sub-department.

A. Customer Operations is responsible for billing services, payment processing, energy irregularities, problem management, and revenue protection. Energy irregularities refer to proactive measures to investigate potential theft and actively reduce non-technical line loss related to energy theft to ensure all customers pay their share of energy usage. Problem management refers to thorough investigations into complex customer and account issues, and revenue protection refers to improving collections and reducing delinquencies to decrease Days Sales Outstanding ("DSO") and minimize LUMA's revenue loss. The Revenue Protection team is also responsible for managing collections efforts, identifying delinquent payers, maintaining credit policies, and handling bankruptcy cases. Revenue Protection strives for fair treatment of customers facing financial hardship but also protection of LUMA's financial viability, which enables continuous and reliable service. Moreover, by reducing delinquencies, the burden of costs is not unfairly placed on other customers.

Q.20 Is the Department responsible for implementing any programs?

A. Yes. The Department implements the Billing Accuracy & Back-Office Program, the Loss

Recovery Program, the Modernize Customer Service Technology Program, the Voice of the Customer Program, and the Electric Vehicle Implementation Support Program.

Q.21 Briefly describe the Billing Accuracy & Back-Office Program.

A. The Billing Accuracy & Back-Office Program (PBCS3) is a critical initiative that enables LUMA to maintain and improve the accuracy and efficiency of customer invoicing. *See* LUMA Ex. 7.02. This program focuses on upgrading bill printing and delivery systems, as well as enhancing back-office operations. Key upgrades include the acquisition of new hardware and software to support billing processes and customer contract management, along with the elimination of redundant bill printing and enveloping equipment. Furthermore, the program addresses the back-office processing of service order paperwork and allocates resources to resolve backlogs of estimated and unbilled accounts. These improvements are essential for ensuring timely and accurate billing for our customers. For a more comprehensive overview of this program, please refer to the Program Brief in LUMA Ex. 7.02.

Q.22 Briefly describe the Loss Recovery Program.

A. The Loss Recovery Program (PBUT31) is designed to reduce LUMAs non-technical energy losses (NTLs). *See* LUMA Ex. 7.01. This Program employs advanced monitoring and software technologies, complemented by extensive field inspection teams, to ensure the integrity and efficiency of our system. Key initiatives of this Program include the deployment of protection software and modules supported by advanced metering infrastructure (“AMI”). These technologies are capable of identifying equipment anomalies and customer consumption patterns, allowing for prompt and effective intervention. Additionally, the Program leverages enhanced data analytics, field theft detection tools, and comprehensive inspections to address and mitigate energy losses.

These efforts are further supported by a dedicated team of new back-office business and data analysts, ensuring a robust and systematic approach to loss recovery. For more detailed information on this program, please refer to the Program Brief in LUMA Ex. 7.01.

Q.23 Briefly describe the Modernize Customer Service Technology Program.

A. Through the Modernize Customer Service Technology program (PBCS1), LUMA has focused on upgrading our telephony technology by developing and implementing a new cloud-based contact center platform. *See* LUMA Ex. 7.03. This contact center software enables us to efficiently manage a high volume of inbound and outbound customer communications across various channels. By modernizing the contact center and associated procedures, we reduce the risk of customers being unable to report emergencies. This ensures that we can provide timely and effective responses to our customers' needs, thereby improving overall customer satisfaction and safety. For more detailed information on this program, please refer to the Program Brief in LUMA Ex. 7.03.

Q.24 Briefly describe the Voice of the Customer Program.

A. The Voice of the Customer program (PBCS2) focuses on enhancing customer service by providing customers with an increased voice and improving the tracking of customer service interactions. *See* LUMA Ex. 7.04. Quality assurance mechanisms implemented under this program include customer surveys, customer center voice recordings, and screen recordings. Additionally, the program includes process and communications improvements, such as the quantitative analysis of key performance indicators (KPIs) and other metrics to improve overall customer service and employee training, ensuring that our team is well-equipped to meet and exceed customer expectations. For more detailed

information on this program, please refer to the Program Brief in LUMA Ex. 7.04.

Q.25 Briefly describe the Electric Vehicle Implementation Support Program.

A. The Electric Vehicle Implementation Support Program (PBRE7) involves developing and implementing new electric vehicle (EV) initiatives in compliance with regulatory requirements. *See* LUMA Ex. 7.05. This program supports a coordinated, proactive approach to the electric vehicle transition. The Puerto Rico Electric Vehicle Adoption Plan (PR-EVAP) identifies near-term and mid-term EV support actions and outlines a roadmap for future growth and increased EV adoption in Puerto Rico. Key activities in this program include providing educational materials and customer assistance, engaging customers and stakeholders in the EV ecosystem, planning for grid infrastructure and system improvement, providing EV rate options, preparing the workforce for the growing adoption of EVs, and supporting EV charging infrastructure deployment. Through these initiatives, LUMA is dedicated to facilitating the transition to electric vehicles by providing the necessary infrastructure, resources, and support to our customers. For more detailed information on this program, please refer to the Program Brief in LUMA Ex. 7.05.

Q.26 What are the specific activities LUMA is undertaking for revenue protection?⁶

A. LUMA is undertaking the following activities for revenue protection: (1) currently, all industrial, all commercial, and residential customers with accounts over \$2,500 are part of an automated severance process. This threshold will gradually be lowered over the next 18 to 24 months; (2) LUMA plans to go to market to source and contract with a collection agency in FY2026 to assist with the collection amounts owed on closed

⁶ Please refer to the March 24, 2025 Response for Information No. 42, 43, 49, and 50.

accounts; and (3) LUMA will also implement an automated write-off process to ensure that uncollectible amounts are not reported as part of accounts receivable.

Q.27 What is LUMA's estimate of the financial benefits arising from those activities?⁷

A. The financial benefit will come from an increased collection of past-due amounts on both active and inactive accounts. At this time, it is not possible to calculate this financial benefit, as it will depend on customer payment activity, their reaction to reports made to credit bureaus, as well as on the details of LUMA's contract with the collection agency. Once the collection efforts have been conducted long enough to establish a baseline, LUMA will be able to use this baseline to develop forecasts.

Q.28 What are the anticipated improvements to customer payment processing methods?

A. LUMA is in the final stages of a Request for Proposal ("RFP") aimed at enhancing digital processing methods. This initiative seeks to streamline vendor management and broaden payment options for customers, ultimately facilitating smoother transactions and boosting revenue recovery. With the planned upgrades to payment processing, alongside our digital services, LUMA will be able to accept payments at over 900 locations across the island. While we continuously seek ways to minimize payment processing costs; these expenses, like many other services, typically increase each year, largely influenced by the volume of customer payments. The implementation of the dunning/severance process is expected to encourage the frequency of payments made, as customers will be more inclined to keep their accounts current to avoid disconnection. However, a higher transaction volume may lead to increased payment processing costs. Similarly, when LUMA retains the services of a collection agency, there will be costs associated with the

⁷ Please refer to the March 24, 2025 Response for Information Nos 42, 43, and 50.

collection activities they perform; however, these expenses are anticipated to be balanced by an overall increase in collections.

Q.29 Are the functions performed by the Customer Experience Department required by the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement of June 22, 2020 (“T&D OMA”)?

A. Yes. Customer Experience is responsible for fulfilling several of LUMA’s contractual requirements under the T&D OMA. These include the requirement under Annex I (IV)(D) of the T&D OMA that LUMA, “shall be responsible for the performance of customer service functions related to the provision of electric service,” including “achieving a high level of customer satisfaction,” “maintaining customer contact,” “marketing and sales for retail system expansion, retail customer retention, and customer care and service programs,” and “performing other activities necessary, appropriate or advisable to implement customer service programs.”⁸ In addition, Customer Experience ensures LUMA’s compliance with Annex I, Section IV(E) of the T&D OMA, which provides LUMA “shall be responsible for establishing and maintaining customer contact,” by maintaining “call centers” and “maintaining a phone line for outage calls,” “maintaining and overseeing a customer online and mobile website,” “management of customer loyalty and satisfaction programs,” “account relationship management,” “developing and maintaining customer education programs,” and “development of a plan to enhance the existing outage management systems that connect to the customer service interface so customers can be kept apprised of system status and individual service orders

⁸ See T&D OMA, Annex I, Section IV(D), at I-6.

in real-time.”⁹

Q.30 Are the functions of the Customer Experience Department related to Puerto Rico’s energy public policy goals?

A. Yes. Customer Experience is responsible for fulfilling specific statutory requirements. Specifically, Customer Experience maintains LUMA’s customer website to pay bills, examine consumption history, verify use patterns, and obtain bill information as required by Section 1.10(j) of Act 17-2019.¹⁰ In addition, Customer Service is responsible for ensuring customers receive a transparent and easy-to-understand bill as required by Section 1.5(10)(a) of Act 17-2019.¹¹ Lastly, Customer Experience supports LUMA’s efforts regarding Energy Efficiency and Demand Response Programs in furtherance of the public policy set in Section 1.5(5) of Act 17-2019¹² and to modernize the T&D grid as per the goals set forth in Section 1.5(9)(g) of Act 17-2019.¹³

Q.31 Please describe the customer service platforms and infrastructure LUMA inherited when it commenced service in June 2021.

A. Upon commencing operations, the then-existing customer service web platform was beyond the end of its life and no longer supported by vendors. Moreover, the then-existing customer service platform could not support digital channels, such as smartphone applications, social media, and text messages. Further, the utility lacked a contact center

⁹ See T&D OMA, Annex I, Section IV(E), at I-6-I-7.

¹⁰ 22 LPRA § 1141i (2025).

¹¹ 22 LPRA § 1141d (2025).

¹² *Id.*

¹³ 22 LPRA § 1141e (2025).

platform with the capability to intake the call volume received, or enable quality assurance functionality, such as call and screen recording. The General User Interface (GUI) used by front-line employees was built in-house, was not documented, and failed consistently. Also, PREPA did not have in place a program to regularly monitor customer interactions and measure customer feedback. Lastly, PREPA's in-house bill printing systems and equipment were outdated and relied on antiquated bill rendering software.

Q.32 Please describe the billing system LUMA inherited when it commenced service in June 2021.

A. LUMA is currently using the same version of Oracle Customer Care and Billing ("CC&B") that PREPA used prior to LUMA taking over operations in 2021. This system, last upgraded in 2019, is highly customized with intricate code, meaning that instead of being designed to support industry standard best practices and the efficiencies that these can bring, the system was designed based on outdated and intricate business processes specific to PREPA. As a result, making enhancements to this system is expensive, time-consuming, and risky (because each code change impacts other code – a change can often have unexpected results that require investigation and resolution). LUMA's ability to improve the underlying business processes is restricted because PREPA's coding and configuration of the system were not properly documented, and the current system simply lacks the flexibility and agility that LUMA requires and that the Energy Bureau expects. LUMA faces constant challenges in leveraging and reporting information due to system limitations.

Q.33 Please summarize the initiatives of Customer Experience since LUMA commenced operations in June 2021.

A. Since commencing Transmission and Distribution System (“T&D System”) operations in June of 2021, Customer Experience has focused efforts on helping LUMA become a customer-centric, responsive, and efficient electric utility. We redesigned the customer bill to provide clear and transparent information for customers; and implemented a cloud-based contact center, enabling the full volume of customer calls to come through. Meanwhile, we removed the cap on call volume, as PREPA had previously capped volume to 500 simultaneous calls, and we have enabled all calls to be recorded so that we can review and improve as part of our quality assurance processes; enhanced customer experience by implementing call-back features when wait times are high; Short Message Service (“SMS”) for payment confirmation, bill objection confirmation, and outage Estimated Time of Restoration (“ETR”) updates when a customer has reported the outage; and established a quality assurance program for all areas of Customer Experience.

Customer Experience decreased the average speed of answer for calls placed to the contact center to two (2) minutes and an abandon rate of less than 10%, while taking nearly double the number of calls as the previous operator¹⁴ and reducing the average walk-in wait times in regional customer service centers to less than eight (8) minutes on average.¹⁵ We also enabled direct social media messaging with same-day response,

¹⁴ See Case No. NEPR-MI-2019-0007, *In Re: The Performance of the Puerto Rico Electric Power Authority*, Submission of Performance Metrics Report for January through March 2025, filed on April 15, 2025, Exhibit 1. Available at [Resumen-Metricas-Master April2025-.xlsx](#).

¹⁵ *Id.*

launched a self-service application, and redesigned the Interactive Voice Response (“IVR”) to improve customer response during emergencies, and inform customers of planned outages. We also implemented a fulsome dunning process, including enrolling over 27,000 customers¹⁶ in a payment plan and prioritizing past-due accounts receivable collection.

Q.34 Describe the goals of the Customer Experience Department.¹⁷

A. The Customer Experience Department’s goals include continuous and sustainable improvement of the customer’s experience, in the pursuit of both revenue collection and customer satisfaction, as well as enabling customer programs in line with public policy. In the spirit of continuous improvement and efficiency, the team looks for investments that reduce the customers effort to do business with us and create an understanding of the invoices they receive and the tools available to them online and through our IVR.

Q.35 How does Customer Experience assess its progress in achieving those goals?

A. Progress is evaluated through CSAT (Customer Satisfaction) surveys conducted by J.D. Power and Associates. The effectiveness of customer self-service initiatives is measured by monitoring the uptake of self-service channels. Additionally, enrollment levels in customer programs such as the NEM and Customer Battery Energy Sharing (CBES) reflect progress in these areas. Revenue collection is tracked by analyzing both the total payments received and the number of customers with overdue balances, with Days Sales Outstanding reported on a monthly basis.

¹⁶ *Id.*

¹⁷ Please refer to the March 24, 2025, Response for Information No. 39.

394 **Q.36 How does LUMA determine the priority of those goals to ensure a safe and reliable**
395 **electric service?**¹⁸

396 A. LUMA prioritizes its goals to ensure the delivery of safe and reliable electric service. As
397 described above, Customer Experience seeks to prioritize initiatives that generate
398 outcomes related to both customer satisfaction and revenue collection, which are often
399 related. For example, a customer who understands their bill and has their questions and
400 concerns addressed promptly and thoroughly is less likely to file a bill objection, a
401 process that adds cost (due to additional activities needing to be performed) and defers
402 revenue collection of the disputed amount for the utility until the objection has been
403 resolved. A customer who has been proactively informed about the purpose and timing of
404 an outage is less likely to call the contact center (reducing cost) and more likely to feel a
405 higher level of satisfaction with the utility due to being informed of issues that impact
406 them. It is critical to the continued safe and reliable provision of electric services that
407 LUMA prioritize efforts around customer satisfaction, billing, and revenue collection.

408 **Q.37 What are the financial and non-financial benefits that LUMA expects from those**
409 **goals?**¹⁹

410 A. The anticipated benefits include improved billing accuracy and revenue collection, as
411 well as facilitating an effective experience for customers when conducting business with
412 us, to reduce the number of times a customer may have to contact LUMA.

¹⁸ Please refer to the March 24, 2025 Response for Information No. 40.

¹⁹ Please refer to the March 24, 2025, Response for Information No. 48.

III. OPTIMAL BUDGET

Q.38 What is the proposed Optimal Budget for Customer Experience?

- A. The Customer Experience Department's Optimal Budget requests a total of \$191.3 million for FY2026 (\$189.9 million O&M, and \$1.4 million NFC). For FY2027, the request is a total of \$226.5 million (\$224.6 million O&M, and \$1.9 million NFC), and for FY2028, the request is a total of \$248.2 million (\$246.1 million O&M, and \$2.1 million NFC).

Table 1. Summary of Customer Experience O&M Budget FY 2026-28

O&M Budget Request – Optimal Budget (\$M)

Activity	FY2025	FY2026	FY2027	FY2028
Staffing	\$47.2	\$58.3	\$59.8	\$62.2
Materials and Supplies	\$0.3	\$0.4	\$0.4	\$0.4
Transportation, Per Diem, and Mileage	\$1.1	\$1.5	\$1.5	\$1.6
Technical and Professional Outsourced Services	\$58.835.2	\$128.9	\$162.0	\$181.1
Miscellaneous Expenses	\$5.9	\$0.8	\$0.8	\$0.8
CUSTOMER EXPERIENCE TOTAL	\$143.389.7	\$189.9	\$224.5	\$246.1
NOTE 1: Technical and Professional Services includes Professional & Technical Outsourced Services and IT Service Agreements				
NOTE 2: Miscellaneous Expenses includes Security, Rent, Communications Expenses, and other Miscellaneous costs				

Table 2. Summary of Customer Experience Improvement Programs FY 2026-28								
Improvement Program Budget Request – Optimal Budget								
Program / Activity	FY2025 (\$M)		FY2026 (\$M)		FY2027 (\$M)		FY2028 (\$M)	
	O&M	NFC	O&M	NFC	O&M	NFC	O&M	NFC
PBCS1 - Modernizing Customer Service Technology	\$0.0	-	\$0.5	\$0.3	\$0.5	\$0.3	\$0.5	\$0.3
PBCS2 - Voice of the Customer	\$0.4	-	\$0.6	-	\$0.6	-	\$0.7	-
PBCS3 - Billing Accuracy & Back Office	\$3.2	-	\$3.6	\$1.1	\$6.0	\$1.7	\$6.0	\$1.8
PBRE7 - Electric Vehicle Implementation Support	\$0.6	-	\$0.7	-	\$0.7	-	\$0.7	-
PBUT31 - Loss Recovery Program	\$3.2	-	\$1.7	-	\$4.0	-	\$4.1	-
CUSTOMER EXPERIENCE SUB-TOTAL²⁰	\$7.4	-	\$7.1	\$1.4	\$11.8	\$2.0	\$12.0	\$2.1
CUSTOMER EXPERIENCE TOTAL	\$7.4		\$8.5		\$13.8		\$14.1	

Q.39 Are the costs outlined in Tables 1 and 2 to be funded through base rates?

A. Not *entirely*. The Department's \$189.9 million O&M revenue requirement includes the costs of the Energy Efficiency program and the Demand Response programs, which are funded from sources distinct from the base rate. All costs of the Energy Efficiency program are funded by the Energy Efficiency rider, and all costs of the Demand Response programs are funded by the PPCA rider. Out of the \$189.9 million O&M revenue requirement, \$41.2-1 million is proposed to be funded by the EE rider, and \$34.1 million is proposed to be funded by the PPCA rider, bringing the total base rate proposal for FY2026 to \$114.6-7 million. Table 3, below, shows a breakdown of the funding sources for the Customer Experience Department's revenue requirement, reducing the total by the costs of the Energy Efficiency and Demand Response Program for FY2026-FY2028, as these are funded by the EE rider and PPCA. Table 3 shows the Department's requirement for base rate funding. I discuss both the EE and DR programs in greater

²⁰ The O&M costs in Table 2 are not incremental to the O&M costs presented in Table 1. Table 2 presents an improvement program view of these costs, while Table 1 displays them by Kind of Expense ("KOE").

detail in section VI of this testimony. It is important to emphasize that these programs are excluded from the base rate calculations described in the testimony of Sam Shannon, and that the determination of these costs resides in other proceedings (namely the *Energy Efficiency and Demand Response Transition Period Plan* proceeding, Case No. NEPR-MI-2022-0001), and as such these amounts are included as illustrative placeholder amounts only in this rate review filing. All other costs in Tables 1 and 2, aside from the EE and DR programs as outlined below in Table 3, are funded from the base rate.

Table 3. Breakdown of Funding Sources for O&M Revenue Requirement FY2026-FY2028 – Optimal Budget			
O&M Customer Programs – Optimal Budget (\$M)			
Kind of Expense	FY2026	FY2027	FY2028
Customer Experience O&M Revenue Requirement (Table 1)	\$189.9	\$224.6	\$246.1
Energy Efficiency Program (funded by EE rider)	(\$41.2- <u>1</u>)	(\$65.9)	(\$98.9)
Demand Response Programs (funded by PPCA)	(\$34.1)	(\$37.4)	(\$17.7)
Base Rate Funding Requirement (O&M)	\$114.<u>76</u>	\$121.<u>23</u>	\$129.5

Q.40 Please describe the process undertaken to develop the proposed Optimal Budget.

A. Customer Experience developed its Optimal Budget as part of LUMA’s business planning process, which is described in greater detail in the testimony of my colleague, LUMA witness Andrew Smith. The teams closest to the cost-causing activities were asked to develop the initial cut of the budget by considering, in particular, necessary staffing, inflation on business services, and a realistic increase in payment processing costs. After a series of review cycles within the Department, I, and other leaders from my team, participated in a number of cross-functional review meetings and workshops to integrate and confirm alignment with the other departments. The leaders of the LUMA departments participated in several review meetings to ensure alignment, remove any potential overlap, and confirm the executability of the Optimal Budget.

Q.41 What checks and balances were used to validate Customer Experience Department's Optimal Budget?

A. Internally, the Optimal Budget was validated against vendor contracts, comparison with forecast volumes for customers, bills, and call volumes.

A. O&M Costs.

Q.42 Please explain the factors that determined the O&M costs.

A. The factors that determined the O&M costs were critical staffing levels, unavoidable cost increases in key contracts supporting customer billing and payment processing, the need to spend significant time on data cleanup and process simplification work in preparation for the eventual billing system upgrade, and upcoming legislative and regulatory requirements, for example, the development of new riders in this proceeding.

Q.43 What are the main drivers of Customer Experience's O&M costs?

A. The main drivers of the O&M costs are necessary staffing, inflation on business services (such as bill printing and rendering services, technical services supporting our billing/CC&B system), enhancements to the existing configuration of the CC&B application, the need to properly prepare for a major billing system upgrade, and an increase in payment processing costs. These costs are unavoidable and necessary for LUMA to perform critical utility functions, collect payments, remain compliant with laws and/or regulations, and meet requirements such as updates to rates and sending out the Energy Bureau's approved Model Bill.

Q.44 What costs are included in Staffing?

A. Staffing costs include the fully burdened amount for all employees in Customer Experience, including fringe benefits. Customer Experience has approximately 883 employees across its sub-departments, employing a mix of salaried and hourly

employees, and staffing costs include both their labor and any budgeted overtime (hourly employees only, calculated based on historical trends). Table 4 below shows the number of current employees, and proposed Full Time Equivalents (“FTE”) in each subdepartment. No new hires funded by rate base are planned for the Customer Experience Department in FY2027 or FY2028. ~~The 19 additional positions indicated for FY2027 in the table below all pertain to the Customer Programs subdepartment. All 19 hires are for the Energy Efficiency and Demand Response programs, whose costs are covered entirely from sources other than the base rate (EE rider, PPCA). They are illustrative in this filing as they are determined in separate proceedings.~~

Table 4. Proposed New Hires - Optimal Budget				
Department Function	FY2025 Headcount	FY2026 Proposed Headcount	FY2027 Proposed Headcount	FY2028 Proposed Headcount
Leadership	5	5	5	5
Customer Service	577	581	581	581
Customer Programs	74	79	98 79	98 79
Process Development & Governance	2	7	7	7
Customer Operations	225	237	237	237
Total	883	909	90928	90928

Q.45 What positions is Customer Experience proposing to hire in FY 2026 and why does it require additional FTEs?

- A. Customer Experience is proposing to hire 26 additional FTEs in FY 2026. Twelve (12) FTEs are proposed to support Customer Experience Operations, which includes LUMA’s back-office billing team. Specifically, we have identified the need to address billing requests that, due to frequency and/or volume, as well as the costs and complexities associated with modifying the billing system, do not warrant the investment to automate in the short term. For example, annual Third-Party Attachment (“TPA”) billings, the

492 Energy Bureau's fees collection, and other non-tariff billing. Additionally, this staff will
493 support the expected increase in Act 57 complaints as the AMI meter replacement
494 program matures. Without this additional staff, customers will experience increased
495 resolution to billing issues, resulting in delayed revenue generation.

496 Five (5) FTEs are proposed for the Customer Programs function, which includes
497 the Key Accounts, Business Transformation, and Utility Transformation functions. These
498 additional employees are needed to continue fostering positive relationships with
499 LUMA's largest customers and ensure appropriate support of critical distributed
500 generation and demand programs. The Key Accounts team helps customers understand
501 their energy use and modify that use to fit their economic or environmental business
502 drivers, along with matching the system operators needs to balance the grid. They also
503 assist in planning for expansion and energy use going forward. There are over 13,000
504 Key Accounts today, and Commercial/Industrial customers make up 70% of total
505 revenues. LUMA is looking to reduce reliance on third-party vendors as our energy
506 targets continue to grow, both directly from the Energy Bureau and indirectly in support
507 of the market. As I described earlier in my testimony, only the Key Accounts team and
508 some program management costs related to the EV Time of Use program are funded
509 through the base rate riders rather than riders.

510 In FY2024, the Customer Experience Department established a new Process
511 Development subdepartment to develop, document, and govern many of LUMA's cross-
512 departmental, end-to-end organizational processes and workflows. While the team is still
513 in its infancy, the only employees are a Manager and an Analyst. Customer Experience's
514 only consulting services (i.e., the only professional services that are not actually technical

services, such as payment processing fees and CC&B technical support) support this manager.

We plan to increase the Process Development team by five (5) FTEs in FY 2026 to include a manager and additional team members in place of the consulting labor.

Lastly, four (4) FTEs are proposed for Customer Service. These employees are needed to keep up with adequate evaluations and keep up with documentation. As customer technologies and system automation develop, it will be critical to ensure appropriate oversight of our front-line employees, ensuring they are accurately educating customers on relevant changes and self-service capabilities. Additionally, each system change/automation results in the need to update the extensive library of policies and procedures LUMA has developed.

Q.46 What is the consequence of not adding the proposed FTEs in the Customer Experience Department?

A. Less staffing resources generally mean less service for key accounts and customers, which can lead to an increased number of complaints and can impact revenue collection. Also, fewer staff members would be available for non-standard billing, such as sundry billing (for example, Third Party Attachments, among others), which could impact the collection of non-energy-related revenue. In addition, it could create a backlog of billing corrections and longer wait times, both in person and on the phone.

Q.47 What types of costs are included in Materials and Supplies?

A. Costs categorized under Material and Supplies include our office supply expenses, which are used by various teams and acquired on an as-needed basis through a LUMA-wide contract. We projected future usage based on historical data, anticipating an increase in costs to account for a growing workforce. Additionally, the purchase of additional storage

and security supplies for the energy irregularity work performed by the Customer Operations team to ensure proper chain of custody for meters that have been tampered with accounts for approximately 8% of the Materials and Supplies costs reflected here. Ensuring an appropriate chain of custody for this equipment is critical if criminal charges are pursued.

Q.48 What costs are included in Transportation, Per Diem, and Mileage?

A. The nature of the work that the Training, Quality Assurance, Key Accounts, and Energy Irregularities teams do requires them to consistently travel around the island to fulfill their job duties, and this generates mileage and per diem costs. The Training and Quality Assurance teams often travel to offices around the island to conduct training offerings, and to do “side-by-side” monitoring with Customer Experience staff across the island in their job settings as part of quality assurance protocols. Key Accounts representatives are required to travel to customer and government sites for meetings as part of their job. Energy Irregularities staff travel in support of the cases that are pursued in court, as they may be required to appear. All mileage and per diem reimbursements are calculated and issued in accordance with LUMA’s Business Expenses Reimbursement Policy 6001. In addition, air travel costs for training/conferences that the team plans to attend to increase their knowledge of industry developments and best practices are also recorded here, these costs were estimated based on historical actual costs.

Q.49 What types of costs are included in O&M costs for Technical and Professional Outsourced Services?

A. The costs associated with Technical and Professional Outsourced Services predominantly consist of our current contracts with third-party vendors for billing and payment processing, as well as enhancements and maintenance of the CC&B system, and bill

printing. The costs were developed based on existing contracts, factoring in inflation, increased volumes, dunning/customer disconnections, and the work plan for CC&B enhancements. For a of these costs by funding source, refer to Table 5, below.

Table 5: Technical and Professional Outsourced Services Breakdown				
Technical and Professional Outsourced Services Breakdown (Optimal Budget)				
Funding Source	Description	FY2026 Total (\$M)	FY2027 Total (\$M)	FY2028 Total (\$M)
Base Rate	Technical and Professional Outsourced Services	\$54. 89 <u>56</u>	\$59. 71 <u>92</u>	\$65. 82 <u>69</u>
EE Rider	Technical and Professional Outsourced Services - Energy Efficiency Program	\$40.48	\$65. 12 <u>25</u>	\$97. 88 <u>77</u>
PPCA Rider	Technical and Professional Outsourced Services - Demand Response Programs	\$33. 53 <u>86</u>	\$3 6.96 <u>7.03</u>	\$17 5.5 <u>13</u>
Total Technical & Professional Outsourced Services		\$128.90	\$162.00	\$181.10

Q.50 Please describe the drivers of the increase in Technical and Professional Services from FY2025 to FY2026.

A. The main drivers of the increase are the EE and DR programs, which, as previously noted, do not affect the base rate and are excluded from its calculation, as their costs are recovered through the EE and PPCA riders.

Q.51 Please describe the drivers of the increase in Technical and Professional Services from FY2026 to FY2027, and again from FY2027 to FY2028.

A. The main drivers of the increase are the EE and DR programs, which, as I have previously noted, do not affect the base rate and are excluded from its calculation, as their costs are recovered through the EE and PPCA riders.

Q.52 Please describe the enhancements and maintenance to the CC&B system.

A. Enhancements to the CC&B system are necessary to accommodate new or changing requirements. For example, adjustments will be necessary to implement improvements to the rate structure stemming from the updated permanent rate design. This includes

introducing a new rider to address the pending Plan of Adjustment charges related to PREPA's Legacy Debt, as well as a new "true-up" rider to reconcile the provisional rate (the costs for the provisional rate itself were incurred in FY2025). Each system enhancement is treated as a distinct project, necessitating collaboration between external professional service providers and internal LUMA resources for design, development, testing, implementation, and ongoing maintenance.

Maintenance refers to ongoing updates to the CC&B system, including patches, bug fixes, and data cleanup and process optimization work required in preparation for the upgrade to the CC&B application.

Q.53 Why does Customer Experience need to upgrade its CC&B application, and for when are these updates targeted?

A. The current CC&B application will no longer be supported after 2026, leading to increased technical and professional service costs post-2027. Furthermore, maintaining the existing internal server is expensive. Upgrading to a cloud-based application will enhance security and reduce data storage expenses. Modernizing the CC&B system is imperative for supporting dynamic pricing models, such as time-of-use rates, and new customer initiatives, including retail wheeling. Without this upgrade, LUMA's customers will be unable to fully benefit from the AMI program and associated investments, for example, time-of-use rates are not possible in the existing system. The upgrade project is slated for some time after FY2028, contingent upon the implementation and stabilization of the AMI program. Significant efforts are required from FY2025 to FY2028 for process optimization and data cleanup.

Q.54 Please explain what you mean by “process optimization,” and why it is important to do this process optimization work in advance of the upgrade to the billing system.

A. The current system, inherited from PREPA, is highly customized, which restricts flexibility and drives up support, maintenance, and upgrade costs. LUMA must adopt industry best practices and minimize customization to the extent possible to enhance agility and ensure compliance with relevant laws and regulations. This preparatory work will reduce upgrade costs and facilitate a smoother transition to the upgraded system.

Q.55 Please explain what you mean by “data cleanup” and why it is important to do this data cleanup work in advance of the upgrade to the billing system.

A. Data cleanup prior to migration is essential to avoid transferring bad or outdated data, which can negatively impact system performance. This step will also help reduce data migration and storage costs, improve reporting accuracy, and decrease future processing expenses.

Q.56 What types of costs are included in Miscellaneous Expenses?

A. Costs associated with individual customer communications comprise the majority of “Other Expenses.” Until CC&B is programmed to automatically send letters for all customer scenarios (third-party attachments, etc.), shifting these costs to our existing third-party vendor for bill print, there will be a continued need for letters and postage. Other Expenses also include monies earmarked for campaigns directed at encouraging self-service and enrollment in E-Bill and Autopay, which will help reduce operating costs over time, and training/professional development costs. Upskilling our workforce is critical to long-term success and continued improvement within the Customer Experience organization. Lastly, Other Expenses also includes rent for seconded resources in the Department.

B. Proposed NFC Costs and Activities

Q.57 What is the Customer Experience’s NFC funding request?

A. The Customer Experience Department’s NFC funding request is \$1.4 million in FY2026, \$2.0 million in FY2027, and \$2.1 million in FY2028.

Q.58 What costs and activities are part of Customer Experience’s NFC Optimal Budget?

A. The NFC costs under the Optimal Budget relate to *PBCS1 – Modernize Customer Service Technology* and *PBCS3 – Billing Accuracy & Back Office*.

Q.59 Describe Customer Experience’s proposed NFC costs in the Optimal Budget related to PBCS1 – Modernize Customer Service Technology.

A. Related to *PBCS1 – Modernize Customer Service Technology*, Customer Experience requests NFC funds to prioritize increasing self-service features across customer-facing platforms, such as the Interactive Voice Response (“IVR”) technology, the MiLUMA website, and the mobile application. The IVR will be enhanced to integrate new functionalities to improve customer routing and to provide customers with information on known issues like planned upgrades or load-shed events, reducing the need for advisor intervention. Additional reporting capabilities will be introduced to support first-call resolution tracking.

We will also be working on improvements to the initial transaction-based SMS service that will automate some of the items advisors provide, such as confirmation numbers for reports involving streetlight or vegetation issues, updates on reported outages, and payment confirmations.

Q.60 Describe Customer Experience’s proposed NFC costs in the Optimal Budget, related to PBCS3 – Billing Accuracy & Back Office.

A. Customer Experience is requesting NFC funds totaling \$4.6 million over the three-year

period FY2026 to FY2028 to further the implementation of the Billing Accuracy and Back Office (“PBCS3”) program, which the department is responsible for implementing in the SRP. The focus for the rate period includes several key initiatives: completing the user roles and functions configuration developed in FY2025 within the Customer Care and Billing System (CC&B); finalizing the remediation of the Oracle CC&B estimation algorithm issue identified through assessments of the meter lifecycle in FY2025; and developing the remaining reporting for work routing, management, and exception handling. Additionally, there will be an assessment of meter lifecycle issues between Oracle CC&B and the two-way automatic communication system/automatic meter reading to identify root cause challenges regarding long-term estimating meters, along with data clean-up and standardization of historical meter loading to systems. The plan also includes the automatic closure of service orders in CC&B and the continued enhancement of existing utility intelligence platform reporting dashboards.

Q.61 What are the risks if Customer Experience’s budget is not approved?

A. Continuing to operate within the current budget framework will prevent LUMA from being able to implement changes to its billing system and web portals, and to prepare for a system upgrade, which is unavoidable due to its need to prevent a deterioration in the customer service experience levels achieved to date. Costs related to bill rendering, printing, and delivery, as well as costs related to payment processing, are unavoidable and will continue to increase with inflation. As the unavoidable costs related to payment processing and bill printing, and delivery continue to escalate, activities in other areas will need to be decreased or deferred to accommodate. Further, budget limitations will also limit LUMA’s ability to improve its processes across the organization and increase operation costs, creating operating efficiencies to reduce future costs. The consequences

of these risks are far-reaching, including but not limited to stagnation in achieving operational efficiencies, and will result in ineffective change management and potential reduction of Quality Assurance and controls as capital projects come into operation and the utility continues to transform. LUMA will also be unable to handle increased volumes of net metering applications, microgrids, and other energy transition programs. Further, these limitations will prevent LUMA from timely complying with the Energy Bureau's orders requiring changes to, or reporting from, the billing system, and from being able to offer complex rate designs that meet customers' needs or to advance customer self-serve that results in cost savings and customer convenience.

Q.62 Is Customer Experience's O&M Optimal Budget consistent with just and reasonable performance and that of a prudently performing operator? Please explain.

A. Yes. My team has built the Optimal Budget for the Customer Experience Department from the bottom to the top, considering the factors and circumstances facing the utility today, as well as our experience as subject matter experts in this area for the past four years. It is just, reasonable, and representative of what a prudently performing operator would do in the same circumstances.

Q.63 Are the costs inferred in the FY2026-FY2028 budget avoidable?

A. The February 12th Order defines avoidable costs as costs that are "to-be-incurred."²¹ The Optimal Budget contains necessary staffing costs, payment processing, bill rendering, printing, and delivery costs that result from existing staffing levels and existing contracts

²¹ Order Establishing Scope and Procedures for Rate Case, Case No. NEPR-AP-2023-0003, at 10 (Feb. 12, 2025).

and thus cannot be avoided. Certain expenses, especially within the Technical and Professional Outsourced Services category, are unavoidable and cannot be reduced. For example, the technical services that the bill print and delivery vendor provides cannot be reduced if LUMA intends to keep producing customer bills. Similarly, the costs associated with processing payments (i.e., bank fees) cannot be reduced as payment collection costs are unavoidable. Costs that have not been incurred and are thus “avoidable” by this definition include additional headcount.

IV. CONSTRAINED BUDGET

Q.64 Please describe the Customer Experience’s Constrained Budget.

A. The Department’s Constrained Budget requests \$182.4 million in proposed O&M and NFC costs for FY2026. For FY2027, the request is a total of \$219.5 million (\$217.5 million O&M, and \$2.0 million NFC), and for FY2028, the request is a total of \$238.5 million (\$236.5 million O&M, and \$2.1 million NFC), as shown in Tables 6 and 7. Note that the O&M costs displayed in Table 7 are *embedded* in Table 6 and are not incremental to the Department’s O&M budget request, which is summarized in its entirety in Table 6.

Table 6. Summary of Customer Experience FY 2026-28 O&M				
Budget Request – Constrained Budget (\$M)				
Activity	FY2025	FY2026	FY2027	FY2028
Staffing	\$47.2	\$55.2	\$57.1	\$60.0
Materials and Supplies	\$0.3	\$0.3	\$0.3	\$0.3
Transportation, Per Diem, and Mileage	\$1.1	\$0.9	\$0.9	\$1.0
Technical & Professional Outsourced Services	\$58.8 <u>\$35.2</u>	\$124.3	\$158.7	\$174.7
Miscellaneous Expenses	\$5.9	\$0.4	\$0.5	\$0.5
CUSTOMER EXPERIENCE TOTAL	\$143.3 <u>\$89.7</u>	\$181.1	\$217.5	\$236.5
NOTE 1: Technical and Professional Services includes Professional & Technical Outsourced Services and IT Service Agreements				
NOTE 2: Miscellaneous Expenses includes Security, Rent, Communications Expenses, and other Miscellaneous costs				

Table 7. Summary of Customer Experience FY 2026-28 Improvement Program Budget Request – Constrained Budget (\$M)								
	FY2025		FY2026		FY2027		FY2028	
Program / Activity	O&M	NFC	O&M	NFC	O&M	NFC	O&M	NFC
PBCS1 - Modernizing Customer Service Technology	\$0.0	-	\$0.5	\$0.3	\$0.5	\$0.3	\$0.5	\$0.3
PBCS2 - Voice of the Customer	\$0.4	-	\$0.5	-	\$0.5	-	\$0.5	-
PBCS3 - Billing Accuracy & Back Office	\$3.2	-	\$3.6	\$1.1	\$6.0	\$1.7	\$6.0	\$1.8
PBRE7 - Electric Vehicle Implementation Support	\$0.6	-	\$0.1	-	\$0.1	-	\$0.1	-
PBUT31 - Loss Recovery Program	\$3.2	-	\$1.7	-	\$4.0	-	\$4.1	-
CUSTOMER EXPERIENCE SUBTOTAL²²	\$7.4	-	\$6.4	\$1.3	\$11.1	\$2.0	\$11.2	\$2.1
CUSTOMER EXPERIENCE TOTAL	\$7.4		\$7.9		\$13.1		\$13.3	

Q.65 How did Customer Experience develop the Constrained Budget?

A. Customer Experience developed the Constrained Budget by reducing the total budget by \$8.8 million, achieved through targeted reductions in labor costs, including overtime, and reductions in professional services, specifically consulting services.

Q.66 Have costs for the EE and DR programs been reduced under the Constrained Budget?

A. No. Forecasts for the EE and DR programs remain the same under both the Optimal Budget and the Constrained Budget. Activities eliminated or deferred under the Constrained Budget are concentrated on those funded by the base rate. For clarity, Table 8 shows the department's requirement for base rate funding under the Constrained Budget.

²² The O&M costs in Table 7 are not incremental to the O&M costs presented in Table 6. Table 7 presents an improvement program view of these costs, while Table 6 displays them by KOE.

It is important to reiterate that the Energy Efficiency and Demand Response programs are excluded from the base rate calculations described in the testimony of Sam Shannon. All other costs in Tables 6 and 7, aside from the EE and DR programs as outlined below in Table 8, are funded from the base rate.

Table 8. Breakdown of Funding Sources for O&M Revenue Requirement FY2026-FY2028 – Constrained Budget			
O&M Customer Programs—Optimal Budget (\$M)			
Kind of Expense	FY2026	FY2027	FY2028
Customer Experience O&M Revenue Requirement (Table 46)	\$181.1	\$217.5	\$236.4
Energy Efficiency Program (funded by EE rider)	(\$41.21)	(\$65.9)	(\$98.9)
Demand Response Programs (funded by PPCA)	(\$34.1)	(\$37.4)	(\$17.7)
Base Rate Funding Requirement (O&M)	\$105.98	\$114.2	\$119.8

Q.67 What costs and activities are eliminated or deferred under the Constrained Budget?

A. Costs that were removed from the Optimal Budget to arrive at the Constrained Budget include: professional services related to the optimal ramp-up of the Process Development team, all externally offered training costs and associated travel costs, all overtime for the contact center, all but the most critical new hires for the team, and the elimination of the EV Time of Use pilot program.

Q.68 What is the consequence of eliminating or deferring these activities?

A. The eliminations and deferrals in the Constrained Budget can have impacts on both revenue collection and customer satisfaction, which, as I described earlier in my testimony, are often related. Having fewer resources available to support customer needs can contribute to lower customer satisfaction scores, and a general backlog of work activities, such as billing for non-energy items, such as Third Party Attachments, which is currently done manually. Deferring the staffing of the Process Development team will result in slower than planned realization of the benefits generated by the end-to-end

process improvement work this team does. Eliminating the EV Time of Use Pilot program will impact the data that we are able to collect about customer usage patterns for the small subset of customers enrolled in this program.

Q.69 Does Customer Experience directly support performance metrics? If so, which ones?

A. Yes. Average Speed of Answer, Abandonment Rate, J.D. Power Customer Satisfaction Survey (Residential Customers), J.D. Power Customer Satisfaction Survey (Commercial Customers), Customer Complaint Rate, Days Sales Outstanding: General Customers, Days Sales Outstanding: Government Customers, and Net Energy Metering (“NEM”) Project Activation Duration.

Q.70 Will Customer Experience’s ability to meet the performance metrics be affected by the Constrained Budget?

A. Yes. Adopting the Constrained Budget will likely impair the Customer Experience Department’s performance related to the Average Speed of Answer, Abandonment Rate, Customer Complaint Rate, and Days Sales Outstanding metrics.

Q.71 Which of the activities that are being reduced in the Constrained Budget impact Customer Experience’s ability to meet these performance metrics?

A. The primary activity affected by the Constrained Budget is the removal of overtime pay for call center staff. Without the ability to offer overtime, we will struggle to adequately staff our call centers during peak periods, which will necessitate a reduction in hiring. The staffing shortfall may result in longer wait times for customers and a higher rate of call abandonment, which could impact our performance in relation to those metrics.

Q.72 Will Customer Experience’s ability to meet the performance metrics be affected by the activities of other LUMA Departments being limited by the Constrained Budget?

A. Yes. The Customer Experience Department’s ability to meet the Average Speed of Answer, Abandonment Rate, Customer Complaint Rate, J.D. Power Customer Satisfaction Survey (Residential Customers), J.D. Power Customer Satisfaction Survey (Commercial Customers), and Net Energy Metering (“NEM”) Project Activation Duration metrics could be impacted by budget constraints in other LUMA Departments. Any reduction in an activity that impacts customers (for example, limitations in vegetation management funding in the Operations Constrained Budget, as described by Mr. Kevin Burgemeister, LUMA Ex. 6.0) can drive up call volumes and impact the Average Speed of Answer and Abandonment Rate. Similarly, any reduction in an activity that impacts the improvement of reliability (for example, limitations preventing the transition to preventative maintenance in the Operations Constrained Budget) can also be expected to impact the Customer Complaint Rate and the J.D. Power Customer Satisfaction Surveys. Equally, limitations in funding available to the Capital Programs and Grid Strategy team’s ability to interconnect new distributed generation are likely to impact the ability to meet the NEM Project Activation Duration metric. *See* LUMA Ex. 5.0.

Q.73 If LUMA’s ability to meet performance metrics will be affected, at this time, do you have a recommendation on how the performance metrics may be adjusted?

A. Not at this time. To file such a proposal, we need to consider the budget that the Energy Bureau will approve to weigh how the approved budgets for the various LUMA

Departments may affect overall performance and the customer experience, as well as LUMA's ability to earn the incentive fee agreed upon in the T&D OMA.

V. PROVISIONAL RATE PROPOSAL

Q.74 Is the Customer Experience Department requesting funding to be collected through the provisional rate?

A. Yes. The Customer Experience Department is requesting \$4.5 million to be collected through the provisional rate.

Q.75 Are the costs included in the provisional rates request incremental to the FY2026 Optimal or Constrained budgets presented by LUMA?

A. No. The costs included in the provisional rates request are not incremental to the Optimal or Constrained Budgets. These costs are already part of LUMA's overall revenue requirement. The provisional rates simply reflect the timing of cost recovery, with a portion of these costs allocated to FY2026 while the permanent rate request is under adjudication. This approach ensures continuity of operations and funding during the regulatory review period, without increasing the total budget request.

Q.76 What specific activities will be funded by the provisional rate?

A. The Customer Experience Department identified \$4.5 million in funding requirements related to an increase in payment processing costs. The costs cannot be accommodated within the FY2026 Temporary Default Budget due to a number of factors, primarily due to absorption of other unavoidable and incremental cost increases, such as the full year labor costs of employees whose positions were budgeted for only a partial year in FY2025, and an increased level of system enhancements needed in FY2026 to support the development of new rates and riders for the rate case.

Q.77 Please explain why LUMA views this activity as a high priority and noncontroversial.

A. Payment processing fees are high priority and noncontroversial as they are critical to the collection of revenues necessary to the electric power system. To be able to collect electronic payments from customers requires the assistance of a bank or financial institution, which charges a fee for its service.

Q.78 How did the Customer Experience Department develop the costs to be included in the provisional rate application?

A. The costs for payment processing fees were developed using pricing in existing contracts. The Department also considered the criteria outlined in the Energy Bureau's directives of the April 21st Order of high priority and noncontroversial costs.

Q.79 What would be the impact if these costs are not funded through a provisional rate?

A. Collecting revenue is a fundamental function, and payment processing fees are unavoidable and cannot be paused or deferred. These costs are ongoing, and if funding is not available through the provisional rate, this could either have an impact on LUMA's cash flow or result in delayed payments to vendors. 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 the services that these vendors provide (which would impact collections from the affected payment processing channel).

VI. ENERGY EFFICIENCY AND DEMAND RESPONSE PROGRAMS

Q.80 Please describe the basis for LUMA's Energy Efficiency ("EE") and Demand Response ("DR") programs.

A. As the Puerto Rico T&D System operator, LUMA is responsible for facilitating the

implementation of Puerto Rico’s public energy policy, including key customer initiatives such as Energy Efficiency and Demand Response Programs, which are required by law and Energy Bureau Regulations. LUMA has been implementing a Transition Period Plan, approved by the Energy Bureau by Resolution and Order of February 16, 2023, in Case No. NEPR-MI-2022-0001, *In Re: Energy Efficiency and Demand Response Transition Period Plan*, containing various quick-start or pilot Energy Efficiency and Demand Response programs (“TPP”), as revised on December 20, 2023. The purpose of the TPP is to set the stage for the design and implementation of larger-scale, more permanent programs that will form part of a Three-Year EE and DR Plan to be prepared and submitted by LUMA for approval by the Energy Bureau.

On January 31, 2025, LUMA filed the Revised Transition Period Plan for Energy Efficiency and Demand Response (“Revised TPP”), which describes the energy efficiency and demand response programs and extends the effectiveness of the TPP until June 2026.²³ An extension of the TPP was approved by the Energy Bureau on April 3, 2025.

Q.81 Can you describe how spending by LUMA on EE programs is currently recovered?

A. Energy efficiency programs are funded through a separate rider, which is updated annually to reflect the costs of the program for the upcoming fiscal year. LUMA applies a \$/kWh charge to all customers through EE Rider. The funding generated by the EE Rider ensures that LUMA has a dedicated funding mechanism to provide EE programs.

Q.82 Can you describe how EE program costs are incorporated into this rate review application?

A. The requested FY2026 EE Program budget of \$41.1 million is included in the revenue

²³ See <https://energia.pr.gov/wp-content/uploads/sites/7/2025/02/20250131-MI20220001-Motion-to-Subm-Rev-TPP-and-Req-Modif-of-Deadline-for-3-yr-Plan-Final-w-Exh-1.pdf>.

requirement in this application. For FY2027 and FY2028, LUMA understands those costs will be determined in the *Energy Efficiency and Demand Response Transition Period Plan* proceeding, Case No. NEPR-MI-2022-0001, and as such, illustrative amounts are included as a placeholder in this rate review. The forecasted EE Rider costs for FY2026 are included in the calculation of the total utility revenue requirement as part of this rate review application.

Q.83 Is LUMA making any specific requests regarding EE programs, spending, or revenues with the rate review application?

A. LUMA is not proposing any changes to its EE programs or how they are funded (i.e., the EE Rider). LUMA submits the status quo and provides the necessary funding for LUMA to carry out its portfolio of EE programs. LUMA looks forward to prioritizing, developing, and expanding EE programs that allow customers to save on energy costs.

Q.84 What are LUMA's DR Programs?

A. DR programs are designed to improve reliability when the system may be stressed (for example, during an outage or load shed event). Those programs include the Customer Battery Energy Sharing Program ("CBES"), and the Backup Generators DR Program ("BUGS"), and have proposed several pilots through the DR Pilots Initiative. All of which can enable continuing energy usage and, for some participants, result in financial compensation.

Q.85 Can you provide an overview of those programs?

A. Yes. The CBES Program is a DR program that leverages distributed batteries as an energy resource during emergencies. LUMA compensates aggregators for discharging their enrolled customers' behind-the-meter ("BTM") batteries in response to dispatch instructions from LUMA. The program targets residential and commercial customers

with installed batteries, and participation in program events is voluntary. The BUGS (Backup Generators) Program is a program that compensates commercial and industrial customers for reducing grid usage and utilizing their on-site backup generators when the grid is experiencing reliability or emergency conditions. These customers are compensated through a capacity payment based on their nominated capacity reduction and for energy reduction during called events.

The DR Pilots Initiative is a way for LUMA to build upon the success of its existing DR Programs and serve as a “proving ground” for expanded DR capabilities that will help mitigate grid challenges. Three of the current proposed pilots are: behavioral DR for commercial and Industrial customers, geographically deployed DR, and Load Management for EV charging and public sector buildings.

A more detailed description of each of these programs can be found in the TPP referred to above.

Q.86 How is the DR Program spending included in this application?

A. The requested FY2026 DR Program budget of \$34.1 million is included in the revenue requirement in this application. DR costs for FY2027 and FY2028 are illustrative forecasts only at this time, because the Energy Bureau has not yet established them. LUMA understands those costs will be determined in the *Energy Efficiency and Demand Response Transition Period Plan* proceeding, Case No. NEPR-MI-2022-0001.

The forecasted costs for DR programs (CBES, BUGS, Pilots Initiative) are included in the total system revenue requirement calculation as part of this rate review application. However, because they are funded through the Purchased Power Costs Adjustment (PPCA) rider mechanism, these costs are **not** contemplated in setting new base rates.

901 **Q.87** The TPP is currently pending final approval by the Energy Bureau. Will LUMA
902 update the revenue requirement to reflect any final changes to demand response
903 programs?

904 A. LUMA can file an amended cost amount for demand response programs for the test years
905 if needed.

906 **Q.88** Does this complete your testimony?

907 A. Yes.

ATTESTATION

Affiant ~~Sarah Hanley~~~~Jessica Laird~~, being first duly sworn, states the following:

The prepared Direct Testimony, the cost information for the Customer Experience Department in LUMA Ex. 2.03 and LUMA Ex. 2.04, and the exhibits attached to the Direct Testimony, constitute my Direct Testimony in the above-styled case 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 herein are my Direct Testimony and are true and correct to the best of my knowledge.

Sarah Hanley-Jessica

~~Laird~~

Affidavit No. _____

Acknowledged and subscribed before me by ~~Jessica Laird~~~~Sarah Hanley~~, in her capacity as Interim Senior Vice President, Customer Experience of LUMA, of legal age, ~~married~~single, and resident of San Juan, Puerto Rico, who has been identified by means of ~~his-her~~ driver's license/~~Canadian~~ ~~Passport~~ with registration number _____ having appeared by means of online notarization.

In San Juan, Puerto Rico, this 22nd day of ~~July~~October 2025.

Notary Public

LUMA Exhibit 7.01

Program Brief: Loss Recovery Program (PBUT31)

LUMA Exhibit 7.02

Program Brief: Billing Accuracy & Back Office PBCS3)

LUMA Exhibit 7.03

Program Brief: Modernize Customer Service Technology (PBCS1)

LUMA Exhibit 7.04

Program Brief: Voice of the Customer (PBCS2)

LUMA Exhibit 7.05

Program Brief: Electric Vehicle Implementation Support (PBRE7)

Exhibit 6
Revised Testimony of Lorenzo Lopez (redline)

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

IN RE:

PUERTO RICO ELECTRIC POWER
AUTHORITY RATE REVIEW

CASE NO.: NEPR-AP-2023-0003

Direct Testimony of

Lorenzo López

Chief of Communications and Stakeholder Engagement, LUMA Energy ServCo, LLC

June 30, 2025 [as amended on October 22, 2025](#)

**Summary of Prepared Direct Testimony of
LORENZO LÓPEZ
ON BEHALF OF
LUMA ENERGY LLC AND LUMA ENERGY SERVCO, LLC**

Mr. Lorenzo López is Chief of Communications and Stakeholder Engagement at LUMA Energy ServCo, LLC. The purpose of Mr. López’s prepared direct testimony in this proceeding is to provide the operations and maintenance (“O&M”) costs for the Corporate Communications Department (“Corporate Communications”) in the Optimal and Constrained Budget on behalf of LUMA Energy LLC and LUMA Energy ServCo, LLC (collectively, “LUMA”).

Mr. López’s testimony addresses Corporate Communications’ existing and projected costs for staffing, technical and professional services, materials and supplies, transportation, per diem and mileage, and other miscellaneous costs to provide customer communications, including bill inserts, informative and educational advertising, and customer facing web content. Based on existing and projected company needs, Mr. López recommends an Optimal Budget for Corporate Communications of \$13.50 million for Fiscal Year (“FY”) 2026, \$14.15 million for FY2027, and \$14.83 million for FY2028. Mr. López’s testimony for Corporate Communications also includes a Constrained Budget, as ordered by the Energy Bureau. Mr. López explains the activities and projects that would be deferred, reduced or defunded under the Constrained Budget, and identifies the impacts of deferring or delaying those activities and projects.

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I. WITNESS AND CASE INTRODUCTION

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

A. My name is Lorenzo López. My business address is LUMA Energy, PO Box 363508, San Juan, Puerto Rico 00936-3508. I am the Chief of Communications and Stakeholder Engagement for LUMA Energy ServCo, LLC.

Q.2. On whose behalf are you testifying in this proceeding?

A. My testimony is on behalf of LUMA Energy LLC and LUMA Energy ServCo, LLC which I will jointly refer to as “LUMA,” as part of the Commonwealth of Puerto Rico Energy Bureau’s (“Energy Bureau”) proceeding NEPR-AP-2023-0003, the Puerto Rico Electric Power Authority (“PREPA”) Rate Review.

Q.3. What is your educational background?

A. I graduated from Rider University in New Jersey with a Bachelor of Science in business administration.

Q.4. What is your professional experience?

A. I have over twenty (20) years of strategic communications and leadership experience. Most recently, I served as Vice President of Communications for Diageo North America, leading corporate communications, media relations, executive support, storytelling initiatives, and crisis response. I have also held senior leadership roles at Walmart and other organizations, where I gained extensive experience in public affairs, government relations, and stakeholder engagement. I joined LUMA on March 3, 2025. I oversee LUMA’s communications strategy and stakeholder engagement efforts, ensuring transparency and collaboration with media, government stakeholders, and the non-profit and business organizations that we serve.

Q.5. Have you previously testified or participated in technical conferences before the Energy Bureau?

A. No, I have not.

Q.6. Are you sponsoring any exhibits with your direct testimony?

A. Along with this testimony, I am sponsoring the cost information for the Corporate Communications Department (“Corporate Communications” or “Department”) in LUMA Ex. 2.03 (Optimal Budget Workpapers) and LUMA Ex. 2.04 (Constrained Budget Workpapers).

Q.7. Which documents did you consider for your testimony?

A. In preparation for this testimony, I reviewed the following documents:

- Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement executed by PREPA, the Puerto Rico Public-Private Partnerships Authority (“P3A”), and LUMA dated as of June 22, 2020 (“T&D OMA”)
- Order Establishing Scope and Procedures for Rate Case, Case No. NEPR-AP-2023-0003 (Feb. 12, 2025) (“February 12th Order”)

Q.8. Briefly describe the purpose of your Direct Testimony.

A. My testimony presents the operations and maintenance (“O&M”) costs for Corporate Communications in the Optimal and Constrained Budgets for FY2026 to FY2028.

Q.9. Please provide an overview of how your testimony is organized.

A. In Section II, I provide background on the Department, LUMA’s obligations as they pertain to communications, and the general importance of effective communication between the utility and customers. In Section III, I present the proposed O&M costs for the Department in the Optimal Budget. Lastly, in Section IV, I present the proposed

O&M costs for the Department in the Constrained Budget and describe the costs and activities eliminated or deferred under that budget.

II. BACKGROUND

Q.10. Please describe the functions of Corporate Communications.

A. Corporate Communications is responsible for LUMA’s internal and external communications. The Department furthers LUMA’s commitment to transparency and provides customers with as much information as possible, keeping in mind current operational and technological limitations. The Department also furthers LUMA’s commitment to social responsibility and community engagement, by educating and protecting our communities.

The Department develops content that is important to the customer, based on what has been gathered through the Voice of the Customer tool (a tool for gaining customer feedback) and JD Power surveys, as well as on our experience of what customers and stakeholders have found beneficial. This content to be shared with costumers includes information on customer rates and rate changes;¹ how to request service and where to pay electricity bills; real-time updates regarding the Transmission and Distribution System (“T&D System”), including service interruptions, system conditions, outages, energy safety and emergency responses, and customer service programs, including energy efficiency, net metering, customer battery emergency sharing, LED streetlights, electric vehicles; and anticipated projects such as significant T&D System upgrades and Advanced Metering Infrastructure (“AMI”). The Department also supports LUMA’s

¹ This includes communications regarding Fuel Cost Adjustments (“FCA”) and Purchase Power Cost Adjustments (“PPCA”) as well as anticipated rate adjustments in anticipation of approvals herein the present rate review.

investment in the communities in which its employees live and work, including sponsoring community and volunteer events. Corporate Communications is responsible for developing organizational-wide internal communications including email announcements, internal employee dashboards, and organized employee town halls with LUMA leadership.

Finally, the Department engages with external stakeholders. The Stakeholder Engagement team was created to engage with external stakeholders on operational issues and initiatives. These stakeholders include elected officials, local governments and communities (such as municipalities), private, professional and non-profit organizations, or other interest groups. The Stakeholder Engagement team reaches out to external groups on the T&D System and strengthens LUMA's relationships, collaboration and partnerships with stakeholder groups. Most recently, the Stakeholder Engagement team promoted the AMI program by engaging residents of Nemesio Canales public housing to educate customers and raise awareness about the benefits of the program, and engaged stakeholders on costs, as required by the February 12th Order in this rate review.²

Q.11. Please provide more information on the Department's role regarding educating and protecting communities.

A. As part of our commitment to social responsibility and community engagement, the Department is guided by three pillars focused on educating and protecting our communities: Youth Education and Wellness, Economic Development and Recovery, and Energy Stewardship. This year, we continued our *Illuminate Your Community*

² See NEPR-AP-2023-0003, Order Establishing Scope and Procedures for Rate Case, p. 6. Where, the Energy Bureau stated that recommendations about which costs and activities should be deferred in the Constrained Budget should consider, but need not be bound by, consultations with interested entities, including but not limited to the Independent Consumer Protection Office; the bondholders; government, industrial, and commercial customers; and providers of renewable energy.

campaign, reinforcing our support for non-profits and our community pillars. We renewed our collaboration with the American Red Cross for a third year, promoting volunteerism and enhancing education and well-being. Through *LUMA in Your Community*, we donated nonperishable items across San Juan and other municipalities while raising awareness about energy efficiency. We also delivered an electrical safety talk using sign language at Colegio San Gabriel, reaching young deaf students directly.

Q.12. What platforms are used by Corporate Communications to communicate with customers?

A. The Department prepares information to be shared with customers through multiple channels, including LUMA’s website and MiLUMA application, traditional media,³ newsletters, social media, and through optional SMS messaging. Corporate Communications prepares content to be shared on these channels on, among others planned upgrades, outages, service interruptions, restoration times, and billing matters. LUMA also communicates with customers through information in customer bills. Since customers review LUMA bills, it is considered an ideal way to deliver important messages directly to customers monthly. Bill inserts serve as a direct communication method, allowing us to provide personalized information, new updates, and tips on energy efficiency—ensuring visibility and relevance. These inserts are especially valuable for delivering seasonal safety messages, outage protocols, and billing changes. LUMA also conducts educational campaigns both traditional and digital, such as safety campaigns and hurricane preparedness.

Q.13. What is the importance of communicating information to customers?

³ For clarity, and as described in ROI-LUMA-AP-2023-0003-20250324-PREB-065, communications respecting LUMA are not funded by customer rates.

A. Effective customer communication is critical to protect life and property. Without LUMA's communication with customers via multiple channels, including SMS messaging, customers may not have adequate information of when there may be service disruptions, outages, or emergencies and accordingly plan for those events. In some cases, effective communication is life or death for customers, particularly those that rely on medical devices that require stable power supplies. With the anticipated generation shortages, and in turn, potential outages as described in LUMA's recently filed Resource Adequacy Study for Summer 2025,⁴ effective communication will become even more important.

Q.14. What are the other benefits of effective communication?

A. Effective communication also has the benefit of countering any potential spread of false information and scams and engaging with customers to establish trust. Without readily accessible facts and data published expeditiously and directly from LUMA, customers and the public may be susceptible to fraud or misinformation, potentially damaging LUMA's relationship with its customers. Some examples of communication that would be helpful for customers include information on rates or even how to engage with LUMA for services. In addition, effective customer communication tools support LUMA's ability to provide reliable electric service at the lowest reasonable cost. For example, rather than calling the call center, customers can use MiLUMA to report outages, inquire about services, manage their accounts, make bill payments, find answers to frequently asked questions, or report any issues they encounter. By providing informational content

⁴ See Motion to Submit Interim Update for Summer 2025 of LUMA's Fiscal Year 2025 Resource Adequacy Study, Exhibit 1, Puerto Rico Electricity System Resource Adequacy: Interim Update for Summer 2025, filed in Case No. NEPR-MI-2022-0002, on March 24, 2025.

for customers to access on MiLUMA, as well as LUMA’s website and social media, LUMA may reduce the volume of calls to the call center about an outage or repair because customers are already aware and do not need to report or inquire. This improves wait times for other customers and helps ensure that call center representatives can assist customers with other inquiries, improving overall customer service and responsiveness.

Q.15. Why does Corporate Communications use traditional media for customer outreach?

A. Corporate Communications uses traditional media, such as radio and print outlets, to reach customers that prefer receiving or consuming information on these popular channels. We also consider that many of our customers do not have or lack access to the internet or social media. These customer populations often include elderly and disadvantaged populations, which could be more reliant on notifications of service disruptions or emergencies.

Q.16. Is Corporate Communications’ role required by the T&D OMA?

A. Yes. Corporate Communications directly supports LUMA’s compliance with the T&D OMA. Section 13.1(g)(ii) of the T&D OMA provides that LUMA “shall have direct responsibility for media and other public communications on all utility related matters.”⁵ Section IV of Annex I of the T&D OMA sets forth LUMA’s obligations for communications, including media, the community and customers on all T&D utility-related matters.⁶ Specifically, Sections IV(D) and (E) of Annex I state that LUMA is responsible for “achieving a high level of customer satisfaction,” “maintaining customer contact,” “maintaining and overseeing a customer online and mobile website, mobile

⁵ See T&D OMA, Section 13.1(g)(ii), at 114.

⁶ See T&D OMA, Annex I, Section IV, at I-5-I-7.

applications, including iPhone and Android, and other electronic media,” “customer care and institutional communications,” and “developing and maintaining customer education programs for customer programs.”⁷

III. OPTIMAL BUDGET

Q.17. Describe the requested Optimal Budget for Corporate Communications.

A. Corporate Communications requests an O&M budget of \$13.50 million for FY2026, increasing to \$14.83 million in FY2028. The FY2026 budget is approximately \$5.05 million more than the FY2025 budget. Table 1 provides a detailed breakdown of the Department’s FY2025 budget and requested budgets for FY2026 to FY2028. This cost information is also included in LUMA Ex. 2.03, in the tab titled, “Support Services,” and in the columns titled, “Corp Services - Communications.”

Table 1. Summary of Corporate Communications Business Plan FY2026 to FY2028								
	FY2025 Approved Amount (\$MM)		FY2026 Amount Required (\$MM)		FY2027 Amount Required (\$MM)		FY2028 Amount Required (\$MM)	
Program/Activity	O&M	NFC	O&M	NFC	O&M	NFC	O&M	NFC
Staffing	\$1.34	-	\$2.84	-	\$2.95	-	\$3.07	-
Materials and Supplies	\$0.22	-	\$0.20	-	\$0.21	-	\$0.22	-
Transportation, Per Diem, and Mileage	\$0.05	-	\$0.10	-	\$0.11	-	\$0.11	-
Technical and Professional Services	\$5.73	-	\$5 .83	-	\$9 6.27	-	\$9 6.74	-
Miscellaneous Expense	\$1.12	-	\$1.54	-	\$1.61	-	\$1.69	-
CORPORATE COMMUNICATIONS SUBTOTAL	\$8.45	-	\$13 10.50	-	\$14 11.15	-	\$14 11.83	-
CORPORATE COMMUNICATIONS TOTAL	\$8.45		\$13 10.50		\$14 11.15		\$14 11.83	
Note: Technical and Professional Services includes IT Service Agreements and Professional & Technical Services Miscellaneous expenses includes Communications Expenses and Misc. Expenses								

Q.18. What methodology did the Department use to determine the requested O&M?

A. Like all LUMA departments, Corporate Communications prepared the O&M budget using a bottom-up approach. Corporate Communications first identified its existing costs that would allow the Department to maintain its customer communications, including the

⁷ *Id.*, Section IV(D) and (E), at I-6-I-7.

Department's current staff and the costs for staff to perform their duties, such as IT applications and transportation. Then, the Department assessed LUMA's upcoming communication needs,⁸ evaluated LUMA's upcoming programs and projects, as well as customer input on the information that customers wanted to see and would find helpful. Some of these needs include bill inserts, seasonal campaigns and hurricane readiness.

Q.19. What costs are included in staffing?

A. Staffing costs include compensation for Corporate Communications' seventeen (17) FTE positions and five (5) planned hires in FY2026. Staffing costs include base salaries, fringe benefits and bonuses.

Q.20. Please briefly describe Corporate Communication and Stakeholder Engagements' current staff.

A. The current staff consists of seventeen (17) FTE positions. We have: one (1) Chief Communications and Stakeholder Engagement Officer, one (1) director of media and brand strategy, four (4) communications specialists, one (1) media relations specialist (vacant), one (1) manager of internal and external communications, two (2) translators (1 vacant), one (1) director of brand and community engagement, two (2) graphic designers, one (1) manager of community engagement, one (1) director of external affairs, one (1) manager of stakeholders, and one (1) analyst of stakeholders.

Q.21. Are you aware of how does the Department's size compares to other utilities?

A. Yes. Based on research data available to me, some utilities in the East Coast of the United States have teams of fifteen (15) employees solely dedicated to *social media support and management*. Currently, my Department manages internal and external communications,

⁸ For example, it is reasonably expected that this rate review will generate a lot of news reports and stories about LUMA in the media that LUMA expects it will either need to comment on or issue a statement if LUMA was not contacted.

community and media relations as well as educational and informational campaigns with 17 employees.

Q.22. What role will the additional hires for FY2026 serve?

A. Corporate Communications plans to hire one (1) media relations director, one (1) internal communications director, two (2) media relations managers and one (1) manager to support external communications. Like other departments, as LUMA takes on more significant projects in the coming years, the Corporate Communications Department will need to grow to proactively communicate with customers and develop communication materials regarding large scale construction or replacement projects, including deploying transformers and circuit breakers, transmission pole replacements, and rebuilding transmission lines. The Department would also benefit from these additional employees to create “bench strength.” Currently, when LUMA’s Emergency Operations Center (“LEOC”) is activated, one or more of my directors are activated, which is appropriate given the need for effective communications during an emergency. Without additional hires, however, additional stress and strain will be placed on the rest of the team when it comes to day-to-day operations of the Department during the LEOC activation.

Q.23. Why is the Department hiring an internal communications director?

A. The Department is hiring an Internal Communications Director to address a critical gap in ensuring consistent, effective communication across the organization. As the company navigates operational and cultural transformation, this role will help align employees with key initiatives, improve engagement, and support the successful execution of strategic priorities. Without this position, the company risks inconsistent messaging, reduced morale, and lower adoption of essential programs—ultimately impacting performance and service delivery.

Q.24. Why is the Department hiring one external communications manager?

A. The Department's decision to hire an External Communications Manager is driven by the need to enhance its media interactions and ensure clear, timely communication across all organizational levels. This role is crucial for developing and executing integrated communication plans, creating content for social media and digital platforms, and managing media inquiries to mitigate potential reputational risks. By fostering positive relationships with media and community partners, the manager will enhance the company's public image and transparency. This proactive communication strategy benefits customers by keeping them informed about system improvements, key initiatives, and critical updates, ultimately fostering trust and engagement with the utility provider.

Q.25. Why is the Department hiring two media relations managers?

A. The Department's decision to hire two (2) media relations managers is driven by the need to enhance its communication capabilities and ensure effective media engagement, which ultimately benefits customers. These managers will coordinate media interactions, develop integrated communication plans, and establish relationships with media outlets to ensure timely and accurate information dissemination. By managing media inquiries and crafting strategic messaging, they will help maintain the company's public image and mitigate reputational risks. This proactive approach in media relations ensures that customers receive clear, consistent, and transparent information, especially during crises or major initiatives, thereby fostering trust and confidence in the utility's operations and services.

Q.26. Why is the Department hiring one media relations director?

A. The Department is hiring a Media Relations director to enhance communication strategies and manage media relationships, benefiting both the company and its customers. The role is essential for developing and implementing communication plans, handling rapid response and crisis communications, and engaging with media outlets and stakeholders. This position supports internal communication efforts, oversees media campaigns, and collaborates on community and regulatory events, ensuring effective public engagement and that technical concepts are communicated in simple, everyday language. Generally, I am looking to hire a more senior level employees with more experience to deal with the complexities⁹ of Puerto Rico and customers' expectations. Where possible, I am looking for people who come from regulated industries such as banking, telecommunications etc.

Q.27. What types of costs are included in Technical and Professional Services?

A. Technical and Professional Services includes external consultant costs for website design services, paid media to provide information to customers and the public, and communication consultants to design and implement a communication strategy that raises awareness and educates customers and stakeholders communities about LUMA's tools and resources, energy efficiency, safety, and hurricane preparedness. Stakeholders could include, among others, government agencies and collaborators and non-profit organizations to support our customers. External consultants add additional capabilities to support LUMA in communicating to customers important information related to the utility, the T&D System, and rates, in a clear and informative manner. This external

⁹ Where complexities refer to the degraded state of the electrical system, the interaction between three system operators and interplay with government and other stakeholders (i.e., FOMB, P3A, PREB, COR3 etc.)

resource helps ensure we are incorporating industry best practices when communicating with customers and other important stakeholders. Additionally, IT Service Agreements are also included in Technical and Professional Services.

Q.28. How did Corporate Communications project Technical and Professional Services?

A. The estimated Technical and Professional Service costs are based on historical costs and competitive processes for selecting Technical and Professional Services.

Q.29. Why does Corporate Communications need external consultants?

A. Specialized support for communications and crisis management is needed to continue improving public messaging efforts. Engaging external consultants provides our team with critical additional bandwidth to effectively manage the high volume of requests we receive from the media,¹⁰ as well as from both internal and external stakeholders. This allows us to maintain a high standard of responsiveness and quality in our communications. Furthermore, consultants offer an outside perspective that helps us stay informed on emerging strategies, tools, and best practices. Their expertise ensures that we are aligned with industry standards and consistently operate at a level of excellence. While these external consultants provide valuable insights and feedback, we anticipate a decrease in the scope of external consultants as the Corporate Communications Department will be able to perform some of their current duties, including customer newsletters. We expect to see this starting in FY2027.

¹⁰ In my estimate, LUMA is the subject of between ten (10) and fifty (50) stories a week. Some reports contact LUMA for comment and some don't. If the latter, LUMA will often need to put out its own statement.

Q.30. How will customers benefit from the added Technical and Professional Services?

A. The added Technical and Professional Services will ensure that relevant and timely information is available to educate all customer sectors, including residential, industrial, commercial, and government customers. By expanding the team's capabilities with external resources, LUMA will be able to support educational and informational campaigns on specific projects including AMI, vegetation clearing and emergency response efforts. External vendors allow LUMA the short-term flexibility of scaling or reducing the number of individuals if needed. Given the need to communicate, this allows LUMA to increase resources to provide a more agile response to customers' needs during major events, emergencies requiring customer awareness, the availability of public information and timely responses to media inquiries as well as improved communications for stakeholders, including mayors, central government, agencies and key customer groups through tailored messages following industry standards.

Q.31. What types of costs are included in Materials and Supplies?

A. Materials and Supplies include the costs for generic office supplies and equipment. The Department estimated Materials and Supplies based on experience and current vendor prices.

Q.32. Please describe the costs included in Miscellaneous Expense.

A. Miscellaneous Expense includes specialized materials for specific projects, events or initiatives that do not fit within any other category of the budget but are nonetheless needed for the continuation of services by the Department. For example, field visits to capture (e.g., photographs) of the work that is happening to report to customers – and any interested stakeholder – on the improvements LUMA is making to the electrical system. This is especially important when reaching more remote or small communities across the

island where customers do not have or lack internet access. LUMA also envisions reaching these customers by conducting community outreach events. Photographs or other content may also be used by the Capital Programs department (for example, for future recruiting). All of these specialized materials for specific projects support LUMA's goal of communicating with customers and communities. The Department estimated Miscellaneous Expense costs based on historical vendor pricing. LUMA expects historical vendor pricing to increase by at least 5% in FY2026.

Q.33. Are Corporate Communication's O&M costs in the Optimal Budget consistent with just and reasonable performance and that of a prudently performing operator? Please explain.

A. Yes. The O&M costs for Corporate Communications are necessary to fulfill LUMA's obligations under the T&D OMA including, "achieving a high level of customer satisfaction," "maintaining customer contact," "maintaining and overseeing a customer online and mobile website, mobile applications, including iPhone and Android, and other electronic media," "customer care and institutional communications," and "developing and maintaining customer education programs for customer programs."¹¹ Timeliness, frequency and cadence of communications determine how customers can react and adapt to emergencies or outage events.

Q.34. Are the Department's O&M costs in the Optimal Budget avoidable?

A. The February 12th Order defines avoidable costs as costs that are "to-be-incurred."¹² Corporate Communications has not incurred costs for its planned hires and the costs to support those planned hires in their duties or the technical and professional services for

¹¹ See T&D OMA, Annex I, Section IV (D) and (E), at I-6-I-7.

¹² Order Establishing Scope and Procedures for Rate Case, Case No. NEPR-AP-2023-0003, at 10 (Feb. 12, 2025).

additional projects. However, an RFP process has been completed for external consultants to support or advise on LUMA’s communications strategy that is budgeted for FY2026, and the plan is for those consultants to start supporting in July 2025.

IV. CONSTRAINED BUDGET

Q.35. Please describe Corporate Communication’s proposed O&M costs under the Constrained Budget.

- A. The Constrained Budget reduces the Department’s total budget by approximately \$4.92 million in FY2026, \$5.14 million in FY2027, and \$5.37 million in FY2028. Table 2 below shows a summary of the Constrained Budget based on cost category and fiscal year. This cost information is also included in LUMA Ex. 2.04, in the tab titled, “Support Services,” and in the columns titled, “Corp Services - Communications.”

Table 2. Summary of Constrained Corporate Communications Business Plan FY2026 to FY28								
	FY2025 Approved Amount (\$MM)		FY2026 Amount Required (\$MM)		FY2027 Amount Required (\$MM)		FY2028 Amount Required (\$MM)	
Program/Activity	O&M	NFC	O&M	NFC	O&M	NFC	O&M	NFC
Staffing	\$1.34	-	\$2.83	-	\$2.97	-	\$3.12	-
Materials and Supplies	\$0.22	-	\$0.08	-	\$0.08	-	\$0.08	-
Transportation, Per Diem, and Mileage	\$0.05	-	\$0.06	-	\$0.06	-	\$0.06	-
Technical and Professional Services	\$5.73	-	\$41.09	-	\$41.29	-	\$41.50	-
Miscellaneous Expense	\$1.11	-	\$1.53	-	\$1.61	-	\$1.69	-
CORPORATE COMMUNICATIONS SUBTOTAL	\$8.45	-	\$85.58	-	\$96.01	-	\$96.46	-
CORPORATE COMMUNICATIONS TOTAL	\$8.45		\$85.58		\$96.01		\$96.46	
Note: Technical and Professional Services includes IT Service Agreements and Professional & Technical Services Miscellaneous expenses includes Communications Expenses and Misc. Expenses								

Q.36. How did the Department prepare the Constrained Budget?

- A. The Communications Department followed a structured, bottom-up approach to prepare the FY26 Constrained Budget. The Department reviewed all incremental initiatives and existing expenses to prioritize and remove initiatives that could be deferred. For the projection years, the Department applied a percentage increase that was standard for all

LUMA departments.

Q.37. What costs or activities are eliminated or deferred under the Constrained Budget?

A. Under the Constrained Budget, Corporate Communications would organize fewer community events and traditional media campaigns. This results in fewer materials and supplies costs, and lower transportation, per diem and mileage costs. One of these community events that may need to be done on a smaller scale is the active yearly agreement with the Puerto Rico Department of Education to provide recurring public safety workshops for grade school children. These workshops include specific educational materials and activities that promote awareness and a proper understanding of what to do around fallen electric lines in or around their homes, schools or neighborhood. Corporate Communications would also have less budget available for printing, and in some cases, would only be able to print on one side of informational materials enclosed with bills, potentially reducing the amount of information for customers who obtain their information through non-digital means. Additionally, Salaries under the constrained budget will have a smaller increase year over year than in the optimal. Finally, the use of external consultants was dramatically reduced under the Constrained Budget.

Q.38. What customer benefits would not be gained if those activities are not funded?

A. If the Department's budget for community events, traditional media, and printing is reduced under the Constrained Budget, there is the potential for customers to be less informed of customer programs and upcoming projects. For example, programs promoted through community events, informational materials enclosed with bills, and other printed materials include important information regarding energy efficiency programs that not only help customers save money on their bills but also promote behavioral load shaping

messaging. This commonly used industry practice allows customers that do not engage through digital devices or the internet, due to geographical, infrastructure or physical limitations, to benefit from these programs. Furthermore, community events and materials help spread information on special rates, payment plans and financial assistance as was the case with the Low-Income Home Energy Assistance Program (“LIHEAP”) and other support programs promoted by LUMA. Reducing funding for community events will also affect the extent that LUMA is able to perform duties required by the T&D OMA, including educating customers on emergency preparedness, public safety around electricity and customer programs in schools, community gatherings and events.

Q.39. If the Constrained Budget is approved, will the Department meet its contractual and legal duties?

A. Yes.

Q.40. Please explain.

A. Under the Constrained Budget, Corporate Communications will continue to fulfill LUMA’s obligations under the T&D OMA, including having “direct responsibility for media and other public communications on all utility related matters”¹³ and “maintaining customer contact,” “maintaining and overseeing a customer online and mobile website, mobile applications, including iPhone and Android, and other electronic media,” “customer care and institutional communications,” and “developing and maintaining customer education programs for customer programs.”¹⁴

Q.41. What would be the impact if the Constrained Budget for the Department is reduced?

¹³ See T&D OMA, Section 13.1(g)(ii), at 114.

¹⁴ See T&D OMA, Annex I, Section IV(D) and (E), at I-6-I-7.

386 A. If the Energy Bureau approves a final budget that is less than the Constrained Budget, the
387 Department will have less resources to inform customers of customer programs and
388 LUMA projects. Specifically, a reduced budget for external consultants impairs LUMA's
389 flexibility to instantly scale up resources if a situation demands it. This could result in
390 increased risk of employee burnout and/or turnover from longer hours and more pressure
391 (especially during emergency situations) and/or insufficient information being provided
392 to customers or other stakeholders.

393 **Q.42. Does this complete your testimony?**

394 A. Yes.

ATTESTATION

Affiant, Lorenzo López, being first duly sworn, states the following:

The prepared Direct Testimony, and the cost information for the Corporate Communications Department in LUMA Ex. 2.03 and LUMA Ex. 2.04, constitute my direct testimony in the above-styled case 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 herein are my Direct Testimony and to the best of my knowledge are true and correct.

Lorenzo López

Affidavit No. _____

Acknowledged and subscribed before me by Lorenzo López, in his capacity as Chief of Communications and Stakeholder Engagement of LUMA Energy ServCo, LLC, of legal age, married, and resident of San Juan, Puerto Rico, who has been identified by means of his driver's license/U.S. Passport with registration number _____.

| In San Juan, Puerto Rico, this ~~30th~~22nd day of ~~June~~October 2025.

Notary Public

Exhibit 7
Revised Testimony of Branko Terzic (redline)

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

IN RE:

CASE NO.: NEPR-AP-2023-0003

**PUERTO RICO ELECTRIC POWER
AUTHORITY RATE REVIEW**

Revised Direct Testimony of

Branko Terzic

Expert Witness for LUMA Energy, LLC and LUMA Energy ServCo, LLC

October 21, 2025

Summary of Prepared Direct Testimony of
BRANKO TERZIC
ON BEHALF OF
LUMA ENERGY LLC AND LUMA ENERGY SERVCO, LLC

Mr. Branko Terzic, who is an internationally recognized consultant in regulation and a former Commissioner of the Federal Energy Regulatory Commission and Wisconsin Public Service Commission, presents Prepared Direct Testimony on behalf of LUMA Energy LLC and LUMA Energy ServCo, LLC (collectively, “LUMA”). The purpose of Mr. Terzic’s testimony is to address the differences between publicly owned electric utilities, such as the Puerto Rico Electric Power Authority (“PREPA”), and investor-owned utilities (“IOU”), and the issues raised by the requirement that LUMA as operator of PREPA’s assets file both an Optimal Budget and Constrained Budget. Mr. Terzic explains that the regulation of PREPA in Puerto Rico is not intended to restrain the unjust profits by a private monopoly such as an IOU but to determine the lowest reasonable cost that provides reliable and adequate service. Mr. Terzic recommends that the Puerto Rico Energy Bureau focus its review on the Optimal Budget, which should be LUMA’s best estimate of the necessary costs to operate at a just and reasonable performance, as it would be in the public interest to allow a regulated utility to operate at a just and reasonable performance level.

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Q.1 Please state your name, address, and occupation.

A. My name is Branko Terzic. I am a consultant in public utility regulation. My address is 1791 Brookside Lane, Vienna, Virginia 22182.

Q.2 On whose behalf are you testifying in these proceedings?

A. I am testifying on behalf of LUMA Energy LLC and LUMA Energy Servco LLC (jointly “LUMA”).

Q.3 What is your educational background?

A. I have a Bachelor of Science in Energy Engineering (1972) and was awarded an honorary Doctor of Sciences in Engineering degree (2009), both from the University of Wisconsin-Milwaukee. A summary biography is provided here, and a full CV is attached as LUMA Ex. 19.01.

Q.4 What is your professional experience?

A. During my five-decade career in the regulated electric utility industry, I have been a consultant, a Commissioner on the Wisconsin Public Service Commission (“WPSC”) and Federal Energy Regulatory Commission (“FERC”), and the CEO of a regulated utility. In a brief summary of positions held, prior to my current position and affiliation, I was Executive Director of the Center for Energy Solutions at Deloitte. Before that, I was Chairman, President, and CEO of Yankee Energy System, Inc. (1994-1999); Managing Director of Arthur Andersen Economic Consulting (1993-1994); Commissioner on the FERC (1990-1993); Group Vice President at AUS Consultants (1987-1990); Commissioner on the State of WPSC (1981-1986); Partner in Terzic & Mayer Public Utility Consultants; Vice President Associated Utility Services, Inc.; Valuation Engineer at the American Appraisal Company and Special Investigations Engineer and later

25 Environmental Engineer for the Wisconsin Electric Power Company.

26 I have been a member of the National Petroleum Council and the National Coal
27 Council. I am a former Chairman of the United Nations Economic Commission for
28 Europe (“UN ECE”) Ad Hoc Group of Experts on Cleaner Electricity Production (2007-
29 2012). From 1987-1990, I was the founding Chairman of the State of Wisconsin Racing
30 Board.

31 I have published articles in numerous energy and finance publications, including
32 the magazines of the Edison Electric Institute (“EEI”) and the American Gas Association
33 (“AGA”), as well as *Public Utilities Fortnightly*, *Oil & Gas Investor* and others. My bi-
34 weekly column *Terzic on Strategy* was published from 1999 to 2009 in the New Power
35 Executive chapter on energy and appeared in *THE WORLD CRISIS: The Way Forward*
36 *After Iraq* (Constable, London, 2008) edited by Robert Harvey.

37 I have appeared regularly on CNN International and have appeared as a
38 commentator on numerous TV news programs, including CNN, CNBC, Fox Business,
39 PBS, Voice of America, and Al Jazeera.

40 I was elected to the Energy Efficiency Forum Hall of Fame (2009) and was
41 honored with the “Champion Award” by The Women’s Council on Energy and
42 Environment (2008), as well as other industry awards.

43 I have been a faculty member of the Washington Campus consortium of sixteen
44 university MBA programs since 2005.

45 I am a founder of the Society of Depreciation Professionals. I have served on the
46 board of the National Regulatory Research Institute (“NRRRI”), the research arm of the
47 National Association of Regulatory Utility Commissioners (“NARUC”). I am a past

48 chairman of the Natural Gas Roundtable. I was a registered Professional Engineer in
49 Wisconsin from 1985 to around 2010.

50 I have also provided training on utility regulation to utilities, regulatory agencies,
51 academic institutions, and consultants. I have also been a frequent speaker at industry,
52 university, and government energy and utility programs.

53 **Q.5 Have you testified in the past in regulatory proceedings before the Puerto Rico**
54 **Energy Bureau (“PREB”) as an expert witness?**

55 A. Yes, I testified in Case No. NEPR-MI-2021-0007 *In Re: Review of LUMA’s Terms of*
56 *Service (Liability Waiver)* and Case No. NEPR-AP-2020-0025 *In re: Performance*
57 *Targets for LUMA Energy Servco, LLC.*

58 **Q.6 Have you testified in the past in other public utility regulatory proceedings as an**
59 **expert witness?**

60 A. Yes. I have testified before state public service commissions, bankruptcy court, and
61 FERC. I have also appeared before the committees of the U.S. House of Representatives
62 and U.S. Senate. A list of my prior testimony is provided in my full CV attached as
63 LUMA Ex. 19.01.

64 **Q.7 Please elaborate on your experience in the regulation of electric utilities.**

65 A. In my five years plus of service as a Commissioner in WPSC, I regulated electric utilities
66 as well as natural gas, telephone, water, and sewer utilities. The regulation of electric
67 utilities at the WPSC was at retail and included the establishment of rates, tariffs, and
68 terms of service. In my role as FERC Commissioner, with respect to FERC’s regulation
69 of the electric industry, I participated in matters related to regulated wholesale electric
70 power markets and bilateral wholesale sales at the cost of service and electricity
71 transmission rates and tariffs.

Q.8 Please describe your experience in the regulation of public power entities such as the Puerto Rico Electric Power Authority (“PREPA”).

A. The State of Wisconsin, where I served as a WPSC Commissioner, is somewhat unique among state commissions in that the state legislature granted the WPSC authority over all the “public power” systems in the State. These systems were, of course, significantly smaller than PREPA, but the regulatory relationship was the same. It is my understanding that in the U.S., Wisconsin, perhaps a few other states, and Puerto Rico have an arrangement where one government agency regulates another government agency operating electric utility. In almost all other states, municipal or federal electric systems, such as the Tennessee Valley Authority, are self-governed.

The public power entities in Wisconsin are owned by municipalities, but regulated by the WPSC. The Municipal Electric Utilities of Wisconsin lists 81 community-owned, locally-controlled municipal electric utilities. They distribute more than 11 percent of the state’s electricity and provide service to nearly 300,000 customers in 43 of Wisconsin’s 72 counties.¹ In addition, while I served as a Commissioner, the WPSC regulated over 500 municipal water utilities and over 100 wastewater utilities, and for all of these utilities, the WSPC set rates based on an annual revenue requirement and/or cost of service had terms of service as part of their tariff.

Q.9 Have you taken any courses or training in public utility economics?

A. Yes, I completed a graduate-level course in Public Utility Economics taught at the University of Wisconsin Madison by Professor Lionel Thatcher. I also completed a course at the Western Michigan University Center of Depreciation Studies on Life Estimation

¹ www.meuw.org/aboutus (last visited April 26, 2025).

and a course at the Wichita State University Lincoln Institute of Land Studies on the Appraisal of Gas and Electric Utilities.

Q.10 Please describe your experience in rate case preparation or revenue requirement and cost of service.

A. My direct experience in rate case preparation, revenue requirement, and cost of service was gained as a consultant for regulated municipal water and electric utilities in Wisconsin in the 1970s. During my six years of reviewing rate cases while a commissioner of the WPSC, I was involved in voting on rate orders for over 100 cases a year. Later, I reviewed rate case transcripts and voted on rates for electric utilities and natural gas pipelines during my three years as a Commissioner of FERC. In addition, as the CEO of a regulated gas utility in Connecticut, I oversaw the preparation of the company's rate case.

I have, over the past five decades, provided training internationally and in the U.S. to utility staff, commission staff, and consultants on the regulation of utilities and topics of revenue requirements, cost of service and rate design.

On my attached CV, as LUMA Ex. 19.01, I have listed some of the training I provided internationally for the US Agency for International Development ("USAID") and World Bank to new managers of newly commercialized electric utilities in the formerly communist countries in Central and Eastern Europe. I have also lectured on public utility regulation in Russia and China.

In the U.S. I led the training in public utility revenue requirements and cost of service for public utility clients of Deloitte and for the professional staff of Deloitte & Touche. I have also taught revenue requirements and cost of service at the annual

meetings of the Society of Depreciation Professionals and for the Energy Club of the Johns Hopkins University School of Advanced and International Studies.

I also presented a one-day, 7-credit Continuing Professional Education training on “Rate Case Strategy and Management” for the Electric Utility Consultants, Inc. (“EUCI”) on February 1, 2023.

Q.11 What is the purpose of your testimony in this proceeding NEPR-AP-2023-0003?

A. I will address three topics: 1) differences in the regulation of public-owned electric utilities, 2) some regulatory issues created with the PREB requirement to submit two annual revenue requirements for the same year, and 3) some regulatory issues raised with the requirement to file a constrained budget with new performance indicators.

Q.12 Are you sponsoring any exhibits with your direct testimony?

A. Yes. I am sponsoring the following exhibits in this proceeding:

- **LUMA Ex. No. 19.01:** Curriculum Vitae
- **LUMA Ex. No. 19.02:** Authority of State Commissions to Regulate Rates of Public Power Utilities from the American Public Power Association

Q.13 What documents did you review for your testimony?

A. I reviewed the February 12, 2025, Order of the PREB, the enabling statutes for the PREB and the PREPA, and my prior testimony.

In addition, I reviewed the books cited in this testimony. I reviewed the following:

1. Puerto Rico Electric Power Authority Act” Act No. 83 of May 12, 1941, as amended (hereinafter, “Act 83-1941”).

2. “Act for the Implementation of the Puerto Rico Public Service Regulatory Board Reorganization Plan”, Act No. 211-2018, as amended (hereinafter, “Act 211-2018”) (Contains amendments incorporated by Act. No. 17-2019)
3. “Puerto Rico Energy Public Policy Act”, Act No. 17-2019, as amended (hereinafter, “Act 17-2019”)
4. “Puerto Rico Electric Power System Transformation Act”, Act No. 120-2018, as amended (hereinafter, “Act 120-2018”).
5. Wisconsin Statutes administered by or relating to the Public Service Commission of Wisconsin Reprint 1979.

Q.14 This is the first full-rate case for the Puerto Rico Electric Power Authority (PREPA) since 2017. In your experience, is there anything unique about this rate case?

A. Yes. This is a rate case where one government entity, PREPA, is regulated by another government entity, the PREB. There are only five states in the US where municipal or government-owned electric utilities are regulated by a state regulator. LUMA Ex. 19.02 from the American Public Power Association (“APPA”) shows that only Indiana, Maine, Maryland, Rhode Island, Vermont, and Wisconsin give state Public Utility Commissions full authority to regulate municipal-owned electric utilities such as PREPA. It also provides the enabling legislation citation.

All of these five states also have large Investor-owned utilities (“IOUs”), and none of the five states regulate any municipal system as large as PREPA. The APPA published a list of the 100 Largest Public Power Utilities by Electric Revenue (2017), and PREPA was the fourth largest.²

² <https://www.publicpower.org/system/files/documents/100-Largest-Public-Power-Revenue-2017.pdf> (last visited April 27, 2025).

The *majority* of municipal power systems are regulated by their local governments, where elected and appointed government officials set rates and other regulations affecting electric service.

Q.15 From a regulatory standpoint, what is the major difference between the regulation of IOUs and municipal or government-owned entities such as PREPA?

A. The history of the regulation of electric utilities in the US is based on the fact that early electric utilities were first owned by private investors, starting with Thomas Edison and J. Pierpont Morgan. Electric systems were later granted monopoly franchises by local or state governments to serve a specific geography. At the end of the 19th century, these new business enterprises of electricity delivery were designated “public utilities” or “public service companies,” and the US Supreme Court permitted price regulation for this new class of shareholder-owned private business because it was in the “public interest.”³ ~~The role of regulation of public utilities has been described by Mr. Hempling as “‘balancing’ interests, most often, the interests of shareholders and consumers.”⁴~~

Therefore, regulation came about as a requirement to restrain private investors from extracting monopoly profits in pricing services to consumers and to ensure non-discriminatory services are provided to different consumers. Regulatory agencies, usually called Public Utility Commissions or Public Service Commissions, were established to regulate these new “public service” or “public utility” companies.

Most regulatory statutes tell regulators to act “in the public interest.” This command implies a statutory judgment—that absent regulation’s constraints and inducements, private behavior will diverge from the public interest; that whether the

³ *Munn v. People of State of Illinois*, 94 U.S. 113, 130, 24 L. Ed. 77 (1876).~~[add citation]~~

⁴ ~~Hempling, Scott, *Regulating Public Utility Performance*, American Bar Association, Chicago, 2021, p.2.~~

market structure is monopolistic or competitive, universal, reliable, safe utility service at reasonable rates won't happen by itself. Effective regulation therefore aims to align private behavior with the public interest.⁵

The two alternatives to “regulation” of a public utility (defined as privately owned) are either competition or public ownership. Professor James Bonbright noted in his classic text on Principles of Public Utility Rates that:

*“Public utility regulation, if chosen in preference to outright public ownership, is therefore said to be a substitute for competition.”*⁶

The major difference between the regulation of an IOU and the regulation of a PREPA is that in the case of a PREPA, there are no shareholders, and, thus, no “private interest”. PREPA owns the assets of the utility and also represents the “public interest” as it is owned by the citizens of Puerto Rico.

Q.16 As a Commissioner on the WPSC for almost six years, you were a regulator in one of the five states that regulate municipal electric utilities. How did regulation in Wisconsin differ from what you know of the regulation of PREPA?

A. As I indicated in response to an earlier question, there are 81 municipal utilities in Wisconsin. They are regulated by the WPSC on a cost-of-service basis. These municipal electric utilities serve communities with populations of 33,000 to 500 residents and, therefore, are significantly smaller than PREPA.⁷ They generally own only transmission and distribution assets. The municipal electric utilities are required to use the NARUC and FERC Uniform System of Accounts (“USoA”), which are based on GAAP and include a

⁵ *Id.* at 3.

⁶ Bonbright, James, *Principles of Public Utility Rates*, Columbia University Press, New York, 1961, p. 67.

⁶ *Id.* at. 10.

⁷ <https://www.meuw.org/aboutus> (last visited 4/28/2024)

balance sheet and income statement. The Wisconsin municipalities may have debt, but unlike PREPA, they have municipal capital invested and are allowed a return on that investment. I note that the state law makes provisions for a situation where the municipality may fail in its operation of a utility. Wisconsin Statutes Chapter 196.71, “Utility when not a public utility,” states that when a “municipally owned utility cannot be operated profitably” the WPSC can authorize a contract for a vendor to operate the utility.⁸ The municipal electric utilities in Wisconsin are “for-profit” entities, and any “return” benefits the citizens in terms of “margin” to cover the municipal debt.

PREPA was not established to create a profit, but instead to deliver electric services “at the lowest reasonable cost.” *See* Act 83-1941, Section 6A, 22 LPRA § 196a (2025). Accordingly, regulation in Puerto Rico is not about the restraint of unjust profits by a private monopoly but about determining the “lowest reasonable cost” that provides for a “reliable and adequate service.” *Id.*; *see also* Act 57-2014, Section 6.25, 22 LPRA § 1054x (2025).

Q.17 As PREPA is not a privately owned public utility, do the accepted regulatory principles of ratemaking still apply?

A. Yes, they do in terms of the cost of service. Professor Bonbright explains that “...one standard of reasonable rates can fairly be said to outrank all others in the importance

⁸ Please note that the cited statute was amended in 1983. Some of the wording changed, but the core language of the original statute remains the same. The current statute reads:

196.71 Municipal public utility contracts. If a municipality owns a public utility and if there is no other public utility furnishing the same service, the commission, after a public hearing and determination that the municipally owned public utility cannot be operated profitably, may authorize a contract between the municipality and any person not a public utility to furnish light, power or electric current to the municipality upon terms and conditions approved by the commission. The person contracting with the municipality is not a public utility solely due to the contract with the municipality.

WI Stat § 196.71 (2024).

attached to it by experts and by public opinion alike – the standard of cost of service, often qualified by the stipulation that the relevant cost is the necessary cost or cost reasonably or prudently incurred.”⁹

On the use of cost by utilities under public ownership, Bonbright states that: “But even more significant is the widespread adherence to cost, or to some approximation of cost, as a basis of ratemaking under public ownership.”¹⁰

Bonbright’s book is mostly focused on “embedded cost” rate making, which is what the PREB will apply in these proceedings. My reading of Bonbright is that his assumption was that a self-governed, public-owned utility would base its rates on costs.

Q.18 What are the main elements of embedded cost rate making?

A. The main elements are an estimate of the annual revenue requirement followed by a cost-of-service study allocating costs to the various services provided by the electric utility. The final step is the rate design for each service offered.

“Estimating the utility’s annual revenue requirement: The first equation describes the annual revenue requirement; the total dollars the utility must receive during a specified future year...The second equation sets the rate that recovers the utility’s annual revenue requirement from the customers.”¹¹

This is true for both the IOU “public utility” and the electric utility under public ownership such as PREPA.

Q.19 In your experience, have you seen a regulatory authority require a regulated utility to file two annual revenue requirements?

⁹ Bonbright, James, *Principles of Public Utility Rates*, Columbia University Press, New York, 1961, p. 67.

¹⁰ Ibid, p. 67.

¹¹ Hempling, Scott *Regulating Public Utility Performance*, American Bar Association, Chicago, 2013, pp. 253-254.

242 A. No, I have not. The literature on public utility regulation and rate case applications refers
243 to an annual revenue requirement to be filed by the regulated company. The regulator
244 then inspects each of the four categories of costs, as well as the proposed rate base, the
245 proposed capital structure, and a weighted average cost of capital.

246 The four cost categories are: operating and maintenance expenses, depreciation,
247 taxes, and return on investment. As PREPA is a state-owned non-profit entity, the last
248 category of return on investment would not be the traditional Return on Rate Base, but
249 rather, such category include interest expense and any required margin to meet bonding
250 requirements.

251 Once the revenue requirement is submitted, all of the cost categories are subject to
252 review by the regulator to determine the regulator's estimates of necessary costs for
253 conversion of a revenue requirement (also called "cost of service") into "just and
254 reasonable rates." The same nationally recognized standard is the standard here for PREB
255 as well. In the February 12th Order, PREB stated that the above referenced provisions
256 "...empower the Energy Bureau to review and approve PREPA's rates to ensure they are
257 just and reasonable, consistent with sound fiscal and operational practices that provide
258 reliable services at the lowest reasonable costs." ¹²

259 That Order implies that the PREB will find one set of rates that will meet those
260 criteria, not two.

261 In these proceedings, the PREB has ordered that PREPA provide an Optimal
262 Budget, which would be the typical revenue requirement request in utility rate
263 proceedings as it is, according to the Order, supposed to cover the "necessary costs." ¹³

¹² See February 12th Order, at 1.

¹³ See *Id* at 5.

The February 12th Order, however, also requires PREPA to submit a Constrained Budget for the same test year, providing a second revenue requirement. This second revenue requirement is to be based on a budget that “*the Energy Bureau deems necessary to provide a customer-sensitive transition from the status quo (Fiscal Year 2025) to an Optimal Budget in FY 2028.*”¹⁴

The February 12th Order, in effect, asks the regulated company to guess or recommend what the PREB does or would “*deem necessary*” to provide a transition for customers to the optimal budget.¹⁵

This is an unusual request, in my opinion.

Q.20 How does this differ from the approach to revenue requirement you have experienced in your five-decade career as a state and federal regulator and as the CEO of a regulated utility?

A. In my experience, the regulated utility would file its annual revenue requirement with supporting testimony and exhibits. The regulator would also have additional testimony and exhibits from its own staff as well as from other interested parties. After reviewing the full record in the rate case, the regulator would issue a rate order based on the regulator’s approved revenue requirement, cost of service study, and rate design.

At that point, if the regulated utility determined that the rates were insufficient to provide the annual revenue to deliver the level of service required by regulation, the utility would appeal the order to the regulator with specificity as to the deficiencies in the regulator’s determinations. Rejection of the appeal by the regulator would allow the utility to appeal the rate decision to the jurisdictional court.

¹⁴ *Id* at 6.

¹⁵ *Id.*

The February 12th Order asks the utility in filing a second revenue requirement to give “...*recommendations about which costs and activities in the Optimal Budget should be deferred.*” See February 12th Order, at 6.

This is a difficult requirement to comply with as it requires a judgment as to what costs should be “deferred,” which is tied to the question of what level of service is required by regulation. The Optimal Budget in my opinion, should include those items which should not be deferred.

Q.21 In a traditional public utility rate case filing with a single annual revenue requirement what has been the most important consideration?

A. In a typical filing, public utility management must establish the need for a rate case. I will refer to Francis X. Welch’s text Preparing for the Utility Rate Case. Welch, also an attorney, was for many years the editor-in-chief of Public Utilities Fortnightly and publisher of a number of books on the subject of utility regulation.

Welch’s years of experience show when he concludes with the italicized emphasis on “...*the importance of exhausting all other measures to yield an adequate return before resorting to the rate increase solution.*”¹⁶

This means that the filing is the minimum amount the utility needs to fulfill its requirements as a provider of public service.

Q.22 Given your opinion of the requirement on the filing of two revenue requirements (Budgets) what is your recommendation to the PREB?

A. I would recommend the PREB focus on a close review of the Optimal Budget, which should be management’s best estimate of “necessary costs” to operate at a “just-and-reasonable performance level” as the Order defines the “Optimal Budget.” I do not

¹⁶ Welch, Francis X, *Preparing for the Utility Rate Case*, Public Utility Reports, Inc, Wahington DC 1954, p. 17.

309 believe any regulator wants to approve rates, knowing they would not allow the regulated
310 utility to operate on a “just-and-reasonable performance level.”

311 **Q.23 What do you recommend as to the level of revenue requirement for the fulfillment of**
312 **the contract concerning the performance indicators?**

313 A. The request for two annual revenue requirements and necessarily two sets of performance
314 parameters, while complicating filings, need not affect the amount included in both
315 revenue requirements for performance payments.

316 As payments for performance are made at the end of an annual accounting period
317 and not at the beginning, the PREB can approve the full amount in either case. There is
318 no way that PREPA or PREB could know in advance the outcome of the performance
319 review.

320 When the time comes to evaluate performance, PREPA will determine how much
321 to pay out - all, or a reduced sum. If less than the full amount is paid, the difference
322 remains with PREPA for use for other purposes.

323 **Q.24 Does this end your testimony?**

324 A. Yes, it does.

ATTESTATION

Affiant Branko Terzic, being first duly sworn, states the following:

The prepared Direct Testimony and the exhibits attached to the Direct Testimony, constitute my Direct Testimony in the above-styled case 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 herein are my Direct Testimony and, to the best of my knowledge, are true and correct.

Branko Terzic

The foregoing instrument was acknowledged and subscribed before me by Mr. Branko Terzic, whose full name is as described herein, of legal age, married, and resident of Fairfax, Virginia, and testifying in support of LUMA Energy, LLC and LUMA Energy ServCo, LLC, who has been identified by means of his driver's license with registration number _____ by means of online notarization.

In Fairfax, Virginia, this 19th~~19th~~21st day of ~~October~~June 2025.

Notary Public

LUMA Exhibit 19.01:

Branko Terzic CV

LUMA Ex. 19.02

American Public Power Association, June 2014

Authority of State Commissions to Regulate Rates of Public Power Utilities

Full Rate Regulation State

Indiana

Code: Title 8, Article 1, Chapter 2, § 8-1-2-1 and § 8-1-2-42.5; Article 1.5, Chapter 3, § 8-1.5-3-8, § 8-1.5-3-9 and § 8-1.5-3-9.1 Municipal utilities can remove themselves from Utility Regulatory Commission jurisdiction by ordinance or majority vote of citizens.

Maine

Statutes: Title 35-A, Chapter 1, §102 and Chapter 3, §301; Title 32, Chapter 32, §3201 and §3207

Maryland

Statutes: Public Utility Companies Article, § 1-101 and § 2-113

Rhode Island

Statutes: Chapter 39, § 39-1-2; Chapter 45, § 45-58-2

Vermont

Statutes: Title 30, Chapter 5, § 201, § 203, and § 218; Chapter 79, § 2901 and § 2923

Wisconsin

Statutes: Chapter 196, § 196.01 and § 196.02

Reference:

<https://www.publicpower.org/system/files/documents/Rate%20Regulation%20of%20PP%20chart%20412.pdf>

Exhibit 8
Revised Testimony of Sam Shannon (redline)

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

IN RE:

**PUERTO RICO ELECTRIC POWER
AUTHORITY RATE REVIEW**

CASE NO.: NEPR-AP-2023-0003

SUBJECT: COST OF SERVICE &
RATE DESIGN

Direct Testimony of
SAM SHANNON
Associate Director, Guidehouse
Cost of Service and Rate Design
on behalf of
LUMA Energy ServCo, LLC

~~June~~ October 23rd ~~30th~~, 2025

**Summary of Prepared Direct Testimony of
SAM SHANNON
ON BEHALF OF
LUMA ENERGY LLC AND LUMA ENERGY SERVCO, LLC**

Mr. Sam Shannon is an Associate Director at Guidehouse. He provides this Prepared Direct Testimony on behalf of LUMA Energy LLC and LUMA Energy ServCo, LLC (collectively, “LUMA”) to present the Utility’s preferred cost of service study, revenue allocation, and rate design.

Mr. Shannon discusses the cost allocation process; first, functionalizing costs by purpose (i.e., generation, transmission, distribution, customer service, and administrative and general), second, classifying costs by unit (i.e., energy, demand, and customer), and lastly, allocating costs to each customer class. He then discusses the results of the cost of service study.

Mr. Shannon then discusses the revenue allocation, that is the assignment of portions of the total revenue requirement to each customer class. He explains that he chose to allocate the revenue requirement over three years to spread the rate increase over that period and avoid a single large jump in rates. Next, Mr. Shannon provides an overview of the Utility’s rate design generally for each test year, the rate design for each of the Utility’s rate schedules, the bill impact analysis, and customer classifications. Mr. Shannon also presents a proposed decoupling mechanism to begin in fiscal year (“FY”) 2028. He explains that the decoupling mechanism would protect PREPA’s financial position against declines in sales (due to the success of Puerto Rico’s energy efficiency programs and penetration of distributed generation) and that exceed the forecasts used for setting rates in this rate case.

Mr. Shannon then discusses additional tariff changes. He explains the Utility is proposing a redesign of the tariff book to use an amended structure to track changes that will improve transparency and provide customers with better clarity on how they are charged for electric service. He discusses the proposal to change the Contributions In Lieu of Taxes-Municipalities (“CILT”) and Subsidies HH related to Help to Humans and NHH related to Non- Help to Humans Subsidy (“SUBA”) riders to recover to the total amount for each tariff rate via a fixed monthly charge. Mr. Shannon also provides a general overview of the proposed changes to the Net Metering Rider to make its operation clearer to customers. Mr. Shannon then presents the tariff sheets for the two new riders - the Outage Recovery Rider and the Legacy Debt Rider – that are proposed to go into effect in FY2027.

Lastly, Mr. Shannon presents the rate design for the provisional rates, explaining how the rate design is consistent with the provisional rates for PREPA during the 2017 Rate Review and improves transparency for customers. He also explains that LUMA is proposing that the reconciliation of provisional rates will occur over a number of months to reduce rate shock to customers and impacts to LUMA cash flow.

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A. WITNESS AND CASE INTRODUCTION

Witness Identification

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

A. I am Sam Shannon, and I am an Associate Director at Guidehouse, a global business and advisory firm. My business address is 1155 Sherman Ave, Madison, Wisconsin 53703.

Q.2 On whose behalf are you testifying before the Puerto Rico Energy Bureau (the “Energy Bureau”).

A. I am testifying on behalf of LUMA Energy LLC and LUMA Energy ServCo, LLC (“LUMA”) as part of the Commonwealth of Puerto Rico Energy Bureau’s (“Energy Bureau” and/or “PREB”) proceeding NEPR-AP-2023-0003, In Re: Puerto Rico Electric Power Authority Rate Review.

Summary of Testimony

Q.3 What is the purpose of your testimony?

A. My testimony will present the utility’s preferred cost-of-service study (“COSS”), revenue allocation, and rate design. I will also discuss the request for provisional rates and the procedure for reconciling the provisional and permanent rates *via* a true-up at the end of this proceeding.

Q.4 Are you sponsoring rate design schedules?

A. Yes. I am sponsoring the following schedules:

<u>LUMA Ex.</u>	<u>Schedule C-8:</u>	<u>Billing Determinants (kW and kWh) by Rate Class</u>
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<u>LUMA Ex.</u>	<u>Schedule C-10:</u>	<u>Contributions in Lieu of Taxes</u>
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LUMA Ex.	<u>Schedule E-1:</u>	Summary of Revenues by Customer Class – Present and Proposed Rates (Optimal and Constrained)
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LUMA Ex.	<u>Schedule E-2:</u>	Proof of Revenue
LUMA Ex.	<u>Schedule E-3:</u>	Differences in Revenue by Class of Service – Present and Proposed Rates (Optimal and Constrained)
LUMA Ex.	<u>Schedule E-4:</u>	Customer Bill Impact Analysis
LUMA Ex.	<u>Schedule F-1:</u>	Proposed Tariffs
LUMA Ex.	<u>Schedule F-2:</u>	Current Tariffs with Proposed Changes Shown in Legal Redline
LUMA Ex.	<u>Schedule F-3:</u>	<u>Description of Current Riders and Surcharges</u>
LUMA Ex.	Schedule F-4:	Proposed Changes to Current Riders and Surcharges
LUMA Ex.	<u>Schedule F-5:</u>	List and Quantification of all Subsidies Reflected in the Proposed Rates
LUMA Ex.	<u>Schedule F-7:</u>	Description of Energy Efficiency Rider
LUMA Ex.	<u>Schedule I-1:</u>	Proposed Revenue Decoupling Mechanism
LUMA Ex.	<u>Schedule K-1:</u>	Fully Allocated Embedded Cost of Service Study (“COSS”)
LUMA Ex.	<u>Schedule K-2:</u>	Explanations and Calculations for the derivation of each allocation factor used in the Embedded COSS
LUMA Ex.	<u>Schedule L-1:</u>	Total Revenue at Present Rates and the achieved Revenue Allocation (at Present Rates) among customer classes.
LUMA Ex.	<u>Schedule L-2:</u>	Total Revenue at Proposed Rates with New Rate Design and the proposed allocation of revenue at Proposed Rates with New Rate Design among customer classes.
LUMA Ex.	<u>Schedule M-1(a):</u>	Proposed Rates with New Rate Design by rate class, for both the Rate Year and Extension Years, and for both Optimal and Constrained Budgets
LUMA Ex.	<u>Schedule M-1(b):</u>	Comparison of the rates in Schedule K-1(a) to Present Rates
LUMA Ex.	<u>Schedule M-2:</u>	Comparison of Proposed Rates with New Rate Design to Proposed Rates with Existing Rate Design. (For both the Rate Year and Extension Years and for both Optimal and Constrained Budgets)
LUMA Ex.	<u>Schedule M-3:</u>	Sample Customer Bills based on the Proposed Rates with New Rate Design for each customer class, at varying levels of electricity usage reflecting a spectrum of realistic

usage levels

LUMA Ex.	<u>Schedule M-4:</u>	Customer Bill Impact Analysis that compares (a) bills based on Proposed Rates with New Rate Design with (b) bills based on Present Rates
LUMA Ex.	<u>Schedule M-5:</u>	Customer Bill Impact Analysis that compares (a) bills based on Proposed Rates with New Rate Design with (b) bills based on Proposed Rates with Existing Rate Design
LUMA Ex.	<u>Schedule M-6:</u>	Bill Frequency Analysis for customer bills based on Present Rates.
LUMA Ex.	<u>Schedule M-7:</u>	Bill Frequency Analysis for customer bills based on Proposed Rates with New Rate Design.
LUMA Ex.	<u>Schedule M-8:</u>	Bill Frequency Analysis that shows the bill increase or bill decrease experienced by customers when the present rates are replaced by the Proposed Rates with New Rate Design, as well as the quantity of customers experiencing varying levels of these bill impacts within each customer class
LUMA Ex.	<u>Schedule M-9:</u>	Explanation of whether and how the Proposed Rates with New Rate Design (a) ensure that all customers contribute fairly to the electric system costs that PREPA, LUMA or Genera have historically incurred and continue to incur; and (b) do not shift costs properly attributable to self-supplying or third-party-supplying customers to other customers.
LUMA Ex.	<u>Schedule N-1:</u>	Billing Determinants by Rate Class
LUMA Ex.	<u>Schedule O-1:</u>	Proposed Tariffs
LUMA Ex.	<u>Schedule O-2:</u>	Current Tariffs with changes in redline to show Proposed Tariffs
LUMA Ex.	<u>Schedule O-3:</u>	Description of the current riders and surcharges
LUMA Ex.	<u>Schedule O-4:</u>	Description of and support for proposed changes to the current riders and surcharges

20

21

22 **Q.5 Are there any Exhibits attached to your Testimony?**

23 A. Yes, I am sponsoring three exhibits:

- 24
- 25
- LUMA Exhibit 20.01: RSS-1 – Sam Shannon Curriculum Vitae
 - LUMA Exhibit 20.02: RSS-2 – Draft Tariff Sheets for Provisional Rate Rider

- Exhibit 20.03: RSS-3 – Rate Design for Provisional Rates

Professional Background and Education

Q.6 Please describe your educational background and professional experience.

A. I graduated from Southwestern University in Georgetown, Texas with a bachelor's degree in Philosophy and Spanish Literature in 2007. I received a master's in public affairs with a focus on energy policy from the University of Wisconsin-Madison in 2013. I completed the National Association of Regulatory Utility Commission ("NARUC") rate school in 2014 and the advanced course in 2015. I have been employed by Guidehouse since 2019. In my current role, I work with utilities on cost-of-service studies, rate design, renewable energy programs, and other regulatory strategy projects. Prior to Guidehouse, I was employed by the Public Service Commission of Wisconsin where I served on the NARUC staff subcommittees for Electricity and Rate Design. In addition to my work at Guidehouse, I currently hold an appointment as a Visiting Lecturer at the University of Wisconsin-Madison where I teach a graduate course on utility finance and ratemaking.

Q.7 Have you appeared as a witness before other regulatory commissions?

A. I have appeared as an expert witness before the California Public Utilities Commission, Florida Public Service Commission, Maine Public Utilities Commission, Minnesota Public Utilities Commission, Public Service Commission of South Carolina, the Virginia State Corporation Commission, and the Public Service Commission of Wisconsin. I have testified on a variety of matters including time-of-use rate design, real time pricing, net metering reform, renewable energy programs, and rate cases for electric, water, and natural gas utilities.

Q.8 Have you previously testified or made presentations before the Energy Bureau?

A. Yes. I have participated in four Technical Conferences held by the Energy Bureau and its

consultants in this rate review proceeding (on January 10, 2025, February 21, 2025, and March 7, 2025, and June 18, 2025 respectively).

B. ELECTRIC COST OF SERVICE

Q.9 What is the purpose of a cost-of-service study?

A. In utility rate cases, the revenue requirement needs to be apportioned among the various customer classes following well-established cost causation and cost allocation principles. A cost-of-service study (“COSS”) is a mathematical representation of a specific utility’s system and operations for the purpose of showing what share of the utility’s system costs are incurred to serve each customer class. The output of a COSS shows the amount of the total revenue requirement that each customer class is responsible for based on cost-causation and cost-allocation principles.

Q.10 How does a utility perform a cost-of-service study?

A. The general parameters are set out in the NARUC Cost Allocation Manual (hereafter referred to as “NARUC Manual”)¹. NARUC is the National Association of Regulatory Utility Commissioners (“NARUC”). The NARUC Manual provides an overview of cost of service studies and summarizes the cost allocation process. The NARUC Manual discusses the three major steps in the cost allocation process: 1) functionalization of investments and expenses, 2) classification of costs, and finally 3) allocation of costs among customer classes. In the first step, costs are functionalized by purpose (i.e., Generation, Transmission, Distribution, Customer Service, and Administration & General). In the second step, they are classified by unit (i.e., Energy, Demand and Customer). In the third step, the costs are allocated to each customer class.

¹ 1992 version

The third and final cost allocation step involves ensuring that every cost and revenue component is allocated among the customer classes in proportion to their share of particular utility operational statistics. These statistics include number of customers, contribution to system peak loads, non-coincident peak loads, energy consumed, and others. The allocator used in this step reflects the analysts' judgement as to the proper functionalization and classification of each cost based on utility operations.

A. Cost Functionalization

Q.11 How are the costs functionalized in your COSS?

A. The FERC Uniform System of Accounts ("USOA") is the standard cost functionalization scheme for utilities in the United States. The accounts in the USOA, both expense and plant accounts, are grouped by functional cost areas. For example, accounts in the 350s are the transmission plant accounts, accounts in the 580s and 590s are distribution expense accounts, and accounts in the 450s are for other operating revenues.

Q.12 Does the Puerto Rico Electric Power Authority's ("PREPA") accounting meet the requirements of the USOA?

A. In this case, PREPA is not yet fully compliant with the FERC USOA.

Q.13 How does the lack of FERC accounting impact the ability to functionalize costs?

A. As noted in the NARUC Manual, the degree or complexity of functionalization will depend on the individual utility as well as the regulatory environment. The NARUC Manual notes that while the assignment of costs will generally follow the accounting categories in the USOA, at times there will be exceptions and that, in such cases, the purpose of functionalization, not the accounting treatment, must drive the distribution of the functional costs used in the cost allocation study, including the production function, the transmission function, the distribution function, the customer service function and the administrative

and general function.

Q.14 Can you describe these functional categories?

A. Yes. The production function consists of the costs associated with power generation and wholesale purchases. This includes the costs of fossil-fuel-fired, nuclear, hydro, solar, wind and other generating units. The costs associated with the purchase of power and its delivery are also included. The transmission function includes the assets and expenses associated with the high voltage system and the distribution function encompasses the radial distribution system that connects customers to the transmission system. The customer service function includes the plant and expenses associated with providing services to customers, such as meters, billing and collection and customer information and services. The administrative and general function includes management costs, administrative buildings, etc., that cannot be assigned to other major cost functions.

Q.15 How did you functionalize LUMA's costs?

A. In LUMA's case, the revenue requirement is presented in a similar manner to prior budget presentations. I was able to make some general functionalization decisions based on the roles of the operators. Genera PR LLC's ("Genera") costs and PREPA HydroCo LLC's ("PREPA HydroCo") costs are assigned to production; LUMA's costs span transmission, distribution, and customer service; PREPA's HoldCo costs are assigned to administrative and general. LUMA does not separate out its expenses by transmission or distribution, so I applied the share of miles of lines for each to perform a rudimentary splitting of the GridCo costs into transmission and distribution. Miles of transmission and distribution lines is a rough proxy for the level of investment needed in each functional area.

B. Cost Classification

Q.16 Please describe how cost classification works.

A. The three principal cost classifications for an electric utility are demand costs (costs that vary with the kW demand imposed by the customer), energy costs (costs that vary with the energy or kWh that the utility provides), and customer costs (costs that are directly related to the number of customers served).

Q.17 Is cost classification subject to a certain amount of expert judgement?

A. Yes. Cost classification attempts to answer the question: “Why did a utility build the infrastructure and incur the costs it did?” While cost functionalization is non-controversial, cost classification requires judgements from the analyst as to the most reasonable way to allocate costs among the customer classes. Different analysts will arrive at different conclusions based on their perspectives on a utility system.

Q.18 How are production costs generally classified in the NARUC manual?

A. Costs that are based on the generating capacity of the plant are demand-related costs. Other costs, such as cost of fuel and certain operation and maintenance expenses, are directly related to the quantity of energy produced. In addition, capital costs that reduce fuel costs may be classified as energy-related rather than demand-related. In the case of purchased power, demand charges are normally assumed to be demand-related and energy charges are normally assumed to be energy-related.

Q.19 What methodology did you use to classify production costs?

A. Electric generators provide two distinct, but related, functions: capacity support for peak loads and production of energy. This dual nature results in production costs being classified by both energy generation and coincident peak demand. The proportion of each classification is dependent on the type of generator, its fuel, and its capital and operating costs. The NARUC manual describes two methodologies that are used to calculate the demand/energy split for production costs: equivalent peaker and average-excess. The

equivalent peaker method uses a cost-based approach to calculate the split, and the average-excess uses a load-based approach.

Q.20 How are you classifying production costs given the accounting constraints inherited by LUMA from PREPA?

A. An equivalent peaker analysis requires the original cost of the generation facilities, which is not available due to the current state of PREPA's balance sheet and lack of plant accounts. Therefore, I used a modified average-excess calculation to determine the demand/energy split used for some production costs. Under this calculation, the peak PREPA system load is divided by the sum of the peak load and the average monthly load to calculate the proportion of demand-classified production costs. This formula is designed so that for a utility with a 100 percent load factor, the demand/energy split is 50-50. For the test years, the formula results in a 52.3 percent demand share and a 47.7 percent energy share. I used this ratio to split Genera's operating expenses and labor costs. Genera's capital costs had sufficient breakout to classify the peaker plant costs to demand and the remainder to energy.

The HydroCo costs are classified as all energy. Generally, run-of-river and reservoir hydroelectric facilities are less dispatchable than other generation. For these types of generators, a common approach is to use the effective load carrying capacity ("ELCC") as the demand share. ELCC measures how much a generating resource can reliably contribute to grid reliability, especially during peak demand, considering the resources' reliability and variability. It is expressed as a percentage of the resource's installed capacity, reflecting how much that capacity can be relied upon to meet grid needs. Absent the ELCC, reduced or non-dispatchable resources are classified entirely as energy. While

these generators provide capacity support when running, the ability for the utility to control them to meet fluctuations in load is limited, so their value is primarily in providing less expensive sources of energy.

Q.21 Please describe the classification of transmission costs.

A. The costs of transmission are generally considered fixed costs that do not vary with the quantity of energy transmitted. A transmission system is built to move power from generation to load centers. The primary criteria when constructing the bulk power grid is ensuring that the grid can handle the peak load requirements. Therefore, for cost classification purposes, the transmission system is entirely classified as peak demand.

Q.22 How are distribution costs classified?

A. Like generators, the distribution network performs two functions: supporting peak load and connecting customers to the grid. Distribution poles, conductors, and line transformers are classified according to the customer/demand split to reflect the dual nature of the distribution network. The customer/demand split is calculated in two primary methods. First, the zero-intercept method plots the cost of the assets against their capacity rating. A regression line is drawn to the zero-intercept of the capacity rating axis. This cost amount is theoretically the cost of equipment needed to serve a zero-load customer and makes up the customer share of distribution costs; the remainder is classified as demand.

The second method is called a minimum system study. This analysis takes the smallest unit purchased by the utility and applies that unit cost to the total amount of infrastructure. The result is the cost of a distribution network assuming that the utility only installed the minimum infrastructure to connect its customers, hence the customer-classified portion. Costs above this amount are incurred, in theory, to support peak loads and are classified as demand.

Q.23 What method did you use to calculate the customer/demand split?

A. Due to the lack of actual cost information needed for a zero-intercept analysis, I conducted a minimum system study. While the plant balances are estimates based off of the information available in Schedule C-7, the results of the minimum system study fell within what I considered to be the range of reasonableness. The analysis, as shown in Schedule K-1, resulted in a customer share of 29.73 percent and a demand share of 70.27 percent. I expect this analysis to be more refined in PREPA's next rate case as the balance sheet is remediated.

Q.24 What classification is used for customer service and billing costs?

A. Like transmission costs, these are only classified in one way, as customer-related costs. A utility has customer account representatives, the billing system, metering systems, call centers, and other related departments to provide service to its customers and collect revenue. Each of these functions directly results from the number of customers, and, therefore, all the related costs are customer-classified costs.

Q.25 The final functional cost area is administrative and general. How are these costs classified?

A. Administrative and general costs are those that exist by virtue of the utility being a business. Examples of these costs are office buildings, office supplies, property insurance, legal services, security, human resources, and the IT Department. In effect, these are the costs that are not directly related to the provision of electric service. One way of approaching these costs is to presume that these costs are incurred to support the employees of the utility, and, therefore, they should be classified as labor-related. Some of the costs in this functional area could also be viewed as resulting from the fact that the utility has regulatory and other professional obligations and should be classified as revenue-related. I used a

mixed approach based on the cost category.

C. Cost Allocation

Q.26 After cost functionalization and classification, what is the next step in a COSS?

A. The final step in performing a COSS is to allocate the costs across the customer classes. To accomplish this, the customers served by the utility are separated into several groups based on the nature of the service provided and load characteristics.

Q.27 What are the principal allocators used to allocate costs?

A. The NARUC manual describes allocators for each type of cost classification, and the analyst will also use their own judgement as to which allocator is the most reasonable. Once the customer classes to be used in the cost allocation study have been designated, the functionalized and classified costs are allocated among the classes as follows:

- Demand-related costs: allocated based on the basis of **peak loads (kW) each customer classes impose on the system.**
- Energy-related costs: allocated among the customer classes on the basis of **energy (kWh) which the system must supply to serve the customers.**
- Customer-related costs: allocated among the customers on the basis of the **number of customers or the weighted number of customers.** Normally, the weighting of the number of customers in the various classes is based upon an analysis of the relative levels of customer-related costs (service lines, meters, meter reading, billing etc.) per customer.

Q.28 Please describe the allocators you used for production costs.

A. Since production costs are classified as either demand or energy, both types of allocators are used. First, the energy allocator takes the energy consumption by customer class

(grossed up for losses) to represent the production energy needed to supply the end use consumption. This reflects each customer class's share of the energy generated by the utility's fleet. Second, the demand-classified costs are allocated using a peak demand allocator. The peak demand allocator used for production costs is a 12CP allocator, which is one type of coincident peak demand allocator as explained in more detail below.

Q.29 What are the different types of coincident peak demand allocators?

A. All coincident peak allocators split costs based on each customer class's contribution to the system peak, or how much the customer class's load represents as a percentage of total load as measured at the time of the system peak or peaks. If the allocator only looks at the single system peak for the year, that is a 1CP allocator. However, another approach is to take the twelve-monthly system peaks and add them together; this is known as the 12CP allocator.

Q.30 Why did you use the 12CP allocator for demand-classified production costs?

A. In my opinion, the 12 CP allocator is the most reasonable perspective for how generation meets capacity needs because this allocator takes the entire year into account. The utility's generation fleet must be able to supply the customers' load in every hour of the year. Most utilities have seasonal variations in load and schedule maintenance outages to take advantage of times with less demand. This means that the entire fleet is used for capacity support throughout the year and the redundancies built into generation planning allow the utility to do maintenance in shoulder months.

Q.31 How did you allocate transmission costs?

A. I used a 1CP allocator to assign transmission costs to the customer classes. The transmission system differs from the generation fleet in that its available capacity is more static. The bulk power system must be built to accommodate the maximum load on the

system, plus a reserve margin. That single hour of the year determines how the transmission system will be built, and, therefore, the ICP allocator best reflects the design of the transmission system.

Q.32 Distribution costs also have a dual classification. Which allocators did you use for the distribution network?

A. As described above, the distribution network is classified as both demand and customer. For customer-classified costs, I used a weighted customer allocator. A straight customer allocator uses the number of customers in each customer class as the basis of the allocation. However, this does not take into account the fact that large commercial and industrial customers often require more resources from the utility because they have more complex bills, often have dedicated account managers, and require larger connections to the distribution network due to their size. To compensate for this, the weighted customer allocator assigns different weights to customer counts, with residential customers as the base customer.

Demand-classified costs are allocated based on the non-coincident peak demand allocator. This allocator is made up of the individual customer class peak demands, regardless of when they occurred in relation to the system peak. Non-coincident peak demand (NCP demand) is used for the distribution system because feeders and circuits are sized to handle the peak loads of smaller subsets of the total system. These smaller geographic areas often correspond roughly to the customer classes. For example, a circuit may provide power to an industrial park and another circuit to a residential neighborhood.

Q.33 Did you make any other distinctions in allocating the distribution costs?

A. Yes. Customers can take service from a variety of available voltages. A small set of

customers may even be able to take service directly at transmission voltage. For these transmission service customer classes, no distribution costs are assigned since they do not use the distribution network. The distribution system can be broken into two parts, the primary and secondary systems. Primary distribution lines are energized at higher voltages and are reduced or “stepped down” to secondary voltages for distribution to smaller customers. For customers who take service from a primary distribution line, I did not allocate any costs related to the secondary distribution network to them.

Q.34 How did you split the distribution costs between primary and secondary?

A. I split the distribution costs in the same proportion as miles of primary and secondary distribution lines.

Q.35 Did you use the same weighted customer allocator for the customer service costs?

A. Yes. For the reasons described above, the weighted customer allocator gives a more accurate picture of the obligations for each customer class. I used the weighted customer allocator for all customer service costs except for bad debt.

Q.36 How did you allocate bad debt?

A. Bad debt, also called uncollectible accounts, is a cost that every utility has to account for in its costs. Bad debt is a cost of running a business and is directly calculated as a function of the total revenue to the utility. Therefore, I used the total revenue allocator to split these costs among the customer classes. This allocator looks at the total revenue and determines the percentage each class represents to the total utility revenue.

Q.37 Describe how you allocated the labor-classified costs.

A. Administrative and general costs are not directly related to the provision of electric service. As such, the most common way to allocate these costs is to use an indirect allocator. All the costs described thus far use direct allocators based on measurable statistics. Indirect

allocators are based on costs that have been previously allocated using a direct allocator. The largest example of this is the labor allocator. Labor costs for the utility personnel that work to generate, deliver, meter, and bill customers for electric service are assigned based on the functional areas and cost classifications described above. By taking all the labor costs for these areas, I developed a separate labor allocator that reflects the contribution that each customer class bears to the costs of these employees. This labor allocator is used to distribute most of the administrative and general costs among the customer classes.

Q.38 What other allocators did you use for administrative and general costs?

A. The labor allocator is not the most reasonable allocator for some specific items. Property insurance is a function of the amount of infrastructure the utility owns. Therefore, I used an indirect allocator based on the capital expense assignment. For the operator fees, I allocated each based on the share of the operator's functional costs; the Genera operator fees are allocated based on production expense, and the LUMA operator fees are based on transmission and distribution expenses.

Q.39 Is PREPA's debt incorporated into the COSS?

A. Yes and no. While the utility is not asking for PREPA's legacy debt to be included in the revenue requirement because it is still pending the resolution of the Title III process, the utility's net income is based on a target debt-coverage ratio. In order to allocate the net income component to customer classes, I had to allocate the legacy debt first. Legacy bonds are allocated based on total revenue, and the pension obligations are allocated using the labor allocator. This then provides a basis for establishing each customer class's share of the utility's net income.

D. Discussion of COSS Results

Q.40 Please summarize the results of the utility's cost-of-service study.

A. Once all the costs have been allocated to the customer classes², the result is a build-up of the class revenue requirements. Tables 1, 2, and 3 below show the results of the COSS.

Table 1. FY2026 COSS Results

Customer Class	Revenue at Present Rates	COSS Increase	COSS Percent Increase
Residential (GRS)	\$1,355,950,810	\$773,497,045	57.04%
Low-Income Residential (LRS, RH3, RFR)	\$181,179,599	\$100,113,987	55.26%
Small Commercial (GSS, USSS, CATV)	\$586,144,779	\$169,788,778	28.97%
Medium Commercial (GSP, TOU-P)	\$991,260,218	\$313,892,057	31.67%
Large Commercial & Industrial (GST, TOU-T, LIS, PPBB)	\$705,668,099	\$47,942,031	6.79%
Lighting (PLG, LP-13)	\$110,253,311	\$18,499,346	16.78%
Other (GAS)	\$5,534,023	\$9,339,328	168.76%
Total Utility	\$3,935,990,840	\$1,433,072,573	36.40%

Table 2. FY2027 COSS Results

Customer Class	Revenue at Present Rates	COSS Increase	COSS Percent Increase
Residential (GRS)	\$1,310,798,420	\$893,885,193	68.19%
Low-Income Residential (LRS, RH3, RFR)	\$176,304,786	\$114,657,038	65.03%
Small Commercial (GSS, USSS, CATV)	\$598,105,293	\$204,729,742	34.23%
Medium Commercial (GSP, TOU-P)	\$1,010,129,469	\$346,920,675	34.34%
Large Commercial & Industrial (GST, TOU-T, LIS, PPBB)	\$704,156,170	\$43,765,112	6.22%
Lighting (PLG, LP-13)	\$108,711,113	\$29,970,050	26.86%
Other (GAS)	\$5,661,034	\$10,902,405	189.35%
Total Utility	\$3,913,866,284	\$1,644,830,215	42.02%

Table 3. FY2028 COSS Results

Customer Class	Revenue at Present Rates	COSS Increase	COSS Percent Increase
Residential (GRS)	\$1,264,035,486	\$931,386,566	73.68%
Low-Income Residential (LRS, RH3, RFR)	\$171,068,154	\$117,972,257	68.96%
Small Commercial (GSS, USSS, CATV)	\$609,169,265	\$204,882,856	33.63%
Medium Commercial (GSP, TOU-P)	\$1,013,155,840	\$357,122,659	35.25%
Large Commercial & Industrial (GST, TOU-T, LIS, PPBB)	\$705,601,163	\$9,756,986	1.38%
Lighting (PLG, LP-13)	\$110,920,438	\$32,243,737	28.32%
Other (GAS)	\$5,761,527	\$11,498,462	196.19%
Total Utility	\$3,879,711,874	\$1,664,863,523	42.91%

The results show above average increases to the residential classes in all test years, a small increase to transmission level customers, and moderate increases to everyone else.

C. REVENUE ALLOCATION

Q.41 Please describe what revenue allocation is.

² The customer classes shown in the tables below represent groupings of tariffs that share similar service types and are for more easily displaying COSS results and revenue allocation.

A. Revenue allocation is the assignment of portions of the total revenue requirement to each customer class. It is influenced, but not directed, by the results of a COSS.

Q.42 Why isn't the revenue allocation taken from the COSS?

A. Because there are multiple reasonable ways of performing a COSS, the COSS is not a prescriptive tool for setting revenue allocation; it cannot carry the level of certainty needed for such an important activity as revenue allocation. As the Energy Bureau rightly noted in the last rate case, cost-of-service provides a guide to revenue allocation, not a mandate.³ The reason for this distinction is that revenue allocation is at its core a policy function. There are other considerations that a regulator might rely on to make revenue allocation decisions outside of the COSS results.

Q.43 What is the utility's proposed revenue allocation?

A. Each of the three test years has its own revenue allocation, based on the COSS for that year. Where there are differences between the COSS results and the proposed revenue allocation, I will discuss in more detail below. A summary of the proposed revenue allocations for each test year is shown in Tables 4, 5, and 6.

Table 4. FY2026 Proposed Revenue Allocation

Customer Class	Revenue at Present Rates	COSS Increase	COSS Percent Increase	Proposed Revenue Increase	Proposed Percent Increase
Residential (GRS)	\$1,355,950,810	\$773,497,045	57.04%	\$585,083,826	43.15%
Low-Income Residential (LRS, RH3, RFR)	\$181,179,599	\$100,113,987	55.26%	\$33,556,665	18.52%
Small Commercial (GSS, USSL, CATV)	\$586,144,779	\$169,788,778	28.97%	\$214,261,418	36.55%
Medium Commercial (GSP, TOU-P)	\$991,260,218	\$313,892,057	31.67%	\$415,458,632	41.91%
Large Commercial & Industrial (GST, TOU-T, LIS, PPBB)	\$705,668,099	\$47,942,031	6.79%	\$142,772,478	20.23%
Lighting (PLG, LP-13)	\$110,253,311	\$18,499,346	16.78%	\$39,572,984	35.89%
Other (GAS)	\$5,534,023	\$9,339,328	168.76%	\$2,181,323	39.42%
Total Utility	\$3,935,990,840	\$1,433,072,573	36.40%	\$1,461,414,429	36.40%

³ See Final Resolution and Order, January 10, 2017, Case CEPR-2015-0001, at p. 111, ¶317.

Table 5. FY2027 Proposed Revenue Allocation

Customer Class	Revenue at Present Rates	COSS Increase	COSS Percent Increase	Proposed Revenue Increase	Proposed Percent Increase
Residential (GRS)	\$1,310,798,420	\$893,885,193	68.19%	\$650,382,922	49.62%
Low-Income Residential (LRS, RH3, RFR)	\$176,304,786	\$114,657,038	65.03%	\$37,275,492	21.14%
Small Commercial (GSS, USSL, CATV)	\$598,105,293	\$204,729,742	34.23%	\$276,933,136	46.3%
Medium Commercial (GSP, TOU-P)	\$1,010,129,469	\$346,920,675	34.34%	\$489,330,776	48.44%
Large Commercial & Industrial (GST, TOU-T, LIS, PPBB)	\$704,156,170	\$43,765,112	6.22%	\$146,091,919	20.75%
Lighting (PLG, LP-13)	\$108,711,113	\$29,970,050	26.86%	\$42,107,261	38.73%
Other (GAS)	\$5,661,034	\$10,902,405	189.35%	\$2,669,484	47.16%
Total Utility	\$3,913,866,284	\$1,644,830,215	42.02%	\$1,644,790,990	42.02%

Table 6. FY2028 Proposed Revenue Allocation

Customer Class	Revenue at Present Rates	COSS Increase	COSS Percent Increase	Proposed Revenue Increase	Proposed Percent Increase
Residential (GRS)	\$1,264,035,486	\$931,386,566	73.68%	\$735,061,941	58.15%
Low-Income Residential (LRS, RH3, RFR)	\$171,068,154	\$117,972,257	68.96%	\$44,980,280	26.29%
Small Commercial (GSS, USSL, CATV)	\$609,169,265	\$204,882,856	33.63%	\$266,909,772	43.82%
Medium Commercial (GSP, TOU-P)	\$1,013,155,840	\$357,122,659	35.25%	\$443,858,856	43.81%
Large Commercial & Industrial (GST, TOU-T, LIS, PPBB)	\$705,601,163	\$9,756,986	1.38%	\$133,813,372	18.96%
Lighting (PLG, LP-13)	\$110,920,438	\$32,243,737	28.32%	\$37,594,134	33.89%
Other (GAS)	\$5,761,527	\$11,498,462	196.19%	\$2,562,114	44.47%
Total Utility	\$3,879,711,874	\$1,664,863,523	42.91%	\$1,664,780,469	42.91%

Q.44 What principles did you adhere to in setting the revenue allocation for the test

years?

A. The revenue allocations attempted to balance three goals. First, given the size of the overall increase requested in the rate case, no customer class should receive a decrease from present rates. Second, low-income residential customers' increase should be capped

at a maximum of 30 percent. Finally, no class should receive an increase greater than two times the overall utility percentage increase.

Q.45 Does your revenue allocation follow the COSS?

A. Yes, in a broad, directional sense. As described in Section II of my testimony, the residential class showed a large increase in the COSS. Assigning the residential customers such a large increase in year one would violate the third principle which aims to moderate customer class increases.

Q.46 Please describe your proposed revenue allocation.

A. The challenge with revenue allocation in this rate case is to make progress towards setting rates that more closely match the costs to serve each customer class. While it would be faster to increase residential rates by a single large jump in rates, I instead chose to spread the increase over the three years. Since revenue allocation is a zero-sum game, this required some of the other classes, particularly transmission-service customers, to take higher increases in the initial year. Over the three-year period, as the residential customers' rates are increased and they contribute more of the revenue, these other classes will see decreases in their rates.

Q.47 How did you incorporate a discount for low-income customers?

A. The Residential Fixed Rate ("RFR") (available to customers residing in a housing unit physically located within a project owned by the Public Housing Administration) fixed rates are established by statute, so I did not propose any changes the fixed rates. For the other low-income classes, Lifeline Residential Service ("LRS") (available to customers who meet the Nutritional Assistance Program Criteria) and Residential Service for Public Housing Projects ("RH3") (available to residential customers of Public Housing Projects supported or subsidized in whole or in part by loans, grants, contributions or

appropriations of the federal, state, or municipal governments), the cap on the increase described above means that these customers will pay less for electricity than General Residential Service (“GRS”) customers. For example, in 2026 the effective price of electricity for GRS customers is \$0.33/kWh and \$0.25/kWh for the low-income rates. The discount is baked into the rates and recovered from other customers in the form of higher rates.

D. RATE DESIGN

Q.48 Have you prepared a comprehensive rate design?

A. Yes. Schedule M shows a rate design proposal for all tariffs and charges. Rates are set to achieve the proposed revenue allocation discussed in Section III of my testimony.

Q.49 Is there a separate rate design for each test year?

A. Yes. Because all three test years have separate revenue requirements, I was able to develop a rate design for each test year. The use of three test years allows for more gradual change across the entire time-period than if the entire rate design were implemented in one year.

Q.50 Are there any general principles you used in setting rates?

A. Yes, I tried to adhere to the rate design principles described by James Bonbright:⁴

1. The related, “practical” attributes of simplicity, understandability, public acceptability, and feasibility of application.
2. Freedom from controversies as to proper interpretation.
3. Effectiveness in yielding total revenue requirements under the fair-return standard.
4. Revenue stability from year to year.
5. Stability of the rates themselves, with a minimum of unexpected changes seriously adverse to existing customers.
6. Fairness of the specific rates in the apportionment of total costs of service among different customers.
7. Avoidance of “undue discrimination” in rate relationships.
8. Efficiency of the rate classes and rate blocks in:

⁴ James C. Bonbright, *Principles of Public Utility Rates*, Columbia University Press (1961).

- i. discouraging wasteful use of service while promoting all justified types and amounts of use;
- ii. the control of the total amounts of service supplied by the company; and
- iii. the control of the relative uses of alternative types of service (e.g., on-peak versus off-peak electricity).

Throughout the rate design exercise, I attempted to balance each of these principles to achieve a comprehensive rate design, not just in a single test year, but across the entire multi-year period.

Q.51 What are the broad changes in rate design you are proposing in this case?

A. Generally speaking, a major objective in the rate design is rebalancing the proportion of revenues collected via fixed, demand, and energy charges. I am not proposing a straight-fixed variable (“SFV”) approach, which places all fixed costs into the fixed, or demand component of the utility customer’s bill and only variable costs to the variable, or energy-use component on the bill. My rate design does not go as far as SFV in terms of placing all fixed costs into the fixed or demand component, but it attempts to collect a greater share of revenue from fixed and demand charges on the customer’s bill. This rate design will provide some revenue stability to the utility and make it easier for the utility to withstand downward trends in consumption. As customers use less energy, the grid becomes less important as a commodity delivery network and more as a service and power support function. Rebalancing the revenue share of the different rate components better reflects this shift in how the electric grid is being used by customers.

Q.52 Please describe the rate design for the commercial and industrial customer classes.

A. Customers who take service at primary voltage or greater have demand rates. A demand rate charges the customer for the maximum measured power draw that the customer is allowed to use during the billing period. The demand charge introduces a new variable for consideration in designing rates for these customers: load factor. Load factor is a

percentage showing how consistently a customer consumes energy. In general, it is more efficient and less expensive for the utility to generate power consistently than to have large cycling requirements to meet inconsistent customer loads. The principle is related to the idea that base load generation (or generation that is available most of the time) can produce power at a lower per-unit cost than a peaker plant (which is designed to only run during peak demand).

The utility's proposed rate design tries to balance the increase in demand and energy charges, while still preserving the price signal that lowers the effective price of energy for high-load factor customers. Having more high-load factor customers will improve the system load factor, resulting in lower power generation costs for everyone. Also, this price signal reflects the increased costs of inconsistent loads described above.

Q.53 Are you proposing any changes to the time-of-use ("TOU") rates in this case?

A. No. Currently, there are three optional TOU rates available for primary and transmission customers and residential customers with electric vehicles, TOU-P, TOU-T, and EV-TOU. Generally, TOU rate structures should reflect the time periods in which it is more or less expensive to generate energy. This kind of structure incents customers to shift load to times when there is excess capacity or when there are more low-cost resources on the system. Although I am not proposing any changes or expansion of the current TOU offerings, the interim years after this rate case will be a good time to investigate future TOU rates. This will better align new TOU rates with the timing of the upgraded billing system, the AMI meter roll-out, and the activation of the new meter data management system.

Q.54 What changes are you proposing for the lighting classes?

A. The major change outside of the rates themselves is the addition of rates for LED

streetlights. LUMA has been rolling out LED streetlights across the island, and the current tariff does not include charges for these lamps. I have added charges for the types of LED lamps that LUMA is installing. If there are new LED types in the future, LUMA will file a request with the Energy Bureau to incorporate the new charges into the Public Lighting tariff.

E. Customer Charges

Q.55 Please explain why electric tariffs include a fixed monthly customer charge.

A. Electric tariffs price electricity primarily on some sort of volumetric basis: energy, demand, or both. This reflects the fact that fundamentally utility service is about delivering a specific commodity. As a result, the more you use, the more you pay. There is another component to electric tariffs called the customer charge. This price reflects the principle that there are some fixed costs associated with connecting customers to the commodity delivery network. Even if a customer uses no power, there is still some infrastructure dedicated to connecting that customer to the distribution network.

Q.56 What types of costs make up investments to connect customers?

A. As discussed in Section II of my testimony, some costs are customer-classified costs. These represent the investments that exist primarily to enable customers to connect to the power system (and collect payment once they are connected). These include things like meters, customer billing, account management, service drops, marketing and sales expenses, and some portion of distribution assets.

Q.57 Did you perform a functionalized cost analysis?

A. Yes, the functionalized cost analysis for each test year is shown in Schedule L. A functionalized cost analysis splits all the costs for a customer class into the functional cost components and converts those costs to a rate based on the cost classification used. I

have summarized the results in Table 7 below.

Table 7 Customer Classified Costs – GRS and GSS⁵

	2026	2027	2028
GRS	\$15.54/month	\$21.71/month	\$21.72/month
GSS	\$55.24/month	\$78.96/month	\$77.33/month

Q.58 What is the Utility proposing for the residential customer charge?

A. The Utility’s proposed rate design increases the customer charge for residential customers year-over-year up to \$20.00 per month by the 2028 test year. This will bring the customer charge in line with the total amount of customer-classified costs.

Q.59 How will the increase to the customer charge affect customers?

A. Low-use customers will see a higher-than-average percent increase to their bills, and higher use customers will see lower bill percent increases.

~~**Q.60 What about net-metered (“NEM”) customers?**~~

~~A. Increasing the customer charges is important for NEM customers because those customers are not contributing sufficient revenue to cover their costs under the current rate design. NEM customers receive a credit for the total energy charge, which currently includes most of the customer-classified costs. Because these costs are incurred simply by the presence of customers, not by how much the customer consumes, the NEM customer can avoid paying for all of its associated monthly fixed costs for being connected to the distribution system. Aligning the customer charge with the customer-classified costs will make sure that all customers, including NEM customers, contribute a fairer amount toward the utility’s costs based upon their cost causation.~~

~~Q.61~~**Q.60 How does increasing the customer charge benefit the Utility?**

⁵ General Residential Service (“GRS”) and General Service at Secondary Distribution Voltage (“GSS”) (non-residential service with a load lower than 50kVA).

A. Because utility revenues are tied to consumption, the seasonal variations in how much electricity customers use translates to seasonal variations in revenue. Collecting more revenue via a fixed charge will provide greater revenue stability to the utility. This greater revenue stability will make budgeting and planning easier by making cash flow more predictable throughout the year.

Q.62Q.61 Are you proposing increases to the customer charges of the low-income rates?

A. For LRS and RH3 customers, yes. The RFR monthly charges are established by statute, so they cannot be changed in this rate case. I maintained a similar ratio to the status quo of customer charge rates between the GRS customers and the LRS/RH3 customers resulting in lower customer charges for these low-income rates.

Q.63Q.62 Are you proposing increases to the customer charges for the other customer classes?

A. Yes, all the rate classes have increases to the customer charge. The detailed rate design is shown in Schedule K.

F. Bill Impact Analysis

Q.64Q.63 Did you perform a bill impact analysis for residential customers?

A. Yes. A bill impact analysis shows how the proposed rate changes affect customer bills at different usage levels. The various analyses are shown in Schedule K.

Q.65Q.64 What kind of bill impact analysis did you perform?

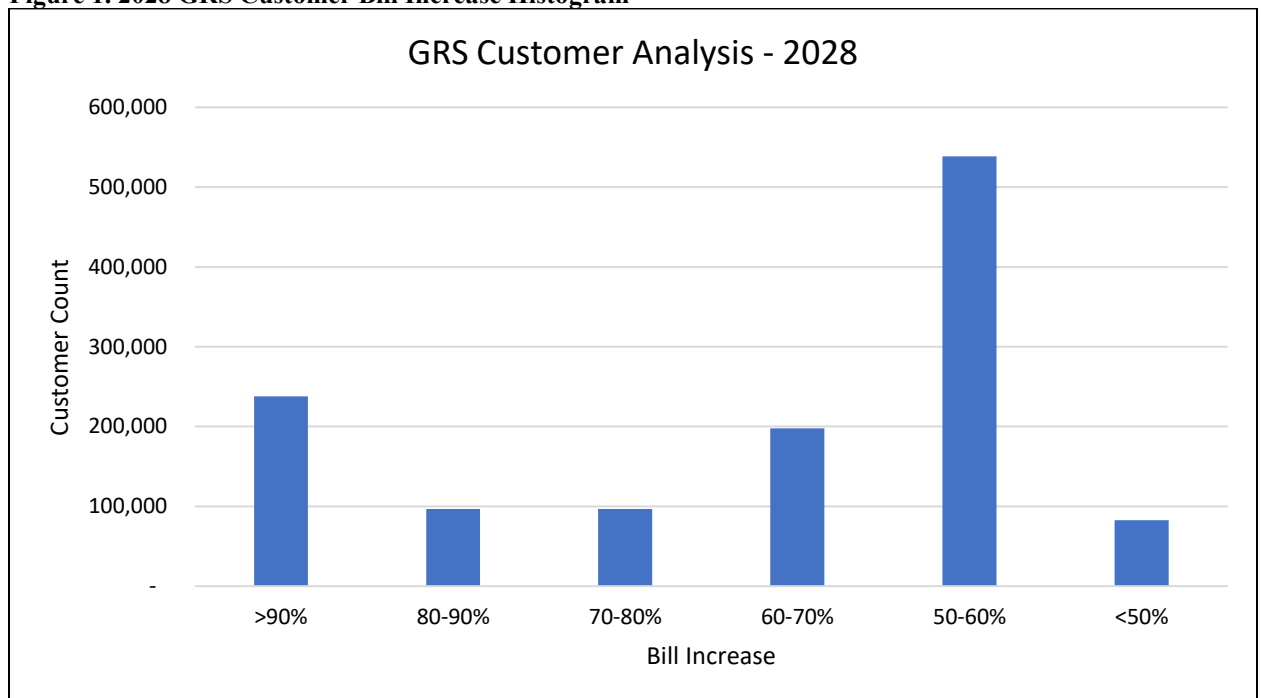
A. I performed two types of analysis to show how the proposed rates impact customers. First, I took representative customer consumption numbers and applied the present and proposed rates to calculate the bill impacts. These representative consumption amounts cover a range of energy use for the energy-only rates and a range of load factors for the demand rates. The second analysis focuses on the GRS residential customers. It shows

the spread of bill increases by number of GRS customers receiving the bill increase.

Q.66Q.65 What does the bill impact analysis show?

A. The bill impact analysis for the 2028 test year is below as Figure 1. Even though the residential class charge increase over the three years is approximately a 58 percent increase, because the rate design uses average cost ratemaking, this increase is what would apply to a customer with average consumption.

Figure 1. 2028 GRS Customer Bill Increase Histogram



We know that the residential customer class shows a wide distribution of consumption levels and a large population of net metering customers. As a result, the analysis shows that the largest share of customers will see an average bill increase.

Q.67Q.66 Are the results of this analysis outside your expectations?

A. No. The large number of residential customers participating in the net metering program means that there are more customers with low, or even zero, billed usage. As a result, if the increase were applied only to the energy charge, as was done in the last rate case, the

burden of paying for the utility system falls to the customers who have more energy usage. The bill impact analysis reflects the policy objective of designing the customer charges correctly, so all customers receive bills based upon charges that are truly reflective of the costs to provide electricity service to them..

G. Customer Class Definitions

Q.68Q.67 What is the definition of a customer class.

A. A key principle of rates is nondiscrimination, which means that a utility cannot charge similar customers different rates for like service. The idea of a customer class represents groupings of customers that take electric service in similar ways. For example, residential customers use energy very differently from large industrial customers, who use energy differently from street lights. Many utilities use maximum measured demand (load) to separate commercial and industrial customers into customer classes; others, like PREPA, use voltage types.

Q.69Q.68 Is a customer class the same as a tariff service?

A. Not necessarily, but often the customer class definitions match the tariff service offerings. It is easier to perform rate design and revenue allocation if the customer classes closely match the tariff services.

Q.70Q.69 Do the current customer classes used by PREPA represent reasonably different service offerings in light of changes since 2017?⁶

A. In my opinion, they do. But I will point out that, as described above, there are multiple reasonable ways to separate customers into different customer classes.

⁶ See Schedule P-1, May 29th Resolution and Order Establishing the Rate Design Filing Requirements.

572 **Q.71Q.70 Are there customer classes that could be combined?**⁷

573 A. I think the obvious candidates for combining customer classes are the General Service at
 574 Primary Distribution Voltage (“GSP”), GSP-TOU and General Service at Transmission
 575 Voltage (“GST”), GST-TOU rates. These customer classes have the same service
 576 characteristics (voltage level), but different tariff rate structures. If the Energy Bureau
 577 decides to move to mandatory time-of-use for these larger customers, that will require the
 578 base classes to merge with the TOU variants.

579 **Q.72Q.71 Do you support moving net metering customers into their own rate class?**⁸

580 A. Not at this time. The core question for determining customer classes is how do customers
 581 use energy. If there is meaningful differences in the way two populations consume
 582 energy, then they should be separated into distinct customer classes because they will
 583 incur costs differently. Net metering is an interesting case; the act of net metering creates
 584 a disconnect between how customers are billed and how they consume energy. By having
 585 the meter “spin backwards” due to energy exports from the customer to the grid, the
 586 metered sales do not match the actual energy consumed.

587 From a system use perspective, customers with their own generation appear to the
 588 utility as just another low-use customer. The usage patterns may differ, but the peak loads
 589 and total consumption numbers are similar to other customers with below average usage.
 590 For example, if the utility sees a residential customer’s average use drop dramatically in a
 591 month, it is hard to say whether that drop is due to the installation of a solar system,
 592 installing a major energy efficiency upgrade, or the customer’s kids leaving the house and
 593 going off to college. For this reason, I recommend that the net metered customers

⁷ See Schedule P-2, May 29th Resolution and Order Establishing the Rate Design Filing Requirements.

⁸ See Schedule P-3, May 29th Resolution and Order Establishing the Rate Design Filing Requirements.

continue to be grouped with the other customers who have not installed their own generation because they are similar to other low load customers.

Q.73Q.72 Do electricity exports warrant the creation of a separate customer class?

A. No, because customer classes need to be reflective of how customers consume energy.

When we allocate a utility's revenue requirement, the costs included are those to provide

power and energy to customers. ~~The ability of a customer to export power does not~~

~~change responsibility for costs related to their consumption of power.~~

H. Decoupling Mechanism

Q.74Q.73 What is a revenue decoupling mechanism?

A. Revenue decoupling is a special rate that acts as a true-up for non-weather-related deviations in a sales forecast. Starting in the late 1990's and early 2000's, utilities were beginning to see their load growth flatten due to energy efficiency programs and general demand saturation. In some cases, utilities even saw declining sales. This trend accelerated with the expansion of distributed generation, which continued to erode utility sales over time. As the sales went down or failed to meet projections, these utilities were unable to earn their authorized revenue requirement, resulting in the need to come back for rate cases quicker than anticipated.

Q.75Q.74 How does revenue decoupling help in this situation?

A. The main idea is to "decouple" the utility's revenue from its electricity commodity sales. Utilities began increasing customer charges and demand charges to provide more stable revenues. Some jurisdictions went further and created special decoupling riders that would automatically adjust based on the actual weather-normalized sales. If a utility's sales were lower than forecasted, the decoupling rider would act as a surcharge to recover the revenue that was previously authorized without the need for a rate case to reset rates.

Q.76Q.75 What if weather-normalized sales were higher than forecast?

A. Some decoupling mechanisms were bidirectional, meaning that if sales were higher than forecast, the decoupling rider would act as a credit to return funds to customers. Other jurisdictions paired decoupling with earnings sharing mechanisms. An earnings sharing mechanism creates an “IOU” to customers if the utility earns a rate of return higher than some set threshold; the amount owed to customers would be incorporated in the next rate case. Both the credit and the earning-sharing mechanism options essentially act as an upper bound to prevent utilities from over-earning in cases where the sales are higher than forecast.

Q.77Q.76 As described in Schedule I of the filing requirements, is the utility proposing a revenue decoupling mechanism in this case?

A. Yes. Due to the success of Puerto Rico’s energy efficiency programs and the high penetration of distributed generation, the forecasted sales are projected to decline year over year for the foreseeable future. Since forecasts include some uncertainty, a decoupling mechanism can protect PREPA’s financial position against declines in sales that exceed the forecasts used for setting rates in this rate case.

Q.78Q.77 When do you propose starting the decoupling mechanism?

A. Pending approval by the Energy Bureau, the decoupling mechanism would apply in Fiscal Year (“FY”) 2028, reconciling revenues from FY2027.

E. **ADDITIONAL TARIFF CHANGES**

A. **Tariff Modifications**

Q.79Q.78 What is PREPA's tariff book?

A. PREPA's tariff book is a listing of PREPA's electricity service offering and the rates for such services, as well as general terms and conditions for all service offerings.

Q.80Q.79 When was the last major revision to the PREPA tariff book?

A. The PREPA tariff book has not been meaningfully updated since before the last rate case. Taking the opportunity here, LUMA has redesigned the tariff book to be more transparent and provide customers with better clarity on how they are charged for electric service.

Q.81Q.80 What kinds of changes does this entail?

A. The updated tariff book uses an amendment structure to track changes. Whenever the Energy Bureau approves a change to the rates or the terms and conditions in the tariffs, the applicable tariff page, or "tariff sheet" in the tariff book will be replaced with the newly authorized sheet. All sheets will carry an amendment number so that the historical tariff book can be tracked. This will facilitate investigations related to historic prices, such as investigations regarding customer complaints. Additionally, all tariff sheets will carry a footer with an effective date for the sheet, the date the sheet was approved, and the docket number.

B. **Rider Changes**

Q.82Q.81 The Energy Bureau's filing requirements for this rate case included a discussion on the CILT and SUBA riders. What changes are you proposing for those riders?⁹

⁹ See Schedule P-4, May 29th Resolution and Order Establishing the Rate Design Filing Requirements.

A. The Contributions In Lieu of Taxes -Municipalities (“CILT) and SUBA (Subsidies HH related to Help to Humans and NHH related to Non-Help to Humans Subsidy) riders are used to collect expenses related to municipal energy payments, statutory discounts, and other subsidies. Currently, the CILT and SUBA riders use an energy charge to recover the amount spent on providing discounts to customers and energy to municipal governments, consistent with statute. These riders operate as recovery riders for the prior year’s spending. Consistent with the Energy Bureau’s filing requirements, I propose that the CILT and SUBA riders recover the total amount for each tariff rate via a fixed monthly charge.

Q.83Q.82 How would this change work in practice?

A. The annual filing for these riders would contain a two-step process. First, the total amount of the discounts would be allocated to customer classes via gross energy consumption. Second, the rates would be set by dividing each customer class’s share of the costs by the number of customers in the class.

Q.84Q.83 Do you have a proposal on when this change should take effect?

A. Due to the timing of this rate case, the CILT/SUBA collections for the 2026 test year have already started. Therefore, I recommend this change take effect for the 2027 test year, starting with the compliance filing due in May 2026.

Q.85Q.84 What would the impact of this change be to customers?

~~A.~~ The actual share of the CILT/SUBA costs paid for by each customer class would not change because the allocation would remain on an energy basis. However, this would mean that lower-use customers would pay for a greater share of the class cost responsibility than under the status quo. ~~Another important impact is that NEM~~

~~customers would no longer be able to bypass this charge. Under net metering, NEM customers receive a credit equal to the base energy rate and the energy rates for the applicable riders. By moving away from an energy rate for CILT/SUBA, NEM customers would begin to make contributions to these costs, thus reducing the costs borne by other customers.~~

Q.86Q.85 Do you have any other comments related to the SUBA riders?

A. In the last rate case, the Energy Bureau included the discounts from low-income rates in the SUBA-HH rider for recovery from other customers. In that case, PREPA used a gross revenue approach for incorporating the subsidies as a transition from the old way of collecting them via a gross-up to the Fuel Charge Adjustment (“FCA”) to the use of riders. Because the Utility’s proposal in this rate case already incorporates a low-income discount in rates, there is no need to include these discounts in the calculation for the annual SUBA-HH rider.

Q.87Q.86 Can you explain what you mean by having the discount already incorporated in rates?

A. The low-income rates are separated out into their own customer class, and their rates are set independently of the rates for the GRS customers. This means that the revenue allocation can be set lower for the low-income customers, as shown above. Since the low-income customers pay less for electricity service, the other customer classes have slightly higher rates than they would if low-income customers paid the full GRS rates. Therefore, the discount to low-income customers is already incorporated into the other customer class rates.

Q.88Q.87 Do you have an update to the rates in the Qualifying Facilities (“QF”) Rider?

A. Yes. The QF rider contains the prices at which PREPA purchases exported energy from

customers that otherwise do not qualify for net metering. There are two prices, for firm and non-firm power. In the context of customer-owned generation, firm means that PREPA is able to call on the generation in times when extra capacity is needed. Non-firm is for customer-owned generation that is not subject to direct control by PREPA but may still export power.

Q.88 Does firm QF generation need to export power when asked by the Utility?

A. Not necessarily, because customer-owned generation connected behind the meter appears more like a load modifying resource. The power output may be used entirely by the host customer. The important thing for firm QF generation is that it only needs to reduce the amount of load served to free up PREPA-owned and contracted capacity resources. However, if the generator does export power to the PREPA system, the rate in the QF tariff will apply.

Q.89 What rates are you proposing for the QF Rider?

A. Rates paid to QF generators are subject to the provisions of a federal law called the Public Utility Regulatory Policies Act ("PURPA"). The lowest rate that a utility can pay to a QF generator is the avoided cost rate. For non-firm energy exported by a customer, I propose that the avoided cost rate be set equal to the FCA. This rate reflects the actual cost of fuel paid for by PREPA. In theory, every kilowatt-hour exported by a customer displaces a kilowatt-hour that would be generated by the Utility. The FCA represents a sufficient price that PREPA would incur to generate the offset energy.

For firm QF generation, I propose using the FCA price plus a capacity adder. Capacity adders reflect the value that these generators bring by being dispatchable. The capacity value of a customer-owned generator is usually a matter of great contention in other jurisdictions just as the demand-energy split for utility-owned production plant. To

keep things simple, I propose a similar method that was used to find a capacity value for wheeling generation. The average-excess demand percentage was applied to the fossil generation power purchase agreement contracts to arrive at the amount PREPA pays these generators for capacity. Using this method, the capacity adder is \$0.0142/kWh.

Q.91Q.90 What other changes do you have for the QF Rider?

A. The current QF rider has different prices based on the voltage level that the customer takes service at. This makes sense because it is best practice to incorporate the effect of losses that the Utility has to incur in delivering power. Oddly, the export rates increase as the customer takes service at lower voltage. This is the opposite of how the loss factors should be incorporated into the export credits. A power exported to the primary distribution network will have lower losses associated with final delivery than power exported at secondary voltage. Therefore, while I continue to incorporate loss factors into the setting of the export rates, I have reversed the relationship so that the base export rates discussed above apply to transmission service customers and decrease with the voltage level.

~~**Q.92—Are you proposing any changes to the Net Metering Rider?**~~

~~A. Yes. As shown in Schedule L, the Net Metering Rider contains some proposed language changes to make its operation clearer to customers. Also, consistent with the prior discussion and the new riders proposed below, the proposed changes specifically identify which riders are non-bypassable, which means that the customer cannot escape the charge though other credits.~~

C. New Tariff Sheets

Q.93Q.91 Are you proposing any new tariff sheets?

A. Yes. There are two new riders: the Outage Recovery Rider, and the Legacy Debt Rider.

754 The proposed tariff sheets are included in Schedule O-4.

755 **Q.94Q.92 Please describe the Outage Recovery Rider.**

756 A. As described in Mr. Figueroa's testimony, the Outage Reserve Account is meant to be an
 757 emergency fund for use in recovery after major storms. As the reserve account is
 758 depleted, the Outage Recovery Rider will replenish the reserve account as well as provide
 759 funding for major recovery operations that exceed the reserve account's standard funding.

760 **Q.95Q.93 How do you propose the Outage Recovery Rider work?**

761 A. Unlike the other riders, the Outage Recovery Rider ("ORR") is not meant to recover
 762 normal operation and maintenance expenses. We propose that the Energy Bureau
 763 authorize the creation of rider, with the amount set to zero for the 2026 test year. As
 764 storms or other natural disasters occur and LUMA incurs expense related to these storms
 765 and natural disasters, LUMA will file a request with the Energy Bureau to use the Outage
 766 Recovery Rider to replenish the reserve account and cover expenses for storms and
 767 disasters that exceed the reserve account balance. The rider will only operate for a limited
 768 amount of time set by the Energy Bureau to recover the authorized funding. Once the
 769 time has expired, the rider will be set back to zero.

770 **Q.96Q.94 How long should the rider operate for recovery of storm costs?**

771 A. I do not have a set rule for how long the ORR would need to operate. In general, the
 772 length of time that the ORR is in effect should seek to balance speed of replenishing the
 773 reserve account with rate shock to customers. Due to the uncertain nature of the timing of
 774 storm costs and their magnitude, a flexible approach by the Energy Bureau will allow the
 775 ORR to reflect the public policy needs of the Commonwealth.

776 **Q.97—What rate design are you proposing for the ORR?**

777 **A.—I propose that the ORR use an energy charge to recover costs from each customer class. I**

~~also recommend that this rider be a non-bypassable charge for NEM customers, so that the NEM customers also share in the costs of storm recovery.~~

Q.98Q.95 Please describe the Legacy Debt Rider.

A. As described above in Section II, PREPA provided an estimated range for legacy debt obligations and pension obligations coming out of the resolution of the Title III process. The exact amounts to be collected every year are unknown at this time, but the Energy Bureau can still approve the general structure of the Legacy Debt Rider (“LDR”) in this case. Once the Title III process is resolved and PREPA begins making payments, LUMA will make a filing to begin collecting those funds via the LDR. The earliest that the LDR will begin is for the 2027 test year.

Q.99Q.96 How do you propose the LDR operate?

A. We propose the LDR act like an annual rider, similar to the CILT rider. In consultation with PREPA, LUMA will provide the annual amount for recovery in a filing prior to the start of each fiscal year.

Q.100Q.97 What is the proposed rate design of the LDR?

A. I am not making any specific recommendations for the rate design of the LDR at this time beyond recommending that the LDR use a combination of fixed and variable pricing. It is also likely that the most efficient method for recovering costs will be to have different rates for each customer class that reflect the amount allocated to that class. To the extent that the Energy Bureau is willing to approve an allocation of legacy costs to each customer class in this rate case, that will make approval of the first LDR rates faster.

~~Similar to the ORR, I recommend that the LDR’s energy charge component be a non-bypassable charge so that NEM customers share in the recovery of these legacy costs.~~

~~Q.101~~Q.98 Why are you proposing these new riders in this rate case if they do not go into effect until fiscal year 2027?

A. First, the rate case provides a natural opportunity for the Energy Bureau to authorize new rates and tariffs. Second, having the policy discussions in this contested proceeding will allow parties to provide input on these riders in advance of their effective dates. And finally, once the Energy Bureau makes an informed decision on the mechanics of each rider, the initial start of the LDR can be a simple compliance filing with the CILT and SUBA riders. Due to the irregular occurrence of the ORR filings and exceptional nature of the ORR expenses, I expect there to be more evidence required for each use of the ORR. Still, having the basic parameters decided ahead of time will allow the Energy Bureau to make decisions on the ORR in a more efficient manner, a factor of critical importance when dealing with storm recovery.

F. PROVISIONAL RATES

~~Q.102~~Q.99 Please describe the reason for the proposed provisional rates.

A. The Energy Bureau's February 12th Resolution and Order acknowledges that "provisional rates are necessary because the fiscal year for the new rates begins on July 1, 2025, *well before* the Energy Bureau will have decided on the permanent rates [emphasis added]." ¹⁰ Provisional rates therefore are necessary to allow the utility to begin to collect the anticipated revenue requirement while this rate review is being adjudicated, with the understanding that the Energy Bureau will true-up the provisional rates retroactively to July 1, 2025, if those provisional rates differ from the final authorized revenue requirement and permanent rate design.

~~Q.103~~Q.100 What guidance has the Energy Bureau provided on how provisional rates should be implemented?

¹⁰ See Order Establishing Scope and Procedures for Rate Case, dated February 12, 2025, at p. 7.

A. In the February 12th Resolution and Order, the Energy Bureau listed several conditions that the provisional rates must achieve. The items respecting rate design are:

- It must apply a specific percentage uniformly to each component of the then-existing base rates – component referring to demand charge, volumetric charge, and fixed customer charge.
- It must change no amounts recovered through a rider or surcharge.
- The provisional rates must be based on a revenue requirement no higher than the revenue requirement that supports the proposed permanent rates.
- It must have a mechanism for reconciling the provisional rate with the permanent rate, as anticipated by Section 6.25(f) of Act 57-2014 and Section 6A(f) of Act 83.

Q.104Q.101 How do you propose collecting the provisional rates?

A. I propose a uniform cents per kilowatt hour be charged to all customer classes through a rider that is applied to the energy charge(s). A tariff sheet for the proposed Provisional Rate Rider is attached herein as Exhibit 20.02.

Q.105Q.102 What will happen if the Energy Bureau approves a provisional revenue requirement different from that used to develop the proposed provisional rates?

A. The decision on what provisional revenue requirement to use is the primary decision that the Energy Bureau will make in this regard. With the simple rate design described below, the rates are purely a function of the provisional revenue requirement. If the Energy Bureau modifies the proposed provisional revenue requirement (for any reason), LUMA will work with the Energy Bureau's rate consultant(s) to submit a compliance filing with updated exhibits and final form tariff sheets. Even if there are no changes to the provisional revenue requirement, LUMA will (re-)file the final tariff sheets with the Energy Bureau.

Q.106Q.103 Does LUMA's proposal comport with the Energy Bureau's guidance in the February 12th Resolution and Order that the provisional rate must apply a specific

percentage uniformly to each component of the then-existing base rates –
 component referring to demand charge, volumetric charge, and fixed customer
 charge?

A. No. However, it is the same manner in which the Energy Bureau approved the collection
 of provisional rates for PREPA during the 2017 Rate Review. Specifically, on June 27,
 2016, the Energy Bureau authorized PREPA to establish a uniform 1.299 cents per kWh
 to be added to the existing per kilowatt hour (kWh) base rate for energy consumption for
 all customer classes.¹¹

The simplicity of the approach taken in 2017 applies equally well to PREPA's –
 and the Energy Bureau's – current situation. As mentioned in LUMA's Motion in
 Compliance with Bench Orders issued during Prehearing Conference of February 21,
 2025, PREPA's base rates were last set in 2017, and a COSS respecting revenue
 allocation and rate design will not occur until Phase 2 of this proceeding. Therefore, the
 Utility proposes collecting the provisional rates through a uniform rate of \$0.073915
~~0.077896~~/kWh at the present revenue allocation.

**Q.107Q.104 Are there other reasons for implementing the provisional rate in this
 manner?**

A. Yes. It is administratively easier to both collect, and then reconcile, monies collected
 during the interim period through a uniform rate rider that is simply applied to kWh
 consumption at a customer class level. In my opinion, such an approach is also easier for

¹¹ See Resolution & Order Case No. CEPR-AP-2015-0001, June 24, 2016, p. 7. [24-junio-2016-Order-Establishing-Provisional-Rates-2.pdf](#) Where, the costs not paid by public housing were re-allocated to all other customers and were included in the 1.299 cents, and the provisional rate increase only applied to net-metering customers on their net consumption.

customers to understand because collection of the additional revenue will occur through a dollar per kWh line item on their bills during the interim period that will clearly be identified as *provisional rates*.

~~Q.108~~Q.105 How will PREPA reconcile revenues collected under provisional rates to the final authorized revenue requirement?

A. When the reconciliation occurs, the over- or under-collected amount will be reconciled through a provisional rate true-up rider that similarly will apply to energy charges, but the total amounts to be refunded to (or collected from) the customer classes will be based on the final revenue allocation and permanent rate design that will be approved in Phase 2 of this proceeding. As a result, only one reconciliation would need to occur, and the reconciliation will be reflective of the new revenue allocation, meaning that any interclass inequity that may exist today will be reconciled back to July 1, 2025. Because a fulsome COSS has not been completed in some time, it is reasonable to assume that the current provisional revenue allocation may vary somewhat from the final approved permanent revenue allocation.

~~Q.109~~Q.106 Does the proposed provisional rate rider modify the Fuel Charge Adjustment and Purchased Power Cost Adjustment riders?

A. No.

~~Q.110~~Q.107 Does LUMA's mechanism for reconciling the provisional rate with the permanent rate comply with Section 6.25(f) of Act 57-2014 and Section 6A(f) of Act 83?

A. Yes. My understanding is that Section 6.25(f) of Act 57-2014 requires the reconciliation of any difference between the revenue generated by the provisional rate while such

provisional rate was in effect and the revenue that would have been generated by the permanent rate approved by the Energy Bureau if such permanent rate had been in effect during the same period of time as the provisional rate. Within sixty (60) days of when the Energy Bureau determines the just and reasonable permanent rates, the implementation of the new permanent rates – and reconciliation of provisional rates will occur.

In order to smooth the rate impact to customers and protect PREPA's cash flow, LUMA proposes to spread the reconciliation out over a number of months that can be determined at the conclusion of this proceeding. As described above, LUMA will apply the credit or surcharge on a broad customer class basis, and the reconciliation will be done through credits to per kWh consumption charges. LUMA will ensure the total amount to be refunded to (or collected from) the customer classes is based on the revenue allocation approved in the Phase 2 rate design of this proceeding. All of which complies with Section 6.25(f) of Act 57-2014 and Section 6A(f) of Act 83, as well as the guidance provided by the Energy Bureau in the 2017 Rate Order.¹²

Q.111Q.108 What is the provisional rate being requested by the Utility?

A. The uniform per kWh increase would be \$0.073915 ~~0.077896~~ per kWh. The detailed calculation of this amount and bill impacts by customer class are shown in attachment RSS-3 to my testimony. The support for the revenues to be collected through the provisional rates is found in the testimony of LUMA witness Figueroa.

Q.112Q.109 Is a uniform per kWh increase across the board for all tariff classes possible?

¹² See page 104 of Final Resolution and Order of January 10, 2017, Docket No. CEPR-AP-2015-0001

915 A. Yes. I understand LUMA has taken steps to enable the billing system to apply a
916 volumetric rider on customer bills to affected tariff classes starting on the earliest
917 possible effective date after approval by the Energy Bureau. Once again, the proposed
918 tariff sheet, including terms and conditions, is attached herein as RSS-2.

919 ~~Q.113~~Q.110 Does this conclude your testimony?

920 A. Yes.

ATTESTATION

Affiant, Sam Shannon, being first duly sworn, states the following:

The prepared Direct Testimony constitutes my direct testimony in the above-styled case 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, facts and statements provided herein is my direct testimony and to the best of my knowledge are true and correct.

Sam Shannon

The foregoing instrument was acknowledged and subscribed before me by Sam Shannon, in my capacity as _____, of legal age, **married/single**, and resident of _____, who has been identified by means of his driver's license/ U.S. Passport with registration number _____.

In _____ Wisconsin, this ____ day of _____ 2025.

Notary Public

LUMA Exhibit 20.01

Sam Shannon Curriculum Vitae

LUMA Exhibit 20.02

Draft Tariff Sheets and Redlines

LUMA Exhibit 20.03

Rate Design for Provisional Rates & Energy Efficiency

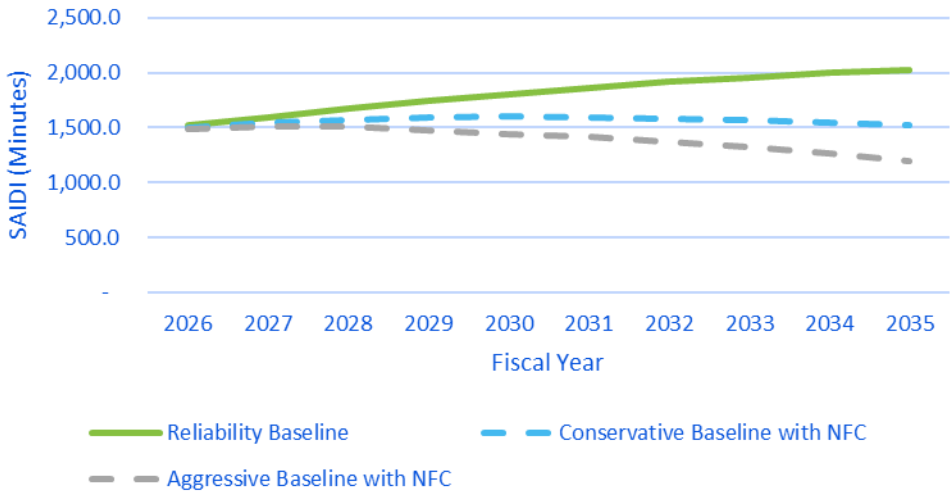
Exhibit 9
Revised Version of LUMA Ex. 5.01 (Range of Reliability Improvements)

Impact on the Grid – Reliability System Improvements

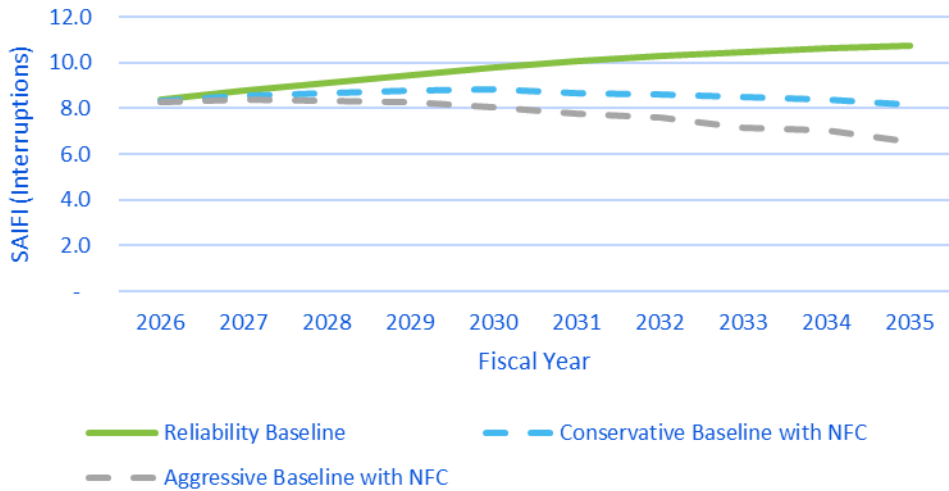
NFC Optimal Plan

Info (All PBs)			SAIDI				SAIFI					
Fiscal Year	\$ Amount (\$B)	Cum. \$ Amount (\$B)	SAIDI Baseline	SAIDI NFC Min Improvement	SAIDI NFC Max Improvement	Conservative Baseline with NFC	Aggressive Baseline with NFC	SAIFI Baseline	SAIFI NFC Min Improvement	SAIFI NFC Max Improvement	Conservative Baseline with NFC	Aggressive Baseline with NFC
FY26	\$0.33	\$0.33	1,519	18	30.70	1,500.9	1,488.5	8.40	0.1	0.1	8.31	8.30
FY27	\$0.55	\$0.87	1,596	54	90.31	1,541.9	1,505.6	8.78	0.3	0.4	8.53	8.38
FY28	\$0.68	\$1.55	1,669	98	163.87	1,571.1	1,505.5	9.14	0.5	0.8	8.68	8.34
FY29	\$0.84	\$2.39	1,739	150	261.59	1,589.0	1,477.0	9.48	0.7	1.2	8.78	8.28
FY30	\$0.92	\$3.32	1,803	201	360.29	1,601.6	1,442.6	9.78	0.9	1.7	8.83	8.08
FY31	\$0.92	\$4.24	1,862	274	446.13	1,587.6	1,415.4	10.05	1.4	2.3	8.68	7.75
FY32	\$0.92	\$5.16	1,914	331	541.12	1,583.1	1,372.5	10.28	1.7	2.7	8.62	7.58
FY33	\$0.94	\$6.10	1,959	389	638.22	1,569.9	1,320.4	10.47	2	3.3	8.51	7.17
FY34	\$0.94	\$7.04	1,996	447	735.98	1,548.5	1,259.9	10.62	2.2	3.6	8.37	7.02
FY35	\$0.94	\$7.98	2,025	504	831.63	1,520.5	1,193.2	10.72	2.5	4.2	8.18	6.52

LTIP NFC - SAIDI Reliability Baseline Unconstrained



LTIP NFC - SAIFI Reliability Baseline Unconstrained



PREB's Final Determination on LUMA's Performance Metrics		
Year	SAIFI	SAIDI
1	6.4	1,086
2	5.8	954
3	5.2	821

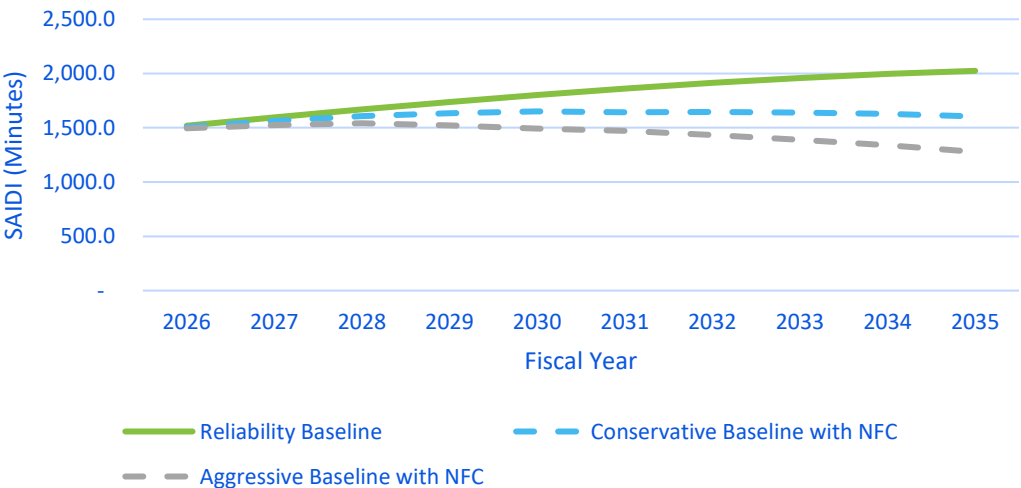


Impact on the Grid – Reliability System Improvements

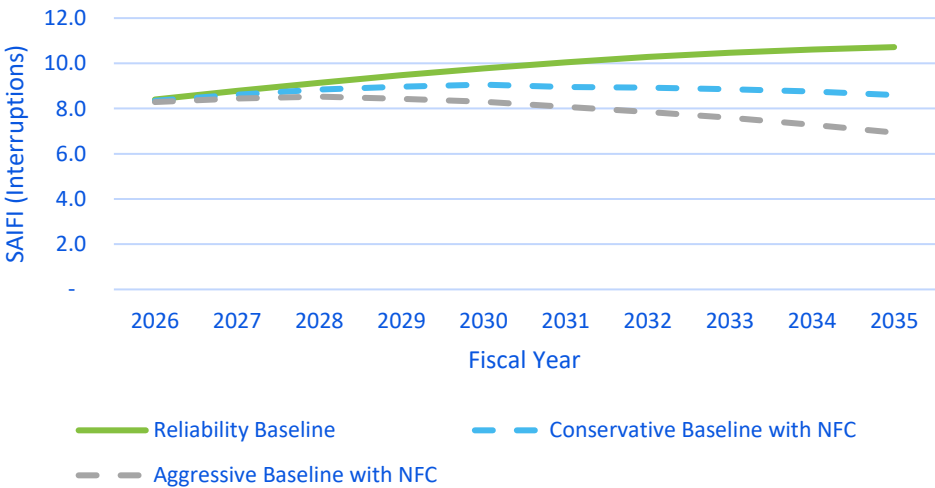
NFC Constrained Investments Only

Info (All PBs)			SAIDI					SAIFI				
Fiscal Year	\$ Amount (\$B)	Cum. \$ Amount (\$B)	SAIDI Baseline	SAIDI NFC Min Improvement	SAIDI NFC Max Improvement	Conservative Baseline with NFC	Aggressive Baseline with NFC	SAIFI Baseline	SAIFI NFC Min Improvement	SAIFI NFC Max Improvement	Conservative Baseline with NFC	Aggressive Baseline with NFC
FY26	\$0.22	\$0.22	1,519	11.1	23.51	1,508.1	1,495.69	8.40	0.1	0.1	8.34	8.28
FY27	\$0.37	\$0.59	1,596	33.6	69.94	1,562.3	1,525.98	8.78	0.2	0.3	8.62	8.44
FY28	\$0.46	\$1.05	1,669	61.9	127.53	1,607.4	1,541.80	9.14	0.3	0.6	8.84	8.53
FY29	\$0.73	\$1.78	1,739	105.8	217.81	1,632.8	1,520.80	9.48	0.5	1.0	8.97	8.44
FY30	\$0.81	\$2.59	1,803	151.8	310.73	1,651.1	1,492.21	9.78	0.7	1.5	9.06	8.30
FY31	\$0.81	\$3.40	1,862	217.9	390.12	1,643.6	1,471.41	10.05	1.1	2.0	8.95	8.07
FY32	\$0.81	\$4.21	1,914	268.3	478.85	1,645.4	1,434.80	10.28	1.4	2.4	8.92	7.86
FY33	\$0.83	\$5.03	1,959	318.4	567.88	1,640.2	1,390.75	10.47	1.6	2.9	8.86	7.60
FY34	\$0.82	\$5.85	1,996	368.5	657.21	1,627.3	1,338.63	10.62	1.9	3.3	8.75	7.29
FY35	\$0.82	\$6.67	2,025	419.3	746.68	1,605.4	1,278.10	10.72	2.1	3.8	8.60	6.94

LTIP NFC - SAIDI Reliability Baseline Constrained



LTIP NFC - SAIFI Reliability Baseline Constrained



PREB's Final Determination on LUMA's Performance Metrics		
Year	SAIFI	SAIDI
1	6.4	1,086
2	5.8	954
3	5.2	821

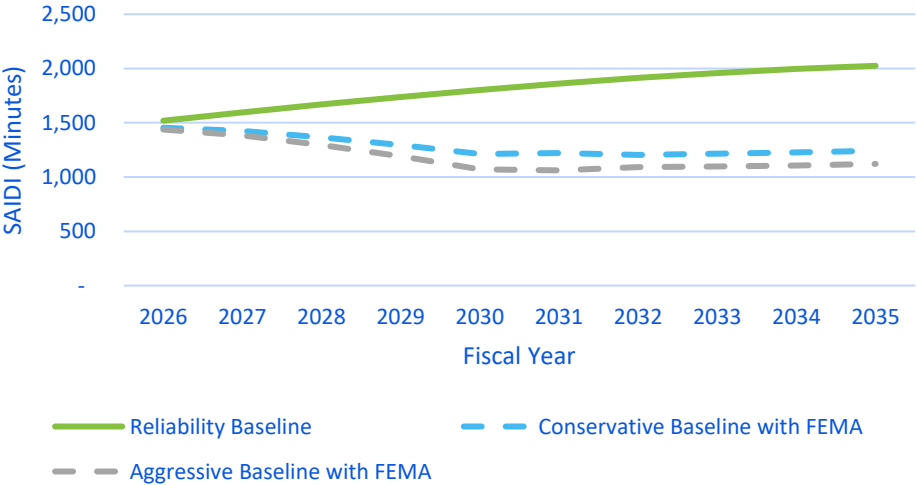


Impact on the Grid – Reliability System Improvements

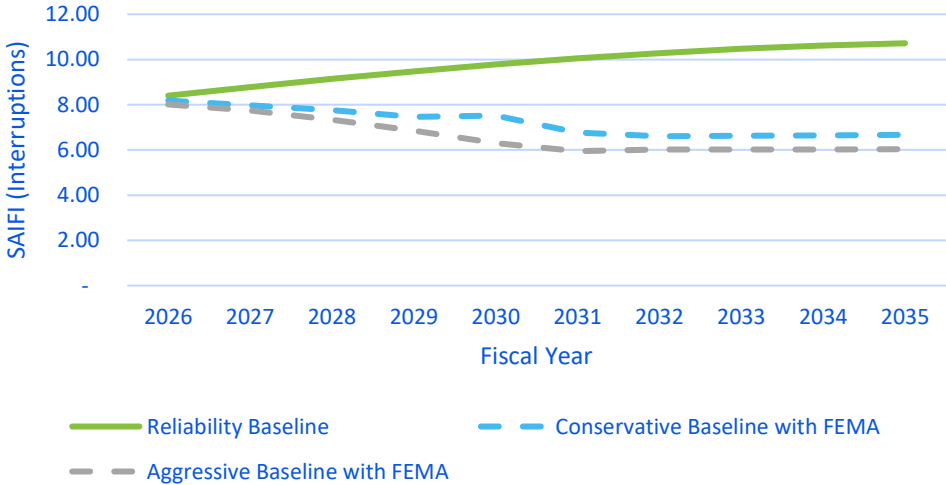
FEMA Investments Only

Info (All PBs)			SAIDI					SAIFI				
Fiscal Year	\$ Amount (\$B)	Cum. \$ Amount (\$B)	SAIDI Baseline	SAIDI FEMA Min Improvement	SAIDI FEMA Max Improvement	Conservative Baseline with FEMA	Aggressive Baseline with FEMA	SAIFI Baseline	SAIFI FEMA Min Improvement	SAIFI FEMA Max Improvement	Conservative Baseline with FEMA	Aggressive Baseline with FEMA
FY26	\$0.86	\$0.86	1,519	65	81.27	1,455	1,437.93	8.40	0.22	0.39	8.18	8.01
FY27	\$1.58	\$2.44	1,596	171	212.81	1,425	1,383.11	8.78	0.81	1.03	7.97	7.75
FY28	\$1.80	\$4.24	1,669	303	375.41	1,366	1,293.92	9.14	1.39	1.81	7.76	7.34
FY29	\$1.77	\$6.01	1,739	442	547.56	1,296	1,191.05	9.48	2.01	2.62	7.47	6.85
FY30	\$1.82	\$7.84	1,803	591	731.18	1,211	1,071.75	9.78	2.27	3.48	7.51	6.30
FY31	\$1.31	\$9.15	1,862	641	799.84	1,220	1,061.69	10.05	3.29	4.10	6.76	5.95
FY32	\$1.09	\$10.23	1,914	709	822.65	1,204	1,091.01	10.28	3.68	4.27	6.60	6.01
FY33	\$0.83	\$11.06	1,959	743	860.10	1,216	1,098.52	10.47	3.85	4.46	6.62	6.01
FY34	\$0.68	\$11.74	1,996	768	889.56	1,228	1,106.28	10.62	3.97	4.60	6.64	6.01
FY35	\$0.26	\$12.00	2,025	782	905.04	1,243	1,119.74	10.72	4.04	4.68	6.67	6.04

LTIP FEMA - SAIDI Reliability Baseline



LTIP FEMA - SAIFI Reliability Baseline



PREB's Final Determination on LUMA's Performance Metrics		
Year	SAIFI	SAIDI
1	6.4	1,086
2	5.8	954
3	5.2	821

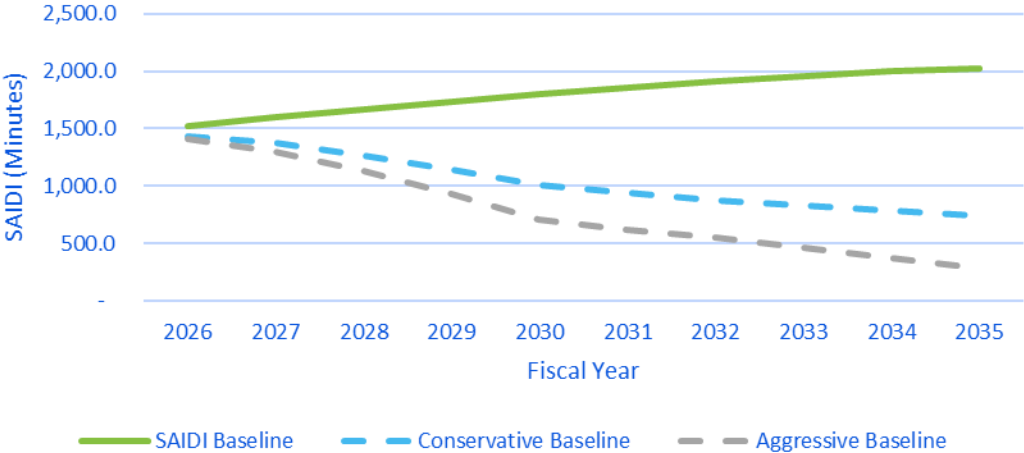


Impact on the Grid – Reliability System Improvements

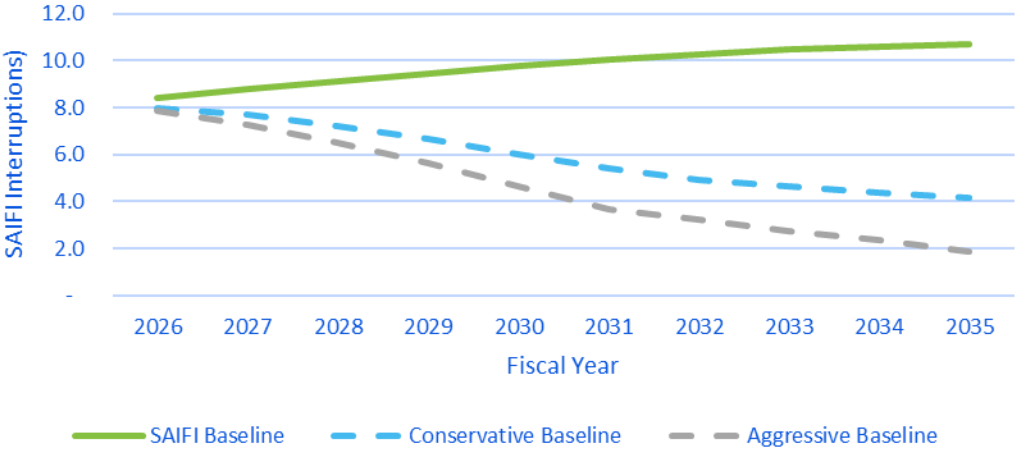
FEMA and NFC Optimal Plan

Info (All PBs)			SAIDI							SAIFI						
Fiscal Year	\$ Amount (\$B)	Cum. \$ Amount (\$B)	SAIDI Baseline	SAIDI FEMA Min Improvement	SAIDI NFC Min Improvement	SAIDI FEMA Max Improvement	SAIDI NFC Max Improvement	Conservative Baseline with NFC+FEMA	Aggressive Baseline with NFC+FEMA	SAIFI Baseline	SAIFI FEMA Min Improvement	SAIFI NFC Min Improvement	SAIFI FEMA Max Improvement	SAIFI NFC Max Improvement	Conservative Baseline with NFC+FEMA	Aggressive Baseline with NFC+FEMA
FY26	\$1.2	\$1.2	1,519.2	64.7	18	81.27	30.70	1,436.2	1,407.2	8.4	0.3	0.1	0.4	0.1	8.0	7.8
FY27	\$2.1	\$3.3	1,595.9	171.3	54	212.81	90.31	1,370.7	1,292.8	8.8	0.8	0.3	1.0	0.4	7.7	7.3
FY28	\$2.5	\$5.8	1,669.3	303.1	98	375.41	163.87	1,268.0	1,130.1	9.1	1.5	0.5	1.8	0.8	7.2	6.5
FY29	\$2.6	\$8.4	1,738.6	442.4	150	547.56	261.59	1,146.6	929.5	9.5	2.1	0.7	2.6	1.2	6.7	5.6
FY30	\$2.8	\$11.2	1,802.9	591.5	201	731.18	360.29	1,010.1	711.5	9.8	2.8	0.9	3.5	1.7	6.0	4.6
FY31	\$2.2	\$13.4	1,861.5	641.3	274	799.84	446.13	946.3	615.6	10.0	3.3	1.4	4.1	2.3	5.4	3.7
FY32	\$2.0	\$15.4	1,913.7	709.5	331	822.65	541.12	873.6	549.9	10.3	3.7	1.7	4.3	2.7	4.9	3.2
FY33	\$1.8	\$17.2	1,958.6	742.9	389	860.10	638.22	827.0	460.3	10.5	3.8	2	4.5	3.3	4.7	2.7
FY34	\$1.6	\$18.8	1,995.8	768.2	447	889.56	735.98	780.3	370.3	10.6	4.0	2.2	4.6	3.6	4.4	2.3
FY35	\$1.2	\$20.0	2,024.8	782.2	504	905.04	831.63	738.3	288.1	10.7	4.0	2.5	4.7	4.2	4.1	1.9

LTIP - SAIDI Reliability Baseline NFC + FEMA Unconstrained



LTIP - SAIFI Reliability Baseline NFC + FEMA Unconstrained



PREB's Final Determination on LUMA's Performance Metrics		
Year	SAIFI	SAIDI
1	6.4	1,086
2	5.8	954
3	5.2	821

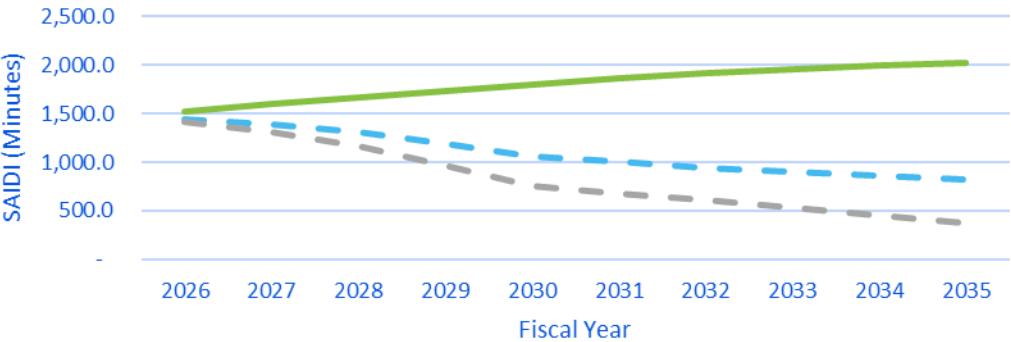


Impact on the Grid – Reliability System Improvements

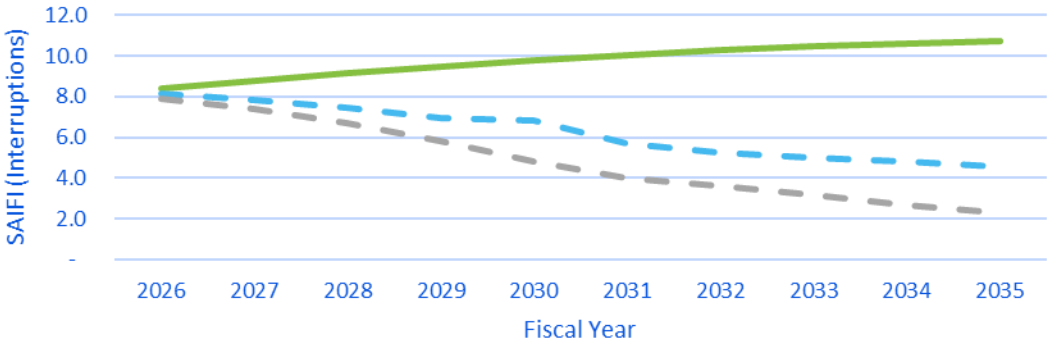
FEMA and NFC Constrained Investments

Info (All PBs)			SAIDI							SAIFI						
Fiscal Year	\$ Amount (\$B)	Cum. \$ Amount (\$B)	SAIDI Baseline	SAIDI FEMA Min Improvement	SAIDI NFC Min Improvement	SAIDI FEMA Max Improvement	SAIDI NFC Max Improvement	Conservative Baseline with NFC+FEMA	Aggressive Baseline with NFC+FEMA	SAIFI Baseline	SAIFI FEMA Min Improvement	SAIFI NFC Min Improvement	SAIFI FEMA Max Improvement	SAIFI NFC Max Improvement	Conservative Baseline with NFC+FEMA	Aggressive Baseline with NFC+FEMA
FY26	\$1.1	\$1.1	1,519.2	64.7	11.1	81.27	23.51	1,443.4	1,414.42	8.4	0.2	0.1	0.4	0.1	8.1	7.9
FY27	\$2.0	\$3.0	1,595.9	171.3	33.6	212.81	69.94	1,391.0	1,313.16	8.8	0.8	0.2	1.0	0.3	7.8	7.4
FY28	\$2.3	\$5.3	1,669.3	303.1	61.9	375.41	127.53	1,304.3	1,166.39	9.1	1.4	0.3	1.8	0.6	7.5	6.7
FY29	\$2.5	\$7.8	1,738.6	442.4	105.8	547.56	217.81	1,190.4	973.24	9.5	2.0	0.5	2.6	1.0	7.0	5.8
FY30	\$2.6	\$10.4	1,802.9	591.5	151.8	731.18	310.73	1,059.7	761.03	9.8	2.3	0.7	3.5	1.5	6.8	4.8
FY31	\$2.1	\$12.5	1,861.5	641.3	217.9	799.84	390.12	1,002.3	671.57	10.0	3.3	1.1	4.1	2.0	5.7	4.0
FY32	\$1.9	\$14.4	1,913.7	709.5	268.3	822.65	478.85	935.9	612.16	10.3	3.7	1.4	4.3	2.4	5.2	3.6
FY33	\$1.7	\$16.1	1,958.6	742.9	318.4	860.10	567.88	897.3	530.64	10.5	3.8	1.6	4.5	2.9	5.0	3.1
FY34	\$1.5	\$17.6	1,995.8	768.2	368.5	889.56	657.21	859.1	449.08	10.6	4.0	1.9	4.6	3.3	4.8	2.7
FY35	\$1.1	\$18.7	2,024.8	782.2	419.3	905.04	746.68	823.2	373.06	10.7	4.0	2.1	4.7	3.8	4.6	2.3

LTIP - SAIDI Reliability Baseline NFC + FEMA Constrained



LTIP - SAIFI Reliability Baseline NFC + FEMA Constrained



PREB's Final Determination on LUMA's Performance Metrics

Year	SAIFI	SAIDI
1	6.4	1,086
2	5.8	954
3	5.2	821



Exhibit 10
Revised Version of LUMA Ex. 5.15 (NFC Breakdown between Capital Programs and Operations)

LUMA Ex. 5.15
NFC Breakdown between Capital Programs Department and Operations Department

Optimal Budget									
Program	FY2026			FY2027			FY2028		
	Capital Programs	Operations	Total	Capital Programs	Operations	Total	Capital Programs	Operations	Total
PBUT13	\$14.38	\$10.00	\$24.38	\$42.56	\$12.05	\$54.60	\$66.70	\$16.24	\$82.94
PBUT30	\$70.50	\$28.47	\$98.96	\$225.63	\$29.02	\$254.65	\$261.28	\$35.62	\$296.90
PBUT38	\$13.21	\$2.29	\$15.50	\$13.21	\$2.29	\$15.50	\$13.84	\$2.29	\$16.13
PBUT4	\$2.14	\$0.90	\$3.03	\$3.72	-	\$3.72	\$9.10	-	\$9.10
PBUT6	\$37.10	\$5.02	\$42.12	\$56.87	\$5.17	\$62.03	\$71.82	\$5.24	\$77.06
PBUT7	\$101.12	\$10.00	\$111.12	\$101.10	\$15.97	\$117.07	\$113.74	\$21.14	\$134.88
PBUT8	\$2.56	\$1.20	\$3.76	\$5.11	\$1.50	\$6.61	\$15.33	-	\$15.33

Constrained Budget									
Program	FY2026			FY2027			FY2028		
	Capital Programs	Operations	Total	Capital Programs	Operations	Total	Capital Programs	Operations	Total
PBUT13	\$12.50	\$10.00	\$22.50	\$37.00	\$12.05	\$49.05	\$58.00	\$16.24	\$74.24
PBUT30	\$20.38	\$23.45	\$43.84	\$99.20	\$7.83	\$107.03	\$118.20	\$14.10	\$132.31
PBUT38	\$11.49	\$2.29	\$13.78	\$11.49	\$2.29	\$13.78	\$12.04	\$2.29	\$14.33
PBUT4	\$1.86	\$0.83	\$2.69	\$3.23	-	\$3.23	\$7.92	-	\$7.92
PBUT6	\$32.26	\$5.02	\$37.28	\$49.45	\$5.17	\$54.62	\$62.45	\$5.24	\$67.69
PBUT7	\$67.93	\$10.00	\$77.93	\$98.91	\$15.97	\$114.89	\$107.09	\$21.14	\$129.04
PBUT8	\$2.22	\$1.20	\$3.42	\$4.44	\$1.50	\$5.94	\$13.33	-	\$13.33

Exhibit 11
Revised Version of LUMA Ex. 6.15 (NFC Breakdown between Capital Programs and Operations)

LUMA Ex. 6.15
NFC Breakdown between Capital Programs Department and Operations Department

Optimal Budget									
Program	FY2026			FY2027			FY2028		
	Capital Programs	Operations	Total	Capital Programs	Operations	Total	Capital Programs	Operations	Total
PBUT13	\$14.38	\$10.00	\$24.38	\$42.56	\$12.05	\$54.60	\$66.70	\$16.24	\$82.94
PBUT30	\$70.50	\$28.47	\$98.96	\$225.63	\$29.02	\$254.65	\$261.28	\$35.62	\$296.90
PBUT38	\$13.21	\$2.29	\$15.50	\$13.21	\$2.29	\$15.50	\$13.84	\$2.29	\$16.13
PBUT4	\$2.14	\$0.90	\$3.03	\$3.72	-	\$3.72	\$9.10	-	\$9.10
PBUT6	\$37.10	\$5.02	\$42.12	\$56.87	\$5.17	\$62.03	\$71.82	\$5.24	\$77.06
PBUT7	\$101.12	\$10.00	\$111.12	\$101.10	\$15.97	\$117.07	\$113.74	\$21.14	\$134.88
PBUT8	\$2.56	\$1.20	\$3.76	\$5.11	\$1.50	\$6.61	\$15.33	-	\$15.33

Constrained Budget									
Program	FY2026			FY2027			FY2028		
	Capital Programs	Operations	Total	Capital Programs	Operations	Total	Capital Programs	Operations	Total
PBUT13	\$12.50	\$10.00	\$22.50	\$37.00	\$12.05	\$49.05	\$58.00	\$16.24	\$74.24
PBUT30	\$20.38	\$23.45	\$43.84	\$99.20	\$7.83	\$107.03	\$118.20	\$14.10	\$132.31
PBUT38	\$11.49	\$2.29	\$13.78	\$11.49	\$2.29	\$13.78	\$12.04	\$2.29	\$14.33
PBUT4	\$1.86	\$0.83	\$2.69	\$3.23	-	\$3.23	\$7.92	-	\$7.92
PBUT6	\$32.26	\$5.02	\$37.28	\$49.45	\$5.17	\$54.62	\$62.45	\$5.24	\$67.69
PBUT7	\$67.93	\$10.00	\$77.93	\$98.91	\$15.97	\$114.89	\$107.09	\$21.14	\$129.04
PBUT8	\$2.22	\$1.20	\$3.42	\$4.44	\$1.50	\$5.94	\$13.33	-	\$13.33

Exhibit 12
Revised Version of LUMA Ex. 6.01 (Tools Repair & Management Program Brief (PBOP5)
(FY2026))

Type of Program	☒ SRP ☐ Non-SRP
Remediation Date ¹	H2 FY2034
FY2026-FY2028 Budget	Refer to Rate Review Filing Schedules D-1

Brief Program Description

This program focuses on tooling plans to address safety needs and implement a better tools management system. In addition to acquiring the tools needed, this program includes implementing a centralized tool and equipment management to improve inventory management, tool maintenance, tool supply, and coordination and oversight of tool use.

Fiscal Year 2026-2028 Focus¹

For the upcoming fiscal years, LUMA will continue to acquire live substation and line tools, as well as testing equipment. It will also complete dielectric testing of all appropriate tools and equipment and implement standardized equipment inventories by crew and work type. LUMA will persist in purchasing much-needed test equipment essential for commissioning and maintaining high-voltage substation equipment, ensuring compliance with manufacturer specifications, industry standards, and IEEE standards.

Program Status

Note: Recurring activities are ongoing tasks for program completion or remediation, while in-progress activities began post-planning.

Activity	Status
Complete a current tools inventory, and health assessment	Achieved
Compare current tool inventory against LUMA's new requirements and prioritize damaged or missing tools	Achieved
Implement a dielectric test program on all dielectric tools and equipment. Immediately test all tools not tested to LUMA's standard required timelines	Achieved
As per OSHA, ensure all rated equipment meets manufacturers' recommendations	In progress
Purchase all high-priority tools necessary for the employee to work safely	Recurring
Replace worn-out or missing equipment to increase further employee safety and increase worker productivity and purchase a tool management program	Achieved
Implement a training program to operate and maintain tools safely	Achieved
Develop tool work methods	In progress
Track and inventory all tools	In progress
Purchase fire-retardant clothing uniforms for all field-based employees	Achieved
Inventorying of all tools, which includes barcoding certain types of equipment	Achieved
Completing an analysis of current and future work to determine tooling needs versus the number of trained personnel, followed by comparing this to industry best practices	In progress
Setting up and hiring a team to manage the program	Achieved
Competitively tendering a contract for a third-party organization to complete all required dielectric testing needed for LUMA	Achieved
Development of a required list of dielectric tools for annual certification programs and purchasing them	Achieved
Relocation of specialized/less frequently used tools and equipment to central locations for maintenance, storage, and redeployment	In progress
Set up vendors for high-volume / low-cost tools	In progress
Development of efficiency metrics such as the amount of deployment, transportation, lost or missing and damaged tools (including the cost of repair)	In progress
Develop an annual tools maintenance, replacement, and additions budget	In progress

¹ The information under this section was developed based on the optimal budget petition as part of the Rate Case proceeding under docket NEPR-AP-2023-0003.

Tools Repair & Management

Active Gaps Note: Green color below represents closed gaps

Gap	Timeframe Identified
PREPA's T&D Operations tooling system was well below the Occupational Safety and Health Administration's (OSHA) and Institute of Electrical and Electronics Engineers' (IEEE) prudent utility safety standards	Front-end Transition
PREPA lacked an adequate tool maintenance program and a dielectric insulated tool program, an essential requirement to be OSHA compliant and keep employees safe	Front-end Transition
Lack of adequate employee training and testing equipment	Front-end Transition
Inadequate size of facilities	Front-end Transition
Inadequate processes, practices, and inventory	Front-end Transition
Lack of a department/function to oversee and manage the tools department that lead to inefficiencies, added costs, and inability to respond to customer needs. Due to a lack of inventory management and control, tools were frequently lost, stolen, misplaced, hoarded, and poorly maintained	Front-end Transition

Timeline and Milestones¹



Alignment to LUMA's Key Goals

Note: The gray color icon represents an indirect impact on the goal, and the colored icon represents an impact of the LUMA key goals.



Impact of Constrained Budget

PREB ordered LUMA to develop a constrained budget, which will impact its improvement programs. This section outlines the activities that have been deferred and the associated risks and delays resulting from this constrained budget. To align with the budget, LUMA will defer purchasing high-voltage test equipment, which introduces risks such as delays in the commissioning and maintenance of major substation equipment. This deferral could push back key milestones, affecting the substation maintenance program and delaying the in-service date of new equipment in the electric system by several months. Additionally, LUMA will limit repair and maintenance activities to specialized tools. This limitation poses risks in maintenance work and could affect the response time for service restoration due to the restricted availability of appropriate tools for qualified personnel. Overall, these constraints will significantly impact the program's timeline and objectives.