

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

NEPR

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In re:

PUERTO RICO ELECTRIC POWER
AUTHORITY RATE REVIEW

Case. No.: NEPR-AP-2023-0003

**PREPA'S MOTION IN COMPLIANCE WITH HEARING EXAMINER'S ORDER
REGARDING PREPA TESTIMONY AND LEGAL DISCUSSION ON PENSIONS**

COMES NOW, the Puerto Rico Electric Power Authority ("PREPA"), through its undersigned legal counsel, and, very respectfully, states and prays as follows:

1. On October 27, 2025, the Hearing Examiner for this rate proceeding issued an order¹ (the "October 27 Order") requiring PREPA to submit prefiled testimony and legal explanations on pension-related questions attached to the October 27 Order (the "Pension Questions").

2. In compliance with the October 27 Order, PREPA respectfully submits its responses to the Pension Questions. These responses are comprised of the relevant facts arising from the testimony of Vilmarie Soto Maldonado² attached as **Exhibit A**. Such testimony is being submitted with its three (3) exhibits: Exhibit 1

¹ See Hearing Examiner's Order Requiring PREPA Testimony and Legal Discussion on Pensions, *In re Puerto Rico Electric Power Authority Rate Review*, No. NEPR-AP-2023-0003 (P.R. Energy Bureau Oct. 27, 2025).

² The Auxiliary Division Chief of the PREPA ERS, Brenda E. Rivera Rodríguez, is currently on vacation. Therefore, Vilmarie Soto Maldonado is serving as the acting Auxiliary Division Chief until November 30, 2025.

(Vilmarie Soto Maldonado's Resumé), Exhibit 2 (PREPA Ex. 41 6.30.25-PREPA Exhibit 7-Schedule C-9-Various Operating Statistics to its July 3, 2025 submission of the Rate Review Petition), and Exhibit 3 (PREPA ERS Forecast of Proposed Cash Transfers).

3. In addition, attached as **Exhibit B** is a letter from counsel for the Financial Management and Oversight Board for Puerto Rico (the "Oversight Board"), which sets forth the Oversight Board's position with respect to the Pension Questions (the "Oversight Board Pension Letter"). Included with **Exhibit B** is the Oversight Board's September 2025 report on the PREPA Employee Retirement System (the "Pension Report"), which details the Oversight Board's findings and determinations with respect to PREPA's pension system.

4. Lastly, PREPA hereby provides the following responses to the Pension Questions:

RESPONSES

I. Background on entity structure and PREPA liability.

- A. **Explain the origin and legal structure of the PREPA Employees' Retirement System (SREAEE, otherwise known as ERS): When was it established, under what statutory authority, and what is its formal legal relationship to PREPA?**

5. Consistent with PREPA's authority under its enabling act, and pursuant to a 1942 collective bargaining agreement³ between the Puerto Rico Electrical Industry and Irrigation Workers Union ("UTIER") and the entity then known

³ See Certified Translation of the UTIER Collective Bargaining Agreement ("UTIER CBA"), *In re Fin. Oversight & Mgmt. Bd. for P.R.*, No. 17-BK-4780-LTS (D.P.R. Jan. 26, 2024), ECF No. 4492-1.

as the Puerto Rico Water Resources Authority (now PREPA), a retirement program for PREPA's employees was created. This program, known as the Sistema de Retiro de los Empleados de la Autoridad de Energía Eléctrica (the "PREPA ERS"), was established through Resolution No. 200 on June 25, 1945.⁴ PREPA is the plan sponsor, contributes to the PREPA ERS, and pays for all the administrative costs of the PREPA ERS. The PREPA ERS administers benefits and processes retiree benefit payments.

6. Since its inception, the PREPA ERS has been governed by its bylaws, as amended, known as the "Electric Power Authority Employee Retirement System Regulations" (the "ERS Regulations"). The ERS Regulations govern the PREPA ERS and entrust the PREPA ERS's administration to a board of trustees (the "Board of Trustees").⁵ The ERS Regulations provide for PREPA to make actuarially determined contributions to the PREPA ERS.⁶

7. The PREPA ERS asserts that it is a *de facto* trust—and, therefore, an independent legal entity that is separate from PREPA.⁷

⁴ Puerto Rico Water Resources Authority Resolution No. 200, *In re Fin. Oversight & Mgmt. Bd. for P.R.*, No. 17-BK-4780-LTS (D.P.R. Jan. 26, 2024), ECF No. 4510-1; see generally P.R. Elec. Power Auth., Regulations of the PREPA Employees' Retirement System (as amended) (available at https://retiro.aeepr.com/reglamentos/reglamento_sistema_retiro.pdf); see also Certified Translation of the ERS Regulations, *In re Fin. Oversight & Mgmt. Bd. for P.R.*, No. 17-BK-4780-LTS (D.P.R. Jan. 26, 2024), ECF No. 4510-2.

⁵ See ERS Regulations at Article 6.

⁶ See ERS Regulations at Article 5.

⁷ See Sistema de Retiro de los Empleados de la Autoridad de Energía Eléctrica's Objection to PREPA's Plan of Adjustment, *In re Fin. Oversight & Mgmt. Bd. for P.R.*, No. 17-BK-4780-LTS (D.P.R. Jan. 26, 2024), ECF No. 4510 at ¶¶ 5, 7.

8. Before the central government (the “Government”) initiated efforts to reform its retirement system, PREPA had already undertaken the restructuring of its own Retirement System. As part of its efforts to limit future pension liabilities, PREPA ERS undertook a significant pension reform in 1993 including, most notably, an increase in the minimum retirement age and the imposition of a cap on pension benefits through the establishment of a maximum annual compensation limit of \$50,000 as the base for the calculation of the pension benefit (*i.e.*, in comparison to pre-1993 employees who would receive a merit pension of 75% of the highest three years of compensation without any cap).⁸ Therefore, the maximum annual pension benefit that a post-January 1, 1993 hire can receive is \$37,500 (75% of \$50,000).⁹

9. Prior to the commencement of the Title III process, and during the incumbency of then Governor Alejandro García Padilla, PREPA ERS was substantially underfunded and in a slow but steady decline, due in part to the wave of retirements beginning in 2014 that continued in subsequent years.¹⁰ The system’s financial condition rapidly deteriorated after PREPA’s bankruptcy filing in 2017—PREPA was unable to fund the actuarially determined contributions

⁸ See Pension Report at 21; see also May 2021 Fiscal Plan for the Puerto Rico Electric Power Authority (“2021 Fiscal Plan”) at Chapter 16. Pension Plan, (available at <https://drive.google.com/file/d/1dXFJldZpOIsAOObMZDBd7T2P3j2xMPaal/view>).

⁹ See Pension Report at 18; see also 2021 Fiscal Plan at Chapter 16.

¹⁰ See Pension Report at 21; see also May 2021 Fiscal Plan for the Puerto Rico Electric Power Authority (“2021 Fiscal Plan”) at Chapter 16. Pension Plan, (available at <https://drive.google.com/file/d/1dXFJldZpOIsAOObMZDBd7T2P3j2xMPaal/view>).

provided for under the PREPA ERS Regulations, which had increased from approximately \$100 million in 2015 to over \$220 million in 2019.¹¹

10. PREPA funds monthly pension benefits for former employees, covering associated administrative costs and additional expenses such as death benefits, payroll withholdings, health insurance reimbursements, funeral benefits, legal and professional fees, and actuarial costs.

11. Thousands of retirees and their families, who dedicated their careers to PREPA and Puerto Rico, rely on their pensions. For many, these pensions represent their primary or sole source of income, with few alternatives at this late stage of their lives. As of September 2024, PREPA ERS provides benefits to approximately 10,098 retirees and 2,438 spouses, totaling monthly payment of approximately \$24 million.¹²

B. What is PREPA's current estimate of the unfunded pension plan liability? What is the basis for this estimate?

12. The latest estimate of the PREPA ERS total pension liability from the FY2023 PREPA ERS audited financial statements is \$5.0 billion. This figure represents the present value of discounted future benefit and other payments to plan participants using actuarially determined projections of benefit payments and an assumption for the discount rate of 3.65%. The latest estimate of the net pension liability is approximately \$3.9 billion, which is calculated as the total pension

¹¹ Pension Report at 5–6.

¹² February 2025 Fiscal Plan for the Puerto Rico Electric Power Authority ("PREPA Fiscal Plan") (available at <https://drive.google.com/file/d/1WksRhtfmoLvaZFb-5pUNkFXGEit3t6vp/view?usp=sharing>) at 121.

liability of \$5.0 billion minus the Plan Fiduciary Net Position of \$1.1 billion. The “Plan Fiduciary Net Position” is an estimate of the pension plan assets that include cash and invested funds from prior employer and employee plan contributions of approximately \$25 million, mortgages and personal loans to participants of approximately \$70 million, and contributions receivable from PREPA of approximately \$1.0 billion (this amount is based on regular contributions recommended by the PREPA ERS actuary that were not contributed by PREPA). However, because the Plan Fiduciary Net Position is predominantly comprised of unpaid employer contributions, the total pension liability of \$5.0 billion is a more representative current estimate of the unfunded pension plan liability (the “Unfunded Pension Liability”).

C. **How does that current estimate relate to the proposed recovery amount of \$307 million? Is the \$307 million somehow derived from the total unfunded pension plan liability?**

13. The \$307 million estimate is not directly derived from the Unfunded Pension Liability. The Unfunded Pension Liability represents the present value estimate of all PREPA ERS current and future year pension funding requirements for the reasons stated above.

14. The \$307 million is calculated as the difference between the projected pension system outflows on a monthly basis for FY2026, less projected inflows, including estimated participant and employer contributions.

15. On a monthly basis, the PREPA ERS funds pension benefit payments, including monthly retiree benefits, death benefits, withholdings, Christmas and

summer bonuses, retiree payroll withholdings, health insurance reimbursements, and funeral benefits (collectively, the “PREPA Pension Obligations”). Additionally, in accordance with Act 120-2018, the PREPA ERS receives requests for the withdrawal of accrued benefits from certain former PREPA employees no longer able to accrue service in the PREPA ERS after their employment at PREPA ceased as a result of PREPA's agreements with PREPA's private operators, LUMA Energy and Genera PR (the “Rollover Requests” and collectively with the PREPA Pension Obligations, the “Pension Payments”).

16. The projected inflows for FY2026 total approximately \$28 million and include \$15 million from employer and participant contributions, \$10 million from PREPA ERS's collections on account of personal and mortgage loans historically extended to PREPA ERS's participants, and \$3 million from other cash receipts.

17. It is worth noting that the current average benefit payment for PREPA retirees and beneficiaries is approximately \$2,000 per month.¹³

18. The projected outflows are \$330 million in total composed of: (i) \$282 million for normal retiree and surviving spouse benefit payments; (ii) \$48 million for death benefit payments; (iii) refunds of participant contributions; (iv) seasonal bonuses; and (v) other payments.

¹³ Fiscal Year 2023 Financial Statements for PREPA ERS at 10 (detailing number of participants), 28 (detailing benefit payments) (available at https://retiro.aeepr.com/infjunta/informes_financieros_auditados_2023.pdf).

- D. **Concerning causes of, and customer responsibility for, the existing pension liability:**
1. **What does PREPA view as the causes, in what proportions? Consider: (a) initial underpayments by PREPA, (b) insufficient ratepayer support via rate levels, (c) management of the pension funds, (d) incorrect assumption about number and annuity-related characteristics of the retirees, (e) macroeconomic factors, and (f) other factors.**
 2. **By seeking the \$307 million, is PREPA assuming that the statutory just-and-reasonable standard makes ratepayers responsible for filling the gaps attributable to each of the above-listed factors? If so: For each factor what is the legal reasoning by which the ratepayers are responsible?**

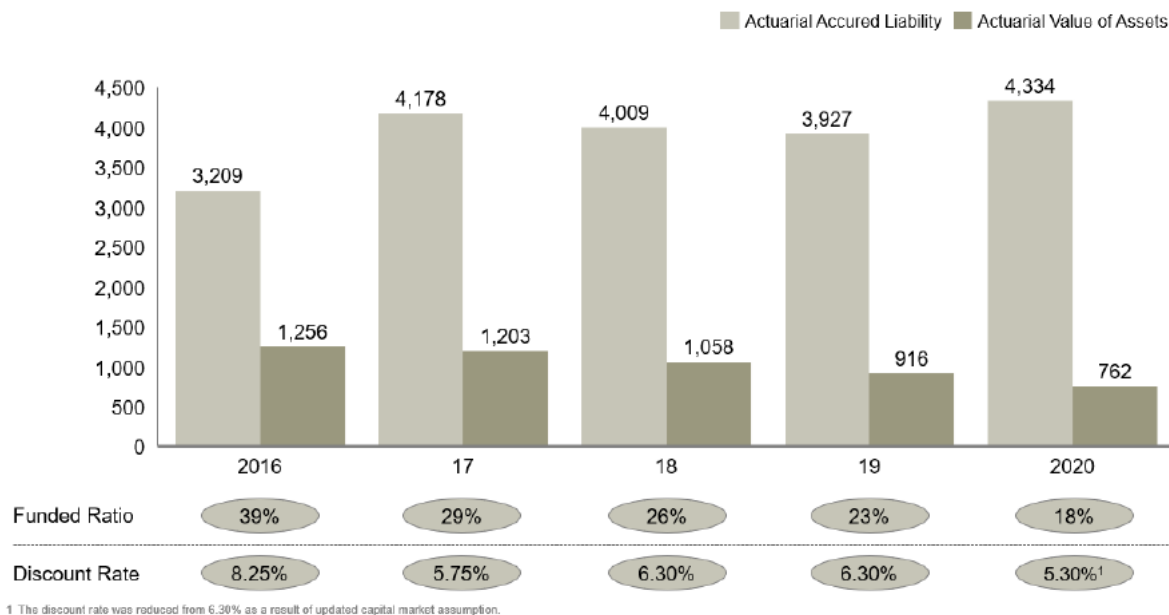
19. PREPA cannot reasonably attribute proportional responsibility to the various factors that caused the underfunding. Pension system assets before PREPA's bankruptcy filing were approximately 30% of the total liability and continued underfunding during the pendency of Title III resulted in the near-complete exhaustion of assets.¹⁴ There is a record of work performed from before PREPA's bankruptcy filing and years thereafter. As part of the requirements from the 2019 and 2020 Oversight Board certified PREPA fiscal plan, PREPA engaged an independent actuary, Aon Hewitt, to perform an analysis of its pension plan and potential pension reform options. The results of PREPA's independent actuarial valuation and assessment are included as part of Chapter 16 of the 2021 Fiscal Plan.¹⁵ As explained in the 2021 Fiscal Plan, the pension system's assets declined rapidly since June 30, 2016 (as shown in the graph below), primarily due to (a) significant outflow resulting from benefit payments, (b) an insufficient

¹⁴ See 2021 Fiscal Plan at Chapter 16.

¹⁵ See 2021 Fiscal Plan at Chapter 16.

employer contribution, and (c) a significant decrease in headcount leading to a reduced amount of employee/employer contributions.

EXHIBIT 74: PENSION FUNDED STATUS AS OF JUNE 30, 2020



Source: page 176, 2021 certified PREPA Fiscal Plan dated May 27, 2021.

20. PREPA's current focus is on meeting PayGo funding requirements, given the system's funded status and the Oversight Board's pension funding mandate, as included in the PREPA Fiscal Plan.¹⁶ This requires PREPA to provide funding for the Pension Payments on a pay-as-you go ("PayGo") basis.

¹⁶ PREPA Fiscal Plan at 125 (noting that including pension cost into the revenue requirement as part of the base rate or a rider is a possible funding source for pension obligation).

II. Energy Bureau's Authority

A. **Is PREPA ERS unfunded liability a “pre-petition claim” subject to Title III court compromise? Or is it instead a current operating expense?**

21. The Oversight Board is PREPA's Title III representative. Please refer to Section I of the Oversight Board Pension Letter for the Oversight Board's position on the nature of the Unfunded Pension Liability.¹⁷

B. **Is there an inconsistency between two things: (a) viewing this liability as a restructurable legacy debt subject to Title III, and (b) asking PREB to include the full, unmodified recovery in rates as a current operating expense?**

22. There is no inconsistency. As the Oversight Board Pension Letter states:

Unlike other debt obligations of PREPA, its contributions to PREPA ERS constitute a substantial, if not sole, source of income for over 12,000 PREPA retirees. Thus, the Oversight Board has concluded that ensuring current payment of such contributions to satisfy all accrued benefits when due, including while the Title III case is pending, is essential.¹⁸

23. The payment of pension obligations is different from the payment of other pre-bankruptcy claims, in that such payments are favored by PROMESA¹⁹ and the Oversight Board has required that they be paid through rates under the

¹⁷ See Oversight Board Pension Letter at Section I.

¹⁸ Oversight Board Pension Letter at Section I.

¹⁹ See 48 U.S.C. § 2141(b)(1)(C) (requiring fiscal plans to “provide adequate funding for public pension systems”); see also *In re Fin. Oversight and Mgt. Bd. for Puerto Rico*, 637 B.R. 223, 282 (D.P.R. 2022) (concluding, in the Commonwealth's Title III case, that cutting “pensions actually could destabilize Puerto Rico's economic prospects, lead to greater out-migration, and make it harder for Puerto Rico to obtain credit in the future, and the savings from pension cuts do not justify the damage those cuts would cause to the economy”).

PREPA Fiscal Plan.²⁰ Accordingly, PREPA's request for their payment is consistent with its legal obligations under PROMESA and the PREPA Fiscal Plan, as well as mandated by the Oversight Board.²¹

C. If PREB includes the amount in rates, would this action constitute a “recovery” or “payment” on behalf of pre-petition creditors (pensioners) outside the court-supervised bankruptcy process?

24. Nothing in PROMESA prevents inclusion of the PayGo funding in rates.

Section I of the Oversight Board Pension Letter details the Oversight Board's position on PayGo funding.²² The Oversight Board Pension Letter summarizes:

PREPA's funding of pension payments, even if accrued prepetition and while the case is pending, does not violate the automatic stay imposed by section 362(a) of the Bankruptcy Code. Unlike a debtor under chapter 11 of the Bankruptcy Code, PREPA is not prevented from using its property at its discretion or that of its trustee (here the Oversight Board) because (i) section 363(b) of the Bankruptcy Code, which prohibits use of a debtor's property outside the ordinary course of business without court approval, is not incorporated into Title III of PROMESA, and (ii) Section 305 of PROMESA provides, subject to Titles I and II of PROMESA, the Title III court may not enter any order interfering with PREPA's use of its property unless the Oversight Board consents. Pursuant to Section 201(b)(C) of PROMESA, a fiscal plan is required to “provide adequate funding for public pension systems.” In turn, PREPA's current fiscal plan, certified by the Oversight Board on February 6, 2025, contemplates current funding of PREPA's pension obligations to PREPA ERS from PREPA's revenues.

²⁰ PREPA Fiscal Plan at 125 (noting that including pension cost into the revenue requirement as part of the base rate or a rider is a possible funding source for pension obligation).

²¹ See Oversight Board letter to Orlando C. Rivera Berríos, Dir., P.R. Office of Mgmt. & Budget, and Mary C. Zapata Acosta, Exec. Dir., P.R. Elec. Power Auth. (Mar. 25, 2025) (available at https://drive.google.com/file/d/1SmGSf2Z84MyrbPjYkY_4DFHwCDxxsdCp/view?usp=sharing) (requiring a temporary rate adjustment for pensions costs).

²² See Oversight Board Pension Letter at Section I.

D. Does the automatic stay in some way restrain the PREB from including these amounts in rates?

25. The automatic stay does not restrain the Puerto Rico Energy Bureau (the "Energy Bureau") from including the amounts requested to cover the PREPA Pension Obligations in rates. Including the amounts requested in rates allows PREPA to comply with the Oversight Board's fiscal mandates.

26. While the stay under Bankruptcy Code section 362, as incorporated into PROMESA, bars a claimholder from collecting a pre-bankruptcy debt non-consensually, Bankruptcy Code section 363's absence from PROMESA means that court approval is not required for a PROMESA debtor to use its property.²³ Consequently, PREPA can use its assets without court approval to pay the PREPA Pension Obligations under Bankruptcy Code section 363 but cannot be compelled to use its assets pursuant to Bankruptcy Code section 362 for purposes that are not expressly authorized under the PREPA Fiscal Plan such as payment on account of legacy bond and general unsecured obligations.²⁴

E. If the Title III court later reduces pension benefits, what legal and practical actions, if any, are available to PREB to require refunds of amounts that customers paid in excess of the court-approved pension benefits?

27. The amounts PREPA has requested are limited to the estimated annual PayGo payments. These are not designed to re-fund the PREPA ERS system

²³ See Oversight Board Pension Letter at Section I.

²⁴ See PREPA Fiscal Plan at 118 ("PREPA will not be able to impose any additional rate increases for debt service above the rates necessary to pay for the [fuel and purchased power] costs and maintenance costs").

on an actuarial basis or to make the actuarially determined contribution to the PREPA ERS.

28. To the extent that the Title III court later reduces future pension benefits after confirmation of a plan of adjustment, the corresponding payments to be made on a PayGo basis would be adjusted accordingly with any excess amounts reducing future obligations. All of the Oversight Board's proposed PREPA plan of adjustments have included structural changes to the future pension benefits that prospectively eliminate future cost of living adjustments, freeze benefit accruals, and close the system to future participants. The Oversight Board's proposed plans of adjustment have not otherwise included reducing pension benefits and do not impact benefits paid or accrued prior to the effective date of the plan of adjustment.²⁵

III. PREPA's discretion to modify pensions

A. Is PREPA adding new beneficiaries to the existing defined benefits plan?

29. The pension system considers "beneficiaries" to mean the surviving spouses of retired members; however, PREPA interprets the question regarding "beneficiaries" to mean plan participants. According to the PREPA ERS's latest audited financial statements, for the fiscal year ending June 30, 2023, there was

²⁵ See Pension Report at Section 3.7.

an increase of 15 members in initial participation under the active employee category.²⁶

B. Is PREPA adding benefits to the existing defined benefits plan?

30. Active employees that remain in the PREPA system continue to accrue retiree benefits. According to the FY2023 PREPA ERS audited financial statements, the last date on which there was an amendment to benefits was April 26, 2018.

C. If the answer to either of the preceding two questions is yes, is PREPA aware of whether the existence of the Title III process allows or prohibits those actions?

31. Neither the PREPA Title III case, nor the PREPA Fiscal Plan, prohibits adding new participants to the existing PREPA ERS defined benefit plan or prohibits participants from continuing to accrue or receive benefits. The Oversight Board Pensions letter confirms this in Section II.²⁷

D. Does PREPA have the legal authority to cease adding beneficiaries and cease adding benefits to existing beneficiaries? Specifically:

1. **What is PREPA's legal discretion, under Puerto Rico law and PROMESA, to unilaterally modify the pension benefits of former employees (i.e., current retirees and vested terminated employees)?**
2. **What is PREPA's legal discretion, under Puerto Rico law and PROMESA, to unilaterally modify the ongoing benefit accruals of current active employees?**

²⁶ See also **Exhibit A** at Answer to Question No. 15 (attaching table and chart below depicts ERS membership statistics over time, based on the most recent unaudited report published by the administrator).

²⁷ See Oversight Board Pension Letter at Section II.

32. The Oversight Board is PREPA's representative in its Title III Case. Please refer to Section II of the Oversight Board Pension Letter for the Oversight Board's position on the modification of the PREPA ERS defined benefit plan as part of the Title III process.²⁸

33. PREPA's pension obligations stem from employment agreements and collective bargaining agreements, which require that PREPA maintain a pension system.²⁹

34. Since its inception, the PREPA ERS has been governed by its bylaws, as amended, known as the "Electric Power Authority Employee Retirement System Regulations" (previously defined as the "ERS Regulation").

35. Articles 9 and 11 of the ERS Regulations govern modifications to the pension system and benefits. Specifically, those articles state:

ARTICLE 9. GENERAL PROVISIONS

(1) The establishment of this Retirement System shall not be considered or interpreted as an employment contract or as a cause for one, nor shall it affect the rights that the Authority has to separate any employee from employment.

(2) The Authority's intention is to maintain the System while it performs the duties and purposes for which it was created, but the Authority, through the recommendation of the Board of Trustees and action of its Governing Board may, for reasons that affect its

²⁸ See Oversight Board Pension Letter at Section II.

²⁹ Under Puerto Rico law, the collective bargaining agreement may be broadly defined as an agreement between a single employer or an association of employers on the one hand and a labor union on the other, which regulates the terms and conditions of employment. *C.O.P.R. v. S.P.U.*, 181 D.P.R. 299, 319–21 (2011). The collective bargaining agreement is a contract that, as such, has the force of law between the subscribing parties so long as it does not contravene the laws, morality, or public order. *Id.*; *J.R.T. v. Junta Adm. Muelle Mun. de Ponce*, 122 D.P.R. 318, 333 (1988).

development and normal operations as a solvent entity, discontinue, suspend or reduce its contributions to an amount that is lower than what is required under Article 5, in which case the contributions of the members may similarly be discontinued, suspended or reduced in the same proportion and for the same period and all of the benefits shall be reduced to the amounts that the contributions made through that date, plus such future reduced contributions (if any) that they may provide, in accordance with actuarial evaluations.

(3) Through recommendation of the Board of Trustees and action of its Governing Board, based on causes or circumstances that are outside of its control, the Authority may terminate the operation of the System at any moment. In the event of such termination, all of the System's capital shall only be used for the benefit of active members, retired members and their beneficiaries under the System, and for no other purpose. Each member or person entitled to a pension shall be entitled to a proportional part of the total amount of the System's capital that corresponds to it, in accordance with all of the prior contributions made by him or her and by the Authority with regards to the benefits that shall be paid to him or her or to his or her account and in the proportion that the obligations of the System in his or her account has to the total obligations of the System, as determined by the Board of Trustees based on the actuarial evaluations. The Board of Trustees may require from said members or from other persons that they withdraw such amounts, in the form of immediate or deferred yearly payments, as determined by the Board in its discretion.

(4) Notwithstanding any contrary provision established in these Regulations, when there are special circumstances, the Governing Board of the Authority shall be entitled to grant a special pension or benefit to any employee, whether or not he or she is a member of this System, and said pension or benefit shall be paid from the Retirement System, PROVIDED that the Authority shall first pay the System the amount required to cover the sum of said pension or benefit.

...

ARTICLE 11. AMENDMENTS

These Regulations may be amended in whole or in part by the Board of Trustees when it deems appropriate, as long as the Board of Trustees notifies the Authority of its intention to amend thirty days in

advance and also informs all of the members in order to give them the opportunity to be heard before the Authority makes a decision. IT IS HEREBY PROVIDED that the Authority may within said thirty-day period prohibit the proposed amendment, in which case it shall not enter into effect. IT IS FURTHER PROVIDED that no modification or amendment may deprive any active or retired member or any other person receiving a pension of any of the benefits to which he or she would be entitled due to the income accrued in or credited to his or her account under the System as of said date, unless he or she consents.³⁰

IV. **Cost composition and financial projections.**

A. **What are the components of the \$307 million?**

1. **Which portion is attributable to existing commitments to former employees?**
2. **Which portion is attributable to existing commitments to current employees?**
3. **Which portion is administrative costs--and what are the components of those administrative costs?**

36. Please refer to the responses to the question in Section I(C), *supra*, for a breakdown of the \$307 million. All cash outflows of \$330 million for benefit payments represent existing commitments to former employees and beneficiaries.

37. Current employees that have not yet retired or taken disability are not yet eligible for pension benefit payments, and therefore no portion of the cash outflows are related to current employees. Current, non-retired employees making employee contributions contribute to the cash inflow portion of the forecast.

³⁰ Certified Translation of the ERS Regulations, *In re Fin. Oversight & Mgmt. Bd. for P.R.*, No. 17-BK-4780-LTS (D.P.R. Jan. 26, 2024), ECF No. 4510-2 at Article 9, 11.

- B. **In addition to the \$307 million, PREPA maintains employees dedicated to retirement administrative functions. For O&M costs relating to administration, PREPA seeks \$11.9 million. Is this \$11.9 million part of the \$307 million?**

38. The costs of administering the pension system are not included in the \$307 million. These costs are included in Exhibit 35 and Exhibit 36³¹ of the Motion Submitting Rate Review Petition, under the “Retirement System” column totaling \$11.9 million. The administrative costs of the pension system are \$1.457 million for labor and \$2.493 million for non-labor administrative costs including audit and actuarial services. The remainder of the proposed \$11.9 million budget for the “Retirement System” is \$7.95 million for retiree medical benefits, which provides for two categories of medical benefits to retirees: 1) medical insurance coverage for retirees under 65 that are not yet eligible for Medicare, and 2) supplemental medical insurance coverage for retirees 65 and over that are eligible for Medicare.

- C. **The \$307 million represents FY2026 requirements. What are PREPA's projected annual cash requirements for FY2027 and FY2028? What are the bases for those predictions?**

39. As included in Exhibit 36 of Motion Submitting Rate Review Petition, PREPA's pension expense projections for FY2027 and FY2028 are \$299 million and \$298 million, respectively.³²

³¹ Motion Submitting Rate Review Petition, *In re Puerto Rico Electric Power Authority Rate Review*, No. NEPR-AP-2023-0003 (P.R. Energy Bureau Jul. 3, 2025) at Exhibits 35, 36.

³² Motion Submitting Rate Review Petition, *In re Puerto Rico Electric Power Authority Rate Review*, No. NEPR-AP-2023-0003 (P.R. Energy Bureau Jul. 3, 2025) at Exhibit 26.

40. The primary driver of the decrease from FY2026 to FY2027 is the decrease of \$9.6 million in anticipated refunds of member contributions. The remaining variance of less than \$1 million is due to small increases and decreases in projected inflows and outflows from mobilized employee contributions, loan repayments, and benefit payments. The decrease from FY2027 to FY2028 is due to small changes of less than \$1 million to projected inflows and outflows from benefit payments, mobilized employee contributions, and loan repayments.

D. Concerning mobility transfers (former PREPA employees who have moved to LUMA or Genera): What is the effect on the pension liability? For example:

1. **Are these transferred employees still eligible for future benefits but are no longer paying into the system? If so, what is the economic effect on the pension liability?**
2. **When these transferred employees were PREPA employees, they were paying into a system that funded benefits to current retirees. If these transferred employees are no longer making payments to cover those benefits, three questions:**
 - a. **What is the amount of funding that PREPA is now missing?**
 - b. **What is PREPA doing to fill that gap?**
 - c. **Is that gap the legal responsibility of PREPA? Or is it the legal responsibility of PREPA ERS?**

41. Employees who transferred to the Government or other public entities due to the transitions to LUMA Energy and Genera PR (the "Mobility Transferees") remain eligible to participate in the PREPA ERS pursuant to the Puerto Rico Energy Public Policy Act (Act 17-2019), with continued pension contributions deducted from their paychecks and paid to the PREPA ERS. Mobility Transferees continue to accrue additional service years and qualify for pension benefits as a result of such accrual.

42. In contrast, former PREPA employees who moved directly to LUMA Energy or Genera PR no longer contribute to the PREPA ERS and are no longer eligible to accrue benefits in the PREPA ERS.³³

V. **Administrative Efficiency**

A. **What information does PREPA have about what actions PREPA ERS is taking in terms of cost-reduction measures, operational reforms, and/or efficiency initiatives?**

43. PREPA, at this time, does not have information about current actions PREPA ERS is taking in terms of cost-reduction measures, operational reforms, and/or efficiency initiatives.³⁴

B. **What actions is PREPA taking to ensure that PREPA ERS is carrying all possible cost-reduction measures, operational reforms, and or efficiency initiatives?**

44. The PREPA ERS asserts that it is an independent private trust. PREPA's ability to ensure PREPA ERS is taking action carrying all possible cost-reduction measures, operational reforms, and or efficiency initiatives are limited pursuant to the ERS Regulations, which entrusts the PREPA ERS's administration to the Board of Trustees.³⁵

³³ Disclosure Statement for Fifth Amended Title III Plan of Adjustment of the Puerto Rico Electric Power Authority, *In re Puerto Rico Electric Power Authority*, No. 17-04780-LTS (D.P.R. Mar. 28, 2025), ECF No. 5582 at 85.

³⁴ **Exhibit A** at Answer to Question No. 18.

³⁵ **Exhibit A** at Answer to Question No. 19.

VI. **Alternative funding sources, mitigation, and contingency planning.**

A. **What alternative funding sources beyond electric ratepayers has PREPA evaluated and pursued?**

45. As of July 2023, the PREPA ERS no longer had sufficient liquid assets, or illiquid assets capable of being liquidated in a short period of time for the PayGo funding. This required PREPA to fund the PREPA ERS with approximately \$21–31 million per month since July 2023, in addition to PREPA's regular employer contributions and the ongoing employee contributions from active PREPA ERS participants to cover Pension Payments on a monthly basis. PREPA's liquidity and budgeted amounts were insufficient to continue making the PayGo payments after December 2023.

46. In December 2023, PREPA received a loan from the Government in the amount of \$300 million to sustain funding of the Pension Payments, with such loan to be repaid in accordance with terms and conditions to be agreed upon with the Oversight Board (the "Loan").

47. In connection with the Loan, the Oversight Board required PREPA to commence actions necessary to provide and ensure long-term access to funds for PayGo funding by June 2024. The initial Loan was fully drawn by October 2024 and funds from the loan were effectively depleted by December 2024.

48. Between November and December 2024, PREPA submitted a series of motions before the Energy Bureau seeking authorization to use of \$74 million in FEMA reimbursements to cover PayGo funding from January through March 2025, subject to Oversight Board approval. On December 26, 2024, the Energy Bureau

authorized the use of \$74 million, and on January 10, 2025, the Oversight Board approved a revised FY2025 budget for PREPA, reflecting the \$74 million in FEMA reimbursements earmarked to cover several months of PayGo funding.

49. In these motions, filed on November 20, 2024, December 20, 2024 and January 26, 2025, in case number NEPR-MI-2021-004, PREPA gave various short, mid and long terms solutions to address the pension funding crisis. These included: a FEMA reimbursement request, a loan from the Government, Resolution through Title III proceeding, an analysis of LUMA and Genera PR budgets for efficiency and savings, and reimbursement from LUMA for bailout payments.

50. The Oversight Board approved additional \$25 million loan amendments for loans from the Government to PREPA for advances in each of May, June, July, August, September, and October 2025 to continue making the PayGo payments during those months.

51. Effective September 2025, the Energy Bureau approved and implemented a temporary and provisional pension rate on electric utility bills³⁶ that is expected to cover the payment of the PREPA Pension Obligations on a PayGo basis.³⁷

³⁶ See Resolution and Order on Establishment of Fiscal Year 2026 Provisional Rates and Fiscal Year 2026 Provisional Budget, *In re Puerto Rico Electric Power Authority Rate Review*, No. NEPR-AP-2023-0003 (P.R. Energy Bureau July 31, 2025) (the "July 31 Provisional-Rate Order").

³⁷ The further PayGo payments may vary and are ultimately determined by the terms of PREPA's confirmed plan of adjustment.

52. The Oversight Board has informed PREPA that it will not provide further approvals for additional loans from the Government, stating:

The Oversight Board does not currently intend to approve any further Commonwealth loans for this purpose, nor will it approve the Commonwealth assuming the obligations of the PREPA ERS pension plan, as the Commonwealth treasury is required for its own purposes.³⁸

This statement comes after the Government of Puerto Rico has taken every reasonable and legally available step to prevent any impact on ratepayers. Over the past year, the Government has identified, pursued, and formally presented to the Energy Bureau a broad array of alternative funding sources to ensure uninterrupted pension payments without an increase in electric bills. Each of these options was either declined, deemed infeasible, or ultimately ruled out by the Oversight Board.

53. As stated in the PREPA Fiscal Plan, the Oversight Board continues to assert that the payment of the PREPA Pension Obligations needs to be funded by rates.

54. Section III of the Oversight Board Pension Letter states:

The only other available source of funding for PREPA's obligations to PREPA ERS is PREPA's own cash, which is currently insufficient for this purpose. PREPA's certified fiscal plan therefore contemplates PREPA including pension obligations in the revenue requirement as a part of the Rate Case.

³⁸ See Oversight Board Pension Letter at Section III.

B. **Has PREPA ERS considered integrating its pensioners into Puerto Rico's public pension framework? That framework includes these three main systems:**

1. **Employees Retirement System (ERS)**
2. **Teachers Retirement System (TRS)**
3. **Judicial Employees Retirement System (JRS)**

55. This question is not addressed to PREPA and, as such, should be answered by PREPA ERS.

56. Regarding the ERS, TRS and JRS, footnote 4 of the Oversight Board Pension Letter explains:

... the three Commonwealth retirement systems (ERS, TRS, and JRS) no longer exist as defined benefit plans with accruing benefits. All benefits accrued under these plans through their freeze dates (2013 for ERS, and the Commonwealth Plan effective date for TRS and JRS) are administered and paid through the ERS administration. All active employees of the Commonwealth now contribute to their own Act 106 defined contribution plan accounts, as PREPA ERS's active participants will do after the PREPA Plan's effective date.

C. **In setting rates that satisfy the statutory just-and-reasonable standard, what if any discretion does the Energy Bureau have in its treatment of pension costs?**

57. As stated in the response to Section VI(A) above, the Oversight Board mandates in the certified PREPA Fiscal Plan that PayGo funding be funded exclusively through the electricity rates.

58. As to the Energy Bureau's discretion, the Oversight Board Pension Letter states:

PREB has discretion as to how to structure any rate component to cover funding of PREPA ERS's pension obligations on a PayGo basis,

but full payment of accrued benefits to participants in the plan is an essential revenue requirement under its fiscal plan.³⁹

D. **If PREB denies or materially reduces the Pension Funding Rider, what immediate, documented contingency plans does PREPA have to prevent disruption of pension payments to current beneficiaries?**

59. PREPA does not have any immediate and documented contingency plans for an alternative funding source for the PREPA Pension Obligations, as none is provided for in the PREPA Fiscal Plan or PREPA's certified budget.

60. The Oversight Board has informed PREPA that it will not provide further approvals for additional loans from the Government, stating:

The Oversight Board does not currently intend to approve any further Commonwealth loans for this purpose, nor will it approve the Commonwealth assuming the obligations of the PREPA ERS pension plan, as the Commonwealth treasury is required for its own purposes. . . . PREPA's certified fiscal plan therefore contemplates PREPA including pension obligations in the revenue requirement as part of the Rate Case.⁴⁰

This conclusion by the Oversight Board follows a sustained period during which the Government of Puerto Rico explored and advanced multiple strategies aimed at preserving uninterrupted pension payments while avoiding any rate impact upon the people of Puerto Rico. In the course of that effort, the Government presented the Energy Bureau with concrete alternatives, which included a detailed evaluation of LUMA's and Genera PR's budgets to identify operational efficiencies and potential savings and the proposal that LUMA

³⁹ See Oversight Board Pension Letter at Section III.

⁴⁰ *Id.*

reimburse PREPA for the bailout payments that were necessary to sustain pension benefits during the liquidity shortfall. None of these alternatives was ultimately accepted or authorized. With the Oversight Board now expressly ruling out any additional Government financing and directing that PayGo obligations be addressed through rates, PREPA is left with no remaining viable mechanism to fund these statutory obligations without a rate adjustment.

WHEREFORE, PREPA respectfully requests that the Hearing Examiner take notice of the foregoing.

Dated: November 21, 2025
San Juan, Puerto Rico

Respectfully submitted,

O'MELVENY & MYERS LLP

/s/ Maria J. DiConza
Maria J. DiConza (Admitted *Pro Hac*
Vice)
Mohammad S. Yassin (RUA No. 20,150)
Gabriel L. Olivera (RUA No. 20,073)
1301 Avenue of the Americas, 17th
Floor
New York, NY 10019
Telephone: (212) 326-2000
Facsimile: (212) 326-2061
Email: mdiconza@omm.com
msyassin@omm.com
golivera@omm.com

*Counsel for the Puerto Rico Electric
Power Authority*

GONZÁLEZ & MARTÍNEZ

/s/ Juan R. González Galarza
Juan R. González Galarza (RUA No.
13,460)

/s/ Mirelis Valle Cancel
Mirelis Valle Cancel (RUA No. 21,115)

1509 López Landrón, Bldg.
Seventh Floor
San Juan, PR 00911-1933
Telephone: (787) 274-7404
Email: jgonzalez@gmlex.net
mvalle@gmlex.net

*Counsel for the Puerto Rico Electric
Power Authority*

CERTIFICATE OF SERVICE

CERTIFICATE OF SERVICE: We hereby certify that this document was filed with the Office of the Clerk of the Energy Bureau using its Electronic Filing System at <https://radicacion.energia.pr.gov/login>, and notified via e-mail to the Hearing Examiner, Scott Hempling, shempling@scotthemplinglaw.com; and to the attorneys of the parties of record, attorneys of the intervenors of record, and others: LUMA Energy, LLC and LUMA Energy ServCo, LLC; Margarita Mercado margarita.mercado@us.dlapiper.com; Jan Albino, Jan.AlbinoLopez@us.dlapiper.com; Andrea Chambers, andrea.chambers@us.dlapiper.com; Carolyn Clarkin, carolyn.clarkin@us.dlapiper.com; Katiushka Bolanos, katiushka.bolanos-lugo@us.dlapiper.com; Yahaira De La Rosa, Yahaira.delarosa@us.dlapiper.com; Genera PR, LLC, through: Jorge Fernández-Reboredo, jfr@sbgblaw.com; Gabriela Castrodad, gcastrodad@sbgblaw.com; José J. Díaz Alonso, jdiaz@sbgblaw.com; Stephen Romero Valle, sromero@sbgblaw.com; Giuliano Vilanova-Feliberti, gvilanova@vvlawpr.com; Maraliz Vázquez-Marrero, m vazquez@vvlawpr.com; ratecase@genera-pr.com; regulatory@genera-pr.com; and legal@genera-pr.com; Oficina Independiente de Protección al Consumidor, hrivera@jrsp.pr.gov; contratistas@jrsp.pr.gov; pvazquez.oipc@avlawpr.com; Instituto de Competitividad y Sustentabilidad Económica, jpouroman@outlook.com; agraitfe@agraitlawpr.com; 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; 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; 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; Syncora Guarantee, Inc., escalera@reichardescalera.com; arizmendis@reichardescalera.com; riverac@reichardescalera.com; susheelkirpalani@quinnemanuel.com; erickay@quinnemanuel.com; 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; lgna2021@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;
mrios@arroyorioslaw.com; ccordero@arroyorioslaw.com; *Wal-Mart Puerto Rico, Inc.*,
Cfl@mcvpr.com; apc@mcvpr.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.

GONZÁLEZ & MARTÍNEZ

/s/ Mirelis Valle Cancel

Mirelis Valle Cancel

Exhibit A

**GOVERNMENT OF 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: Direct Testimony of **Vilmarie
Soto Maldonado** on Behalf of the Puerto Rico
Electric Power Authority

**PREPA'S WRITTEN TESTIMONY OF VILMARIE SOTO MALDONADO
ON BEHALF OF THE PUERTO RICO ELECTRIC POWER AUTHORITY
REGARDING THE PREPA EMPLOYEES' RETIREMENT SYSTEM**

Vilmarie Soto Maldonado

Puerto Rico Electric Power Authority

I. BACKGROUND AND QUALIFICATIONS

Question No. 1: Please state your name, your current position, and briefly describe your professional background.

Answer to Question No. 1: My name is Vilmarie Soto Maldonado. I currently serve as the Interim Assistant Manager of the Retirement System (“Retirement System” or “PREPA ERS”), a role to which I was designated by the PREPA Executive Director, Mary C. Zapata. However, given that the Auxiliary Division Chief of the PREPA ERS, Ms. Brenda E. Rivera Rodríguez, is currently on vacation, I am serving as the acting Auxiliary Division Chief through November 30, 2025.

I have over twenty (29) years of experience at the Puerto Rico Electric Power Authority (“PREPA”), having begun my service in the Retirement System in July 2021, as Coordinator of Management Operations and General Supervisor. Since 2021, I have worked at the Department of Pensions and Benefits, including every major section of that department, gaining comprehensive operational expertise in the administration of pensions and benefits. In 2024, I started payroll processing, service credit evaluations, disability retirement referrals, actuarial reporting, and compliance with PREPA and Retirement System regulations.

During my tenure at the Retirement System, I have progressed through managerial positions with increasing responsibilities—including General Supervisor and then Auxiliary Manager—culminating in my current leadership role within the Retirement System. My experience also includes responsibility for managing and approving the monthly pension payroll of more than 12,000 retirees and beneficiaries, coordinating audits and actuarial reviews, establishing operational controls, overseeing budget preparation, and ensuring compliance with internal and

external regulatory requirements. My résumé is attached as **Exhibit 1** – Résumé of Vilmarie Soto Maldonado.

Question No. 2: On whose behalf are you providing this testimony?

Answer to Question No. 2: I am providing this testimony on behalf of PREPA and specifically in my capacity as Interim Auxiliar Division Chief. I reiterate that the Auxiliary Division Chief of the PREPA ERS, Ms. Rivera Rodríguez, is currently on vacation, and I am serving as the acting Auxiliary Division Chief through November 30, 2025.

Question No. 3: What is the purpose of your testimony?

Answer to Question No. 3: The purpose of my testimony is to provide the Puerto Rico Energy Bureau with factual information regarding the financial condition of the PREPA ERS, including its unfunded pension liability, PayGo (or Pay-as-you-Go, defined below) funding requirements, projected inflows and outflows, administrative costs, and retiree medical benefit obligations. My testimony also describes current plan participation, the status of benefit accruals, and clarifies the basis for PREPA's FY2026 pension funding request. These facts are intended to assist the Energy Bureau in evaluating PREPA's pension-related funding needs in this rate review proceeding.

II. PREPA ERS FINANCIAL CONDITION AND PENSION OBLIGATIONS

Question No. 4: What is the current estimated net pension liability of the PREPA ERS?

Answer to Question No. 4: Approximately \$3.9 billion, from the FY2023 PREPA ERS audited financial statement. This reflects a total pension liability of approximately \$5.0 billion, offset by an estimated Plan Fiduciary Net Position of approximately \$1.1 billion.

The Plan Fiduciary Net Position consists of:

- Approximately \$25 million in cash and invested funds from historic contributions,

PREPA's Testimony Vilmarie Soto Maldonado

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- 1 • Approximately \$70 million in participant mortgages and personal loans, and
- 2 • Approximately \$1.0 billion in contributions receivable from PREPA, representing
- 3 employer contributions recommended by the System's actuary that were not made by
- 4 PREPA.

5 Because these "assets" are predominantly unpaid employer contributions, the total pension liability
6 is the more accurate indicator of the System's unfunded status.

7 **Question No. 5: What types of benefit obligations does the PREPA ERS fund each month?**

8 **Answer to Question No. 5:** The PREPA ERS funds all statutory pension and post-employment
9 benefit obligations, including:

- 10 • Monthly retiree annuity payments,
- 11 • Surviving spouse benefits,
- 12 • Death benefits,
- 13 • Christmas and summer bonuses,
- 14 • Refunds of employee contributions,
- 15 • Retiree payroll withholdings,
- 16 • Health insurance reimbursements, and
- 17 • Funeral benefits.

18 (hereafter, collectively, the "PREPA Pension Obligations"). In addition, pursuant to Act 120-2018,
19 the Retirement System processes Rollover Requests from former PREPA employees who ceased
20 accruing benefits due to workforce transitions associated with LUMA Energy and Genera PR.
21 PREPA projects that as of FY2026, it has PREPA Pension Obligations for approximately 10,091
22 pensioners, as illustrated on **Exhibit 2** (*PREPA Ex. 41 6.30.25-PREPA Exhibit 7-Schedule C-9-*

1 *Various Operating Statistics* to its July 3, 2025 submission of the Rate Review Petition), annexed
2 hereto.

3 **Question No. 6: As of July 2023, did the PREPA ERS have sufficient liquid assets to meet its**
4 **benefit payment obligations?**

5 **Answer to Question No. 6:** No. As of July 2023, the PREPA ERS lacked both sufficient liquid
6 assets, and illiquid assets that could be prudently converted into cash within the necessary
7 timeframe to meet ongoing monthly benefit payments and Rollover Requests.

8 The Retirement System became fully dependent on PREPA for PayGo funding.

9 **Question No. 7: What did PREPA do once the Retirement System's liquidity was depleted?**

10 **Answer to Question No. 7:** Beginning in July 2023, PREPA transferred between approximately
11 \$21 million to \$31 million per month to the PREPA ERS to sustain benefit payments. This was in
12 addition to regular employer and employee contributions. PREPA's liquidity and budget were
13 unable to absorb this level of sustained cash outflow. As such, PREPA informed it would be unable
14 to continue funding PREPA Pension Obligations beyond December 2023, without additional
15 revenue support.

16 In December 2023, PREPA received a loan from the Government of Puerto Rico \$300 million
17 funding to sustain funding of the PREPA Pension Obligations and Rollover Requests, with such
18 loan to be repaid in accordance with terms and conditions to be agreed upon with the Oversight
19 Board (the "Loan"). In connection with the Loan, the Oversight Board required PREPA to
20 commence actions necessary to provide and ensure long-term funding for PREPA Pension
21 Obligations and Rollover Requests by June 2024, which was subsequently extended. The initial
22 Loan was fully drawn by October 2024.

PREPA's Testimony Vilmarie Soto Maldonado

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1 In December 2024, PREPA requested Energy Bureau authorization to use \$74 million in FEMA
2 reimbursements to cover funding of the PREPA Pension Obligations through March 2025, subject
3 to Oversight Board approval. On December 26, 2024, the Energy Bureau authorized the use of \$74
4 million, and on January 10, 2025, the Oversight Board approved a revised fiscal year 2025 budget
5 for PREPA, reflecting the \$74 million in FEMA reimbursements earmarked to cover several
6 months of pension payments.

7 The Oversight Board subsequently approved additional \$25 million loan amendments for loans
8 from the Government to PREPA for advances in May, June, July, August, September, and October
9 2025 to continue supporting the PREPA Pension Obligations.

10 Effective September 2025, the Energy Bureau approved and implemented a temporary and
11 provisional pension rate on electric utility bills (the "Provisional Pension Charge") that is expected
12 to cover the payment of the PREPA Pension Obligations on a pay-as-you go ("PayGo") basis.

13 **Question No. 8: What is the basis for the \$307 million funding request submitted to the**
14 **PREB?**

15 **Answer to Question No. 8:** The \$307 million request is based on the unfunded status of the
16 system, and the Oversight Board's pension funding mandate under the PREPA Fiscal Plan, which
17 requires PREPA to fund PREPA Pension Obligations on a PayGo basis. Because projected
18 outflows exceed projected inflows, PREPA must request the difference through this rate review
19 proceeding.

20 **Question No. 9: Does the \$307 million PayGo estimate represent the Unfunded Pension**
21 **Liability?**

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Answer to Question No. 9: No. The \$307 million is not derived from Unfunded Pension Liability.

It represents the annual PREPA funding requirement for FY2026, based on projected ERS cash inflows and outflows, not long-term actuarial valuations.

Question No. 10: How was the \$307 million estimate calculated?

Answer to Question No. 10: The calculation is:

Projected Outflows – Projected Inflows + Required Contributions = \$307 million. The projections are made on a monthly basis as set forth in **Exhibit 3** (PREPA ERS *Forecast of Proposed Cash Transfers*), annexed hereto.

Question No. 11: What are the projected inflows for FY2026?

Answer to Question No. 11: Projected inflows for FY2026 total approximately \$28 million, consisting of:

- \$15 million in employer and employee contributions,
- \$10 million in participant loan collections, and
- \$3 million in other receipts.

Question No. 12: What are the projected outflows for FY2026?

Answer to Question No. 12: Projected outflows for FY2026 total approximately \$330 million, which include:

- \$282 million in regular retiree and surviving spouse benefits,
- \$48 million in death benefits,
- Refunds of member contributions,
- Seasonal bonuses, and
- Other required pension disbursements.

Question No. 13: Does the \$307 million PayGo request include pension system administrative costs?

Answer to Question No. 13: No. The \$307 million does not include the cost of administering the Retirement System.

Administrative costs appear separately in PREPA Exhibit 35 and Exhibit 36 under the “Retirement System” column, totaling \$11.9 million, consisting of:

- \$1.457 million in labor costs,
- \$2.493 million in non-labor administrative costs (including audit and actuarial services), and
- \$7.95 million for retiree medical benefits, including: Medical coverage for retirees under age 65 who are not yet eligible for Medicare, and Supplemental coverage for retirees age 65 and older who are Medicare-eligible.

Question No. 14: Has PREPA performed an independent analysis of the causes of the Unfunded Pension Liability?

Answer to Question No. 14: PREPA cannot reasonably attribute proportional responsibility to the various factors that caused the underfunding. PREPA's current focus is on meeting PayGo funding requirements under the PREPA Fiscal Plan, given the system's funded status.

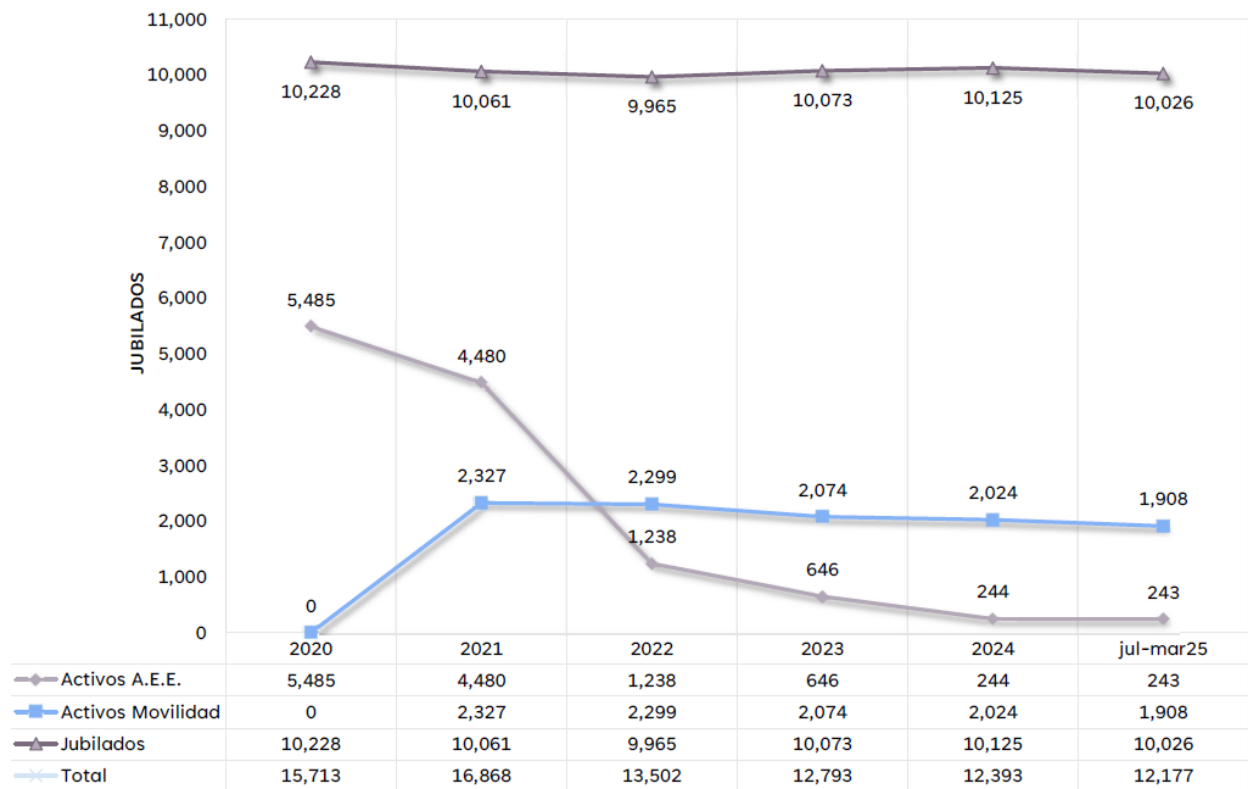
Question No. 15: Is PREPA adding new beneficiaries or participants to the defined benefit plan?

Answer to Question No. 15: The Retirement System defines “beneficiaries” as surviving spouses of deceased retirees. PREPA interprets the question to refer to plan participants. According to the FY2023 audited financial statements, there was a net increase of 15 new active participants as of

- 1 June 30, 2023. The ERS experienced a decline due to workforce transfers to LUMA in FY2021
 2 and Genera PR in FY2023. The table and chart below depict ERS membership statistics over time,
 3 based on the most recent unaudited report published by the administrator.

Miembros Activos y Jubilados

2020 – 2025
(al 30 de junio)



4

5 **Question No. 16: Is PREPA adding new benefits to the defined benefit plan?**

- 6 **Answer to Question No. 16:** No. PREPA has not added any new benefits. The last amendment to
 7 the plan benefits occurred on April 26, 2018. Active employees continue to accrue benefits only
 8 under the pre-existing terms of the plan.

9 **Question No. 17: Do the projected FY2026 cash outflows include payments to current, non-**

10 **retired employees?**

PREPA's Testimony Vilmarie Soto Maldonado

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1 **Answer to Question No. 17:** No. The entire \$330 million in projected FY2026 outflows relates to
2 existing commitments to former employees and beneficiaries. Current employees are not yet
3 eligible for pension benefit payments and therefore do not contribute to cash outflows. Their
4 employee contributions are reflected solely as part of inflows.

5 **Question No. 18:** Does PREPA have information about what actions the PREPA ERS is taking in
6 terms of cost-reduction measures, operational reforms, and/or efficiency initiatives?

7 **Answer to Question No. 18:** No. PREPA, at this time, does not have information about current
8 actions PREPA ERS is taking in terms of cost-reduction measures, operational reforms, and/or
9 efficiency initiatives.

10 **Question No. 19:** What actions is PREPA taking to ensure that PREPA ERS is carrying out all
11 possible cost-reduction measures, operational reforms, and or efficiency initiatives?

12 **Answer to Question No. 19:** PREPA's ability to ensure PREPA ERS is taking action carrying all
13 possible cost-reduction measures, operational reforms, and or efficiency initiatives are limited
14 pursuant to the "Electric Power Authority Employee Retirement System Regulations" (the "ERS
15 Regulations"). The ERS Regulations entrust the PREPA ERS's administration to a board of
16 trustees (the "Board of Trustees"), which Board of Trustees asserts that the PREPA ERS is an
17 independent private trust.

18 **Question No. 20:** Does PREPA have immediate, documented contingency plans to prevent
19 disruption of pension payments to current beneficiaries if PREB denies or materially reduces the
20 Pension Funding Rider.

21 **Answer to Question No. 20:** PREPA does not have any immediate and documented contingency
22 plans for an alternative funding source for the PREPA Pension Obligations.

ATTESTATION

Affiant, Vilmarie Soto Maldonado, of legal age, single, Interim Auxiliar Division Chief, and resident of Toa Alta, Puerto Rico, being first duly sworn, states the following:

The prepared Direct Testimony on behalf of the Puerto Rico Electric Power Authority, along with the exhibits and other documents referenced therein, constitutes my written testimony in Case No. NEPR-AP-2023-0003. I would provide the same answers outlined in the Written Testimony if asked the questions propounded therein at the time of filing. I further state that the facts and statements provided herein are, to the best of my knowledge, true and correct.

Vilmarie Soto Maldonado

Affidavit No. 1071

Acknowledged and subscribed before me by Vilmarie Soto Maldonado, of the personal circumstances above mentioned, in her capacity as Interim Auxiliar Division Chief, who is personally known to me, in San Juan, Puerto Rico, this 21st of November 2025.



EXENTO PAGO ARANCEL
LEY 47
4 DE JUNIO DE 1982

Exhibit 1

Vilmarie Soto Maldonado

Mi objetivo laboral es continuar ampliando mis conocimientos formando parte de un equipo profesional enfocado en las metas y objetivos de la empresa

RR 03 Box 10883
Toa Alta, PR 00953

(787) 525-6844
vilmariesoto70@gmail.com

EXPERIENCIA PROFESIONAL

Autoridad de Energía Eléctrica, Santurce

Gerente Auxiliar Int.

Supervisor General

Coordinador de Asuntos Gerenciales

2021 - Presente (Sistema de Retiro)

Departamento de Pensiones y Beneficios //

Supervisora: Brenda E Rivera Rodriguez

Coordinador de Servicio

2015 - 2021 (Directorado Servicio al Cliente)

Departamento Ventas al Por Mayor

Supervisor Principal (Sustitución Temporal)

2012 (Directorado Recursos Humanos)

Depto. Evaluaciones Médicas y Ocup.

Coordinador de Servicio

2000 - 2015 (Directorado Recursos Humanos)

Sección de Servicios Médicos

Sección de Planes Médicos

Secretaria Confidencial I y II

1996 - 2000

(Directorado Transmisión y Distribución)

Oficina Director Transmisión y Distribución

EDUCACION

Universidad de Puerto Rico - Recinto de Bayamón

1987 - 1991 (*Bach., Administración de Empresas*)

Exhibit 2

Line No.	Description	FY2023 Actual	FY2024 Actual	Test Year FY2025	FY2026 Projected	FY2027 Projected	FY2028 Projected
1	Headcount						
2	GenCo	441	-	-	-	-	-
3	HydroCo ^[1, 2]	544	168	165	256	256	256
4	HoldCo ^[1, 3]	146	58	68	105	105	105
5	Retirement System ^[1]	35	29	22	25	25	25
6	GridCo	-	-	-	-	-	-
7	Pension Beneficiaries						
8	PREPA Pensioners ^[4]	10,073	10,125	10,039	10,091	10,143	10,195

[1] Actuals as of June 30th for FY23 and FY24 and as of May 31st for FY25.
[2] Includes PREPA Irrigation (Riego).
[3] Includes PropertyCo.
[4] Unaudited for FY2023 and FY2024; estimated for FY2025 through FY2028.

Exhibit 3

Forecast of Proposed Cash Transfers

July 31, 2026 through June 30, 2027

	Total FY2026	Total FY2027	Total FY2028
Cash Inflows			
Employer (Mobilized) Contributions	4,519,229	4,491,956	4,519,229
Member Contributions (including from mobilized employees)	10,529,376	10,424,082	10,215,612
Personal Loan Payments	4,199,988	4,157,988	4,116,408
Mortgage Payments	6,006,000	5,945,940	5,886,480
Other Cash Receipts	2,580,000	2,580,000	2,520,000
Total Cash Inflows	\$27,834,593	\$27,599,966	\$27,257,729
Forecasted Cash Availability	\$27,834,593	\$27,599,966	\$27,257,729
Retiree and Surviving Spouse Benefit Payroll Disbursements			
Retiree and Surviving Spouse Benefit Payroll	(282,242,203)	(282,789,935)	(283,427,725)
Total Forecasted Cash Availability after Retiree and Surviving Spouse Benefit Payroll	(\$254,407,610)	(\$255,189,969)	(\$256,169,996)
Other Retirement Benefits and Payments			
Annual Salary Benefit (Retired or Death Benefit)	(13,200,000)	(13,200,000)	(12,000,000)
Refund/Rollover Member Contributions	(12,000,000)	(2,400,000)	(2,400,000)
Summer Bonus	(1,035,400.00)	(1,035,400.00)	(1,035,400.00)
Christmas Bonus	(4,102,000.00)	(4,102,800.00)	(4,102,800.00)
Other Benefits and Payments	(18,000,000)	(18,000,000)	(18,000,000)
Total Other Retirement Benefits and Payments	(48,337,400)	(38,738,200)	(37,538,200)
Total Forecasted Cash Availability after Retiree and Surviving Spouse Benefit Payroll and Othe	(302,745,010)	(293,928,169)	(293,708,196)
Cash Reserve for Contingencies and Estimate/Actual Variance	-	-	-
Employer (PREPA) Contribution	(4,730,412)	(4,730,412)	(4,730,412)
Proposed Cash Transfer	(\$307,475,422)	(\$298,658,581)	(\$298,438,608)

Exhibit B

November 18, 2025

Paul V. Possinger
Partner

d +1.312.962.3570
ppossinger@proskauer.
com
www.proskauer.com

BY ELECTRONIC MAIL

Maria J. DiConza
O'Melveny & Myers LLP
mdiconza@omm.com

Re: Case No. NEPR-AP2023-0003 (the “Rate Case”)

Dear Maria:

I write on behalf of the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”) regarding certain questions raised by Mr. Scott Hempling, in his capacity as Hearing Examiner (“Hearing Examiner”), in the *Hearing Examiner’s Order Requiring PREPA Testimony and Legal Discussion on Pensions* (the “Pension Order”) entered on October 27, 2025 in the Rate Case, regarding PREPA’s pension obligations and the need to fund them through rates. As a general matter, and specifically in response to the Hearing Examiner’s questions regarding the reasons PREPA’s retirement system (“PREPA ERS”) became underfunded and, eventually, unfunded, I refer you to the FOMB Report on the PREPA Employee Retirement System issued on October 2, 2025 (the “Pension Report”), a copy of which is included herewith.

As you know, the funding status of Puerto Rico’s public pension systems, including PREPA ERS, was in a state of steady decline prior to the enactment of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”)¹ and appointment of the Oversight Board. With respect to the Commonwealth, its general employee retirement system (ERS), by far the largest public pension system, was closed to new participants in 2000 and benefits were subsequently frozen by Puerto Rico law in 2013, prior to the enactment of PROMESA. Pursuant to the Commonwealth’s Title III plan of adjustment (the “Commonwealth Plan”),² the other two primary pension systems of the Commonwealth government, the Teachers Retirement System and the Judiciary Retirement System, were likewise closed and frozen, and all future cost of living adjustments were eliminated. Because all three systems were almost completely unfunded at the time the Oversight Board filed the Commonwealth’s Title III petition, remaining accrued benefits of Commonwealth retirees are paid on a “pay-as-you-go” (PayGo) basis (meaning the employer pays benefits as they come due, as opposed to funding an invested trust which then pays benefits).

As of 2023, PREPA ERS has been in the same situation – out of assets and paying benefits on a PayGo basis. PREPA has been making contributions to PREPA ERS to satisfy its obligations to its beneficiaries since that time. The sources of these contributions have been either PREPA’s

¹ PROMESA is codified at 48 U.S.C. §§ 2101–2241.

² *Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.*, ECF No. 19784 in Case No. 17-03283.

cash on hand from one-time resources (including FEMA reimbursements and settlements of receivables from governmental customers), and more recently from loans provided by the Commonwealth. Simply put, without loans from the Commonwealth, recent PREPA ERS pension payments could not have been made to retirees. The Commonwealth, however, has no obligation to make payments to cover benefits to PREPA's retirees, and its own revenues are desperately needed to fund its own needs. Revenue collected from PREPA's ratepayers is the only other available source of contributions to PREPA ERS to cover its obligations to its beneficiaries, other than a small amount being funded by (i) contributions from current PREPA employees, (ii) contributions from former "mobilized" employees who transferred to Commonwealth employment upon assumption of grid and generation operations by LUMA Energy, LLC ("LUMA") and Genera PR, LLC ("Genera"), and (iii) employer contributions from the Commonwealth on account of such mobilized employees.

The current Title III plan of adjustment for PREPA³ (the "PREPA Plan") provides PREPA's obligations to PREPA ERS will be restructured such that PREPA will provide quarterly contributions sufficient to reimburse PREPA ERS for its administrative costs and benefits paid in the prior quarter, limited to benefits payable to any PREPA ERS participant as of the PREPA Plan's effective date, without any further cost of living adjustments, with benefit accruals frozen as of the effective date in the manner set forth in Schedule B of the PREPA Plan. As with the Commonwealth Plan, the PREPA Plan does not reduce any benefits of PREPA ERS's retired or active participants that will have accrued through its effective date.

The Oversight Board addresses certain other questions raised by the Hearing Examiner in the Pension Order as follows.

I. PREB's Authority

PREPA's liability on account of pensions is a claim of PREPA ERS against PREPA. This claim principally accrued prior to the filing of PREPA's Title III petition in 2017, as a result of chronic underfunding of actuarially determined employer contributions as described further in the Pension Report. The Oversight Board believes post-petition contributions to PREPA ERS have been sufficient to meet its funding obligations with respect to benefits accrued since the petition date, but not to fund the actuarially determined contribution amounts the PREPA ERS asserts had accrued prepetition. Unlike other debt obligations of PREPA, its contributions to PREPA ERS constitute a substantial, if not sole, source of income for over 12,000 PREPA retirees. Thus, the Oversight Board has concluded that ensuring current payment of such contributions to satisfy all accrued benefits when due, including while the Title III case is pending, is essential.

Moreover, PREPA's funding of pension payments, even if accrued prepetition and while the case is pending, does not violate the automatic stay imposed by section 362(a) of the Bankruptcy Code. Unlike a debtor under chapter 11 of the Bankruptcy Code, PREPA is not prevented from using its property at its discretion or that of its trustee (here the Oversight Board) because (i) section 363(b)

³ *Fifth Amended Title III Plan of Adjustment for the Puerto Rico Electric Power Authority*, ECF No. 5581, Case No. 17-04780.

of the Bankruptcy Code, which prohibits use of a debtor's property outside the ordinary course of business without court approval, is not incorporated into Title III of PROMESA, and (ii) Section 305 of PROMESA provides, subject to Titles I and II of PROMESA, the Title III court may not enter any order interfering with PREPA's use of its property unless the Oversight Board consents. Pursuant to Section 201(b)(C) of PROMESA, a fiscal plan is required to "provide adequate funding for public pension systems." In turn, PREPA's current fiscal plan, certified by the Oversight Board on February 6, 2025, contemplates current funding of PREPA's pension obligations to PREPA ERS from PREPA's revenues.

As explained above, PREPA's pension obligations will be restructured such that its contributions to PREPA ERS will be sufficient to reimburse PREPA ERS for payment of all benefits accrued as of the effective date, frozen from that point forward. At that time active employees who are participants in the PREPA ERS retirement plan will be enrolled in the Commonwealth's single defined contribution retirement plan (essentially a 401(k)-type plan) established under Act 106-2017.⁴ As such, the contribution on account of pensions obligations will decline actuarially over time. However, the Oversight Board does not project the obligation will materially decline, even after the PREPA Plan's effective date, during the three year period to be covered by the permanent rate to be approved in the Rate Case.

II. PREPA's Discretion to Modify Pensions

The Oversight Board understands PREPA ERS is not currently closed to new participants and has not frozen benefits to active or retired employees. Thus, new benefit obligations continue to accrue, which is not prohibited by PROMESA. Current accrual of new benefits as a result of post-petition employee labor is akin to current accrual of new payroll obligations, permitted and payable in bankruptcy. However, as a result of the transition of grid and generation operations to LUMA and Genera, PREPA has a much smaller workforce, with far fewer new hires to enter the PREPA ERS retirement system. Additionally, employees who moved to LUMA or Genera are no longer active participants accruing pension benefits in PREPA ERS, though they are entitled to withdraw their accrued employee contributions and have been doing so over the last few years (further contributing to PREPA ERS's financial burden). Employees who moved to Commonwealth employment under Act 120-2018 (as amended by Act 17-2019) have remained participants in PREPA ERS, and employer/employee contributions have been made on account of such employees by the Commonwealth since their respective hire dates.

PREPA's ability to alter the terms of the PREPA ERS pension system, including closing the system to new hires and freezing benefits, are constrained by the terms of PREPA ERS's Regulations as established by PREPA's Resolution 200 in 1942 (as further described in the

⁴ In response to the Hearing Examiner's question in Part VI.B. of the Pension Order, the three Commonwealth retirement systems (ERS, TRS, and JRS) no longer exist as defined benefit plans with accruing benefits. All benefits accrued under these plans through their freeze dates (2013 for ERS, and the Commonwealth Plan effective date for TRS and JRS) are administered and paid through the ERS administration. All active employees of the Commonwealth now contribute to their own Act 106 defined contribution plan accounts, as PREPA ERS's active participants will do after the PREPA Plan's effective date.

Pension Report). The Oversight Board is able to restructure PREPA's obligations to PREPA ERS under these Regulations through the PREPA Plan pursuant to PROMESA and relevant provisions of PROMESA incorporated into the Bankruptcy Code, including 11 U.S.C. §§ 1123 and 1129.

III. Alternative Funding Sources, Mitigation, and Contingency Planning

PREPA ERS effectively ran out of liquid assets to pay pensions in May 2023. Initially thereafter, PREPA provided funding to PREPA ERS sufficient to make pension payments and benefit withdrawal payments on a PayGo basis and to pay administrative costs through various sources of revenue, including collection of past due receivables from government customers and unrestricted FEMA reimbursements. However, by the end of 2023 PREPA's own liquidity constraints required it to start borrowing from the Commonwealth to fund PREPA ERS's pension obligations. To date PREPA has borrowed approximately \$457 million from the Commonwealth to fund PREPA ERS, to make benefit and withdrawal payments through October 2025. The Oversight Board does not currently intend to approve any further Commonwealth loans for this purpose, nor will it approve the Commonwealth assuming the obligations of the PREPA ERS pension plan, as the Commonwealth treasury is required for its own purposes.

The only other available source of funding for PREPA's obligations to PREPA ERS is PREPA's own cash, which is currently insufficient for this purpose. PREPA's certified fiscal plan therefore contemplates PREPA including pension obligations in the revenue requirement as part of the Rate Case. PREB has discretion as to how to structure any rate component to cover funding of PREPA ERS's pension obligations on a PayGo basis, but full payment of accrued benefits to participants in the plan is an essential revenue requirement under its fiscal plan.

Respectfully submitted,

/s/ *Paul V. Possinger*

cc: Mr. Robert Mujica
Jaime El Koury, Esq.
Paula A. Gonzalez, Esq.



Financial Oversight &
Management Board
for Puerto Rico

FOMB Report

PREPA Employee Retirement System

September 2025

Note to Readers:
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DISCLAIMER

The Financial Oversight and Management Board for Puerto Rico (the FOMB or Oversight Board) has formulated this report based on, among other things, information obtained from the Commonwealth of Puerto Rico (the Commonwealth or the Government), the Puerto Rico Electric Power Authority (PREPA), the Puerto Rico Electric Power Authority Employees' Retirement System (PREPA-ERS) and publicly available resources, and such information was presumed to be current, accurate and complete. See Appendix A for a list of such sources. Therefore, no representations or warranties, express or implied, are made by the Oversight Board with respect to such information.

This document does not constitute an audit conducted in accordance with Generally Accepted Auditing Standards, an examination of internal controls or other attestation, or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other organization. Accordingly, the Oversight Board cannot and does not express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Government and the information contained herein.

List of Acronyms and Key Terms

ADCs	Actuarially Determined Contributions
CBA	Collective Bargaining Agreement
Central Government	Commonwealth of Puerto Rico
Certified Fiscal Plan	The PREPA Fiscal Plan certified on February 6, 2025
COLA	Cost-of-living adjustment
Coordinated benefits	Benefits that, at the election of the participant are reduced after Age 65 to coordinate with United States Social Security
CW	Commonwealth of Puerto Rico
DB	Defined benefit
FEMA	Federal Emergency Management Agency
FOMB	Financial Oversight and Management Board for Puerto Rico
GAS	Government Accounting Standards
Genera	Genera PR, LLC
kWh	Kilowatt-hour
LUMA	LUMA Energy, LLC & LUMA Energy ServCo, LLC
NAV	Net Asset Value
OMB	Office of Management and Budget
OPEB	Other post-employment (non-pension) benefits
Oversight Board	Financial Oversight and Management Board for Puerto Rico
P3A	Puerto Rico Public-Private Partnership Authority
PayGo	Pay-as-you go system for retirement payments
POA	Fifth Amended Title III Plan of Adjustment of the Puerto Rico Electric Power Authority
PPCC	Public Pension Coordinating Council
PREB	Puerto Rico Energy Bureau
PR-ERS	Puerto Rico Government Employees Retirement System
PREPA	Puerto Rico Electric Power Authority
PREPA-ERS	Puerto Rico Electric Power Authority Employees' Retirement System
Regulations	Regulations governing PREPA-ERS established by Resolution 200-1945
RFQ	Request for Qualifications
SRE-AEE	Sistema de Retiro de los Empleados de la Autoridad de Energía Eléctrica (See PREPA-ERS)
Standards	Public Pension Standards established by the PPCC
System	See PREPA-ERS
T&D system	PREPA's Transmission and Distribution operations
UTIER	Unión de Trabajadores de la Industria Eléctrica y Riego Inc.

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1. Executive Summary

The Puerto Rico Electric Power Authority Employees' Retirement System (PREPA-ERS, or the System) is a public pension system established in accordance with the terms of a 1942 collective bargaining agreement between the Puerto Rico Electrical Industry and Irrigation Workers Union (UTIER) and the Water Resources Authority, now known as PREPA. The System is managed by an executive director and governed by a board of trustees consisting of the executive director of PREPA and seven elected members voted on by PREPA's current and former employees. In addition to the UTIER Collective Bargaining Agreement establishing the System, UTIER members have often held positions on the Board of Trustees, including UTIER leadership frequently serving in executive roles, providing UTIER significant influence in both the System's administration of benefits, as well as the financial management of the System's assets and liquidity position.

As of this report, the System is currently unfunded and since May 2023 has had insufficient liquid assets to make monthly benefit payments to retirees, although PREPA-ERS retiree benefits have continued to be paid from external funding sources due to PREPA's failure to charge customers a rate sufficient to cover all of the System's needs. During the pendency of PREPA's Title III case, PREPA-ERS had been facing liquidity shortfalls that threatened the ability of the System to fulfill its obligations to retirees and beneficiaries.

PREPA-ERS assets have been in chronic decline for the past several decades resulting from ongoing and increasing benefit payments to a growing number of retirees and their beneficiaries, compounded by insufficient employer funding from PREPA. The PREPA-ERS Regulations impose on the Board of Trustees the obligation to approve its actuarial reports annually. For many years prior to PREPA's Title III petition, PREPA-ERS failed to estimate an adequate level of required funding needed from PREPA and maintained a persistently low funded ratio of plan assets to liabilities. The insufficient funding estimates were driven in part by the use of unrealistic, overly optimistic asset return assumptions and discount rates by the System, which drastically understated the total pension liability. Additionally, unrealistic assumptions were used on the go-forward state of PREPA employment levels and life expectancy. As a result, the requested contributions approved by the Board of Trustees were insufficient to maintain the health and funded status of the System.

PREPA-ERS currently operates on a defined benefit (DB) model, offering lifetime retirement benefits to eligible retirees and their beneficiaries based on years of service and compensation. There are approximately 250 active PREPA employees and 2,000 former PREPA employees actively employed at the Commonwealth that will be eligible for benefits upon retirement, as well as approximately 12,500 PREPA retirees or beneficiaries currently drawing benefits from the System. As described in more detail in this report, payments to retirees from the System continue solely because of loans from the Commonwealth to PREPA and other one-time, non-recurring emergency measures taken by PREPA.

The System has faced significant challenges that led to the decline in plan assets primarily including the following:

Steps taken to adjust benefits were inadequate – Amendments in 1993 introduced compensation limits, raised retirement ages, and increased employee contributions in response to concerns related to the System's long-term funding prospects. However, increases in life expectancy have led to longer benefit payment periods and the System continued to provide periodic bonuses and cost-of-living adjustments (COLAs) which further eroded System solvency.

Electricity rates did not include a pension charge – The current permanent rate per kWh charged by PREPA for energy consumption does not include a dedicated charge to fund ongoing pension costs. The

lack of a specific charge to customers or an increase to the current base rate sufficient to cover this cost caused PREPA-ERS to liquidate its assets to meet System benefit obligations and further reduced its liquidity position. The Energy Bureau implemented a temporary, provisional pension rate on customers' bills effective September 2025 that is expected to fully cover the costs of benefits on a pay-as-you-go basis going forward.

Contributions failed to meet actuarial requirements – PREPA has not met full Actuarially Determined Contributions (ADCs) according to Public Pension Coordinating Council (PPCC) guidelines since 2014. Inconsistent contributions combined with higher liabilities arising from the adoption of more realistic actuarial assumptions in 2010 and 2017 resulted in a continued decline in the System's funded status.

PREPA's Public-Private Partnerships accelerated funding depletion – The Public-Private Partnership agreements with LUMA, which went effective in 2020, and Genera, which went effective in 2023, further reduced the System's funded status and liquidity due to a reduction in current PREPA employee contributions and employee transfers to other governmental entities which caused larger than historical employee contribution withdrawals of accrued benefit amounts and associated increases in disbursement requests.

The analysis in this report demonstrates that the System's severe funding challenges are rooted in mismanagement from a combination of inconsistent funding practices and outdated assumptions, exacerbated by a greater than anticipated inactive population and increased withdrawals of accrued benefits from former PREPA employees now employed by LUMA and/or Genera.

This report presents the following analysis and information regarding the System:

1. The System's legal structure and operations
2. Historical funding and 30-year actuarial projection
3. Future funding sources and sustainability
4. Legacy benefit provisions and existing benefits

Immediate interventions by the Commonwealth have offered temporary relief, but the long-term sustainability of PREPA-ERS will hinge on PREPA's collection of the provisional rate approved by PREB and the implementation of a permanent solution by July 2026 through a permanent, fixed charge to consistently make retiree benefit payments, taking into consideration the growing number of retirees and current expectations related to longer future life expectancies. Additionally, as outlined in this report, the growth of future pension obligations must be limited via a freeze of further benefit accruals, as outlined in the PREPA Fiscal Plan certified on February 6, 2025 (the Certified Fiscal Plan) and the Fifth Amended Title III Plan of Adjustment of the Puerto Rico Electric Power Authority filed in the Title III court on March 28, 2025 (the POA).

2. PREPA retirement system legal structure and operations

2.1 Creation of PREPA-ERS

The PREPA Board of Directors established PREPA-ERS (or Sistema de Retiro de los Empleados de la Autoridad de Energía Eléctrica, SRE-AEE, PREPA-ERS, the System) as the employee retirement system in accordance with a 1942 collective bargaining agreement between PREPA and the Unión de Trabajadores de la Industria Eléctrica y Riego Inc. (UTIER) and pursuant to a resolution by PREPA's Governing Board in 1945.

Resolution 200 of June 25, 1945, officially created the System and established Regulations that would govern the System. The Regulations may be amended by the Board of Trustees (with the power of veto retained by the PREPA Board of Directors). The Regulations include, but are not limited to:

Definition of benefits provided: The provisions establish that all of PREPA's permanent, full-time employees are eligible to participate in the System, and upon retirement eligibility are entitled to receive benefits as outlined in Section 3 of this report.

Contribution basis: Under the current UTIER Collective Bargaining Agreement, PREPA is obligated to make ADCs. PREPA-ERS was intended to be funded based on mandated employer and employee contributions through separate statutory trusts. More details related to actual historical funding practices are contained in Section 4 of this report.

Board of Trustees: The Board of Trustees was created with the responsibility of administering the System consistent with the Regulations (as described further in Section 2.2). The eight-member Board of Trustees includes elected president and vice president leadership positions.

PREPA-ERS asserts it is an independent, de facto trust that is nonetheless a public pension system, established to receive employer and employee contributions and invest those contributions to support PREPA's defined benefit pension payment obligations.

While the UTIER Collective Bargaining Agreement formally established the System, UTIER's deep entrenchment in System governance—through frequent representation and assumption of leadership roles on the Board of Trustees—has provided UTIER significant influence over both benefit administration and the financial management of the System's assets and liquidity.

2.2 Board of Trustees

PREPA-ERS is administered by an eight-member board of trustees consisting of the executive director of PREPA, three members appointed by the PREPA Board of Directors, three members elected by the active members of the System, and one elected by retirees. Trustees serve for a 3-year term. In addition, an administrator of the Retirement System assists the Board of Trustees in its mandate of administering the System consistent with the Regulations.

The Regulations lay out various responsibilities for the Board of Trustees including (but not limited to) the following:

- Administration of funds: Ability to invest and reinvest funds of the System consistent with an Investment Policy that is adopted by the Board of Trustees and ratified by the PREPA Board of

Directors, planning with financial institutions to assist in investment of System funds, and administering the participant loans owned by the System.

- Analysis assumptions: Selection of assumptions utilized in determining contributions to PREPA-ERS and appointment of the Actuary responsible for the calculation.
- Financial controls: Authorization of payment of System administrative expenses from the fund whenever deemed beneficial to the System.
- Establish rules: For the administration and operation of the System and have final authority within administrative proceedings.
- System Accounting: Accounting for the System including a member account tracking individual employee contributions and an accrued deposit and allotment account to receive all reserves for pensions payable from PREPA contributions.

2.3 Operational analysis

PREPA-ERS has historically operated much like any United States public pension system funded through a statutory trust and generally follows PPCC guidance. The PPCC establishes Public Pension Standards (the Standards) to reflect minimum expectations for public retirement system management, administration, and funding. The Standards serve as a benchmark by which to measure public defined benefit plans. The PPCC encourages all public retirement systems and the state and local governments that sponsor them to meet the Standards. See Appendix D for details related to these Standards.

On an operational level, PREPA-ERS meets these Standards to some degree. PREPA-ERS conducts actuarial valuations and audits, maintains written investment policies and fiduciary standards, periodically commissions performance evaluations of its investment advisors, and holds regular board of trustees meetings and communicates to members. On the other hand, as discussed further in Section 4, the assumptions and methods applied in determining ADCs were not updated for multiple years, during which assumed experience was not realized in practice and the System's funded status declined.

Due to the asserted independent status of PREPA-ERS, PREPA does not have ready access to the System's census data and supporting financial records. Therefore, information provided to the Oversight Board has been outdated and incomplete, particularly considering large demographic shifts in connection with the LUMA and Genera transactions. As a result, some of the Oversight Board's analyses relied on assumptions and approximations when trying to understand PREPA-ERS's liquidity needs.

3. Historical funding strategy and 30-year actuarial projection

3.1 Historical funding practices and contributions

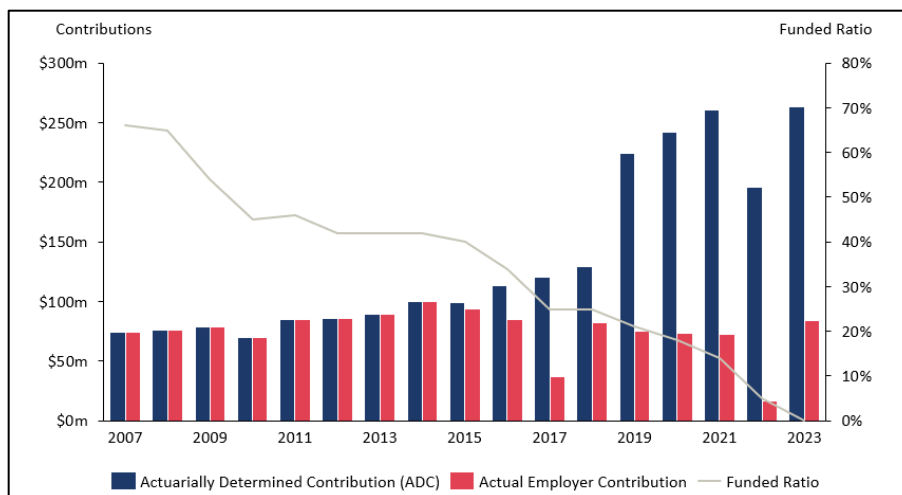
All public retirement systems and the state and local governments that sponsor them are encouraged by the PPCC to meet certain minimum standards for public retirement system management, administration, and funding, as follows:

- A funded ratio of 100%
- Contribution rates equal to or greater than 100% of ADCs
- A plan approved by the governing body to achieve one or both criteria within five years

These standards have not been met in the case of PREPA-ERS since 2014. Furthermore, despite making ADCs prior to 2014, the System has experienced repeated losses because of actual experience that differed from assumptions used to determine System obligations and ADCs. The consistent, repeated losses implied that the assumptions were potentially aggressive versus reality. These assumptions were updated in 2017 after several years of losses. As a result, over the years the funded position of the System continued to decrease.

A summary of the funded position of the System, based on the most up-to-date information reported for a given year and the assumptions and methods selected by the System actuary at the time, is contained on the pages that follow.

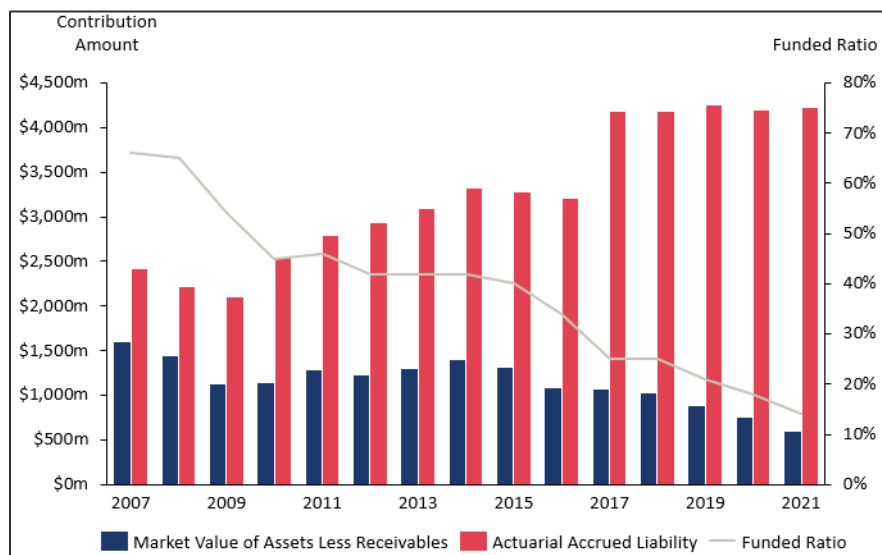
Exhibit 1: PREPA-ERS Annual Contributions



Actuarial Standards of Practice describe a recommended annual employer contribution to the fund on a reasonable actuarial basis which, if paid, results in a fully funded pension system. Continually making the employer contributions calculated by the actuary puts a plan on a trajectory to achieve full funding on a consistent basis. To be fully (i.e., 100%) funded means that if all actuarial assumptions are met, assets are on target to meet the pension obligations based on the actuarial funding policy.

A summary of the historical ADCs and actual contributions made, based on information either explicitly found in the annual actuarial reports or by supporting documents received from PREPA-ERS during the Title III case, are contained below. As shown in Exhibit 1, despite making the ADCs prior to 2014, the funded status still declined from 2008–2014. Declines are possible when despite making ADCs, there are losses (when experience differs from assumptions). Consistent, repeated losses often imply assumptions were optimistic vs. reality (asset returns, salary growth, mortality, etc.).

Exhibit 2: PREPA-ERS Historical Funded Ratios



Actuarial liabilities and assets measured at the end of a fiscal year are used to determine ADCs two years into the future (e.g., June 30, 2017, assets and liabilities were used to determine FY2019 contributions). Actuarial liabilities generally grew as benefits accrued, as shown in Exhibit 2.

Furthermore, significant changes in the assumptions and methods used to measure the actuarial accrued liability were made that caused further one-time increases in plan liabilities:

- In 2010, the actuarial liability increased by 20%, largely driven by an update to the actuarial cost method utilized to measure how costs are attributed over time.
- In 2017, the actuarial liability increased by 30%, largely driven by updates to assumptions to better align with experience.

Assets declined gradually over the past 15 years, with the decrease in liquid assets accelerated from:

- Funding of monthly benefits
- Contributions lower than ADCs
- Investment income falling as asset value declined

As discussed previously, the unfunded liability of PREPA-ERS grew considerably as actual contributions were less than the ADCs. At the same time, the trust assets were being depleted as PREPA-ERS had to sell out of its equity and fixed income positions to fund retiree benefits. Furthermore, post-2021, the decline

accelerated as the LUMA and, later Genera, transactions resulted in fewer employees contributing to the System and increased employee contribution withdrawals from the System.

As of June 2023, the latest audited financials detailed in Exhibit 3 below, show PREPA-ERS has a fiduciary net position of \$1,058 million, with over \$975 million of those assets from accounts receivable from PREPA for accrued contribution and past ADCs above actual past contributions.

Exhibit 3: PREPA-ERS Fiduciary Net Position as of June 2023

<i>\$ in millions</i>	June 2022	June 2023
Cash and cash equivalents	\$165	\$8
Fixed income funds	112	6
Subtotal Liquid Assets	277	14
Employer contributions	820	975
Member loans	106	70
Private equity	15	11
Other receivables	2	1
Subtotal Illiquid Assets	943	1,057
Payables & other liabilities	(12)	(13)
Net Assets	\$1,208	\$1,058
<i>Memo: Member Loans</i>		
<i>Personal Installment Loans</i>	\$62	\$35
<i>Mortgage loans</i>	44	35
<i>Subtotal Member Loans</i>	<i>\$106</i>	<i>\$70</i>

As such, as of June 2023 PREPA-ERS net assets had been effectively reduced from approximately \$388 million to \$83 million. Of these assets, approximately \$70 million, were held in illiquid assets consisting of investments in private equity (\$11 million) and member loans (\$70 million). Liquid assets totaling \$14 million as of the valuation date were held in cash (\$8 million) or fixed income funds (\$6 million), offset by approximately \$13 million in remaining accounts payable. The FY2023 audited financials published in August 2025 note that as of May 2023, the System's marketable securities have been substantially depleted.

3.2 Participant Loan Portfolio

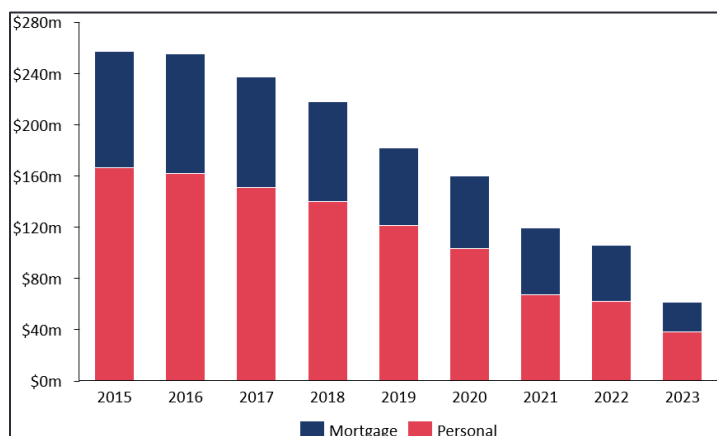
The System allows participants to take personal loans which are guaranteed by wages earned at PREPA and their accumulated employee contributions. If a member resigns from PREPA but opts to keep contributions in the System, they will not be required to immediately repay the System. However, members that remove their contributions from the System, including all members with less than 10 years of service, must repay in full the outstanding loan balance at the time of separation.

In May 2019, the System approved new regulations allowing mortgage loans to members. Maximum loan amounts to be granted are \$200,000. If a member resigns from PREPA, the member is responsible for making loan payments. Vested benefits may be reduced in retirement or even pre-retirement upon failure to repay.

In December 2019, the Board of Trustees implemented a moratorium on the granting and renewal of personal loans, which was further extended in December 2020. PREPA employees had previously taken advantage of the personal loan and mortgage features. While these amounts are included in PREPA-ERS assets, they are not liquid as they are dependent on repayment from plan participants. As the System's liquidity continued to decline and the former employees who moved to Commonwealth employment upon the transition of operations to LUMA and Genera (Mobility Transferees) were no longer active PREPA

employees, the System elected to end the loan programs as a condition for continued funding support from PREPA and the CW. See Exhibit 4 for the change in value of the PREPA-ERS loan portfolio over time.

Exhibit 4: Value of Participant Loan Portfolio



As of June 30, 2023, PREPA-ERS held approximately \$37 million of outstanding mortgage loans with approximately \$6.3 million of loans in arrears and \$1.5 million provision for potential future losses. Additionally, PREPA-ERS held approximately \$45 million of outstanding personal loans with approximately \$9.7 million of loans in arrears and considered as benefits paid in advance. Unpaid interest has not been recognized due to the uncertainty involved with collections. The System has previously evaluated these loans for impairment as a group and has determined that no significant impairment is projected. However, this estimate may change in the near term.

3.3 Investments

On November 20, 2019, the System entered into a Collective Fund Custody Agreement with Northern Trust Investments, Inc. (Northern) to appoint Northern as custodian and facilitate investment in several collective funds (the designated funds) maintained by Northern. The use of these investment vehicles was ended in May 2023, upon the System becoming insolvent.

The framework for measuring fair market value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation are unadjusted quoted prices for identical assets or liabilities in active markets that the System can access.
- Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, or inputs other than quoted prices that are observable for the asset or liability. These inputs are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

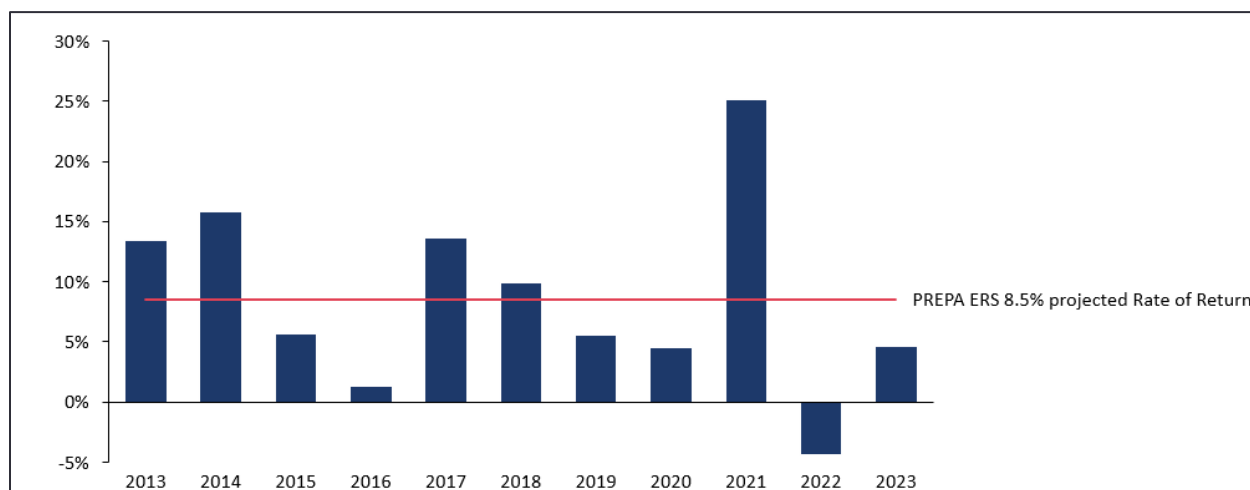
The fair values of alternative investments are measured at net asset value (NAV) per share (or its equivalent). The valuation method using NAV per share (or its equivalent) is consistent with the Financial Accounting Standards Board's measurement principles for an investment company.

The investments of the System as of June 2022 are shown in Exhibit 5 and the weighted rate of return on investments is shown along with assumed investment rates of return in Exhibit 6.

Exhibit 5: PREPA-ERS Investment Portfolio

June 2023				
<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
Private equity	\$ -	\$ -	\$11	\$ 11
Fixed income	-	6	-	6
Total Investments	\$ -	\$6	\$11	\$17
<i>Memo: Private equity investments fair value</i>				Total
<i>Guayacán Fund of Funds III, L.P.</i>				<i>\$7</i>
<i>Guayacán Private Equity Fund, LP II</i>				<i>1</i>
<i>Mesirow Financial Private Equity Partnership Fund IV L.P.</i>				<i>4</i>
<i>Grovesnor Global Long/Short Equity Master Fund Ltd</i>				<i>n/m</i>
<i>Subtotal Private equity investments (Level 3)</i>				<i>\$11</i>
<i>n/m = not material with market value less than \$500,000</i>				

Exhibit 6: PREPA-ERS Investment Portfolio Rate of Return on Investments



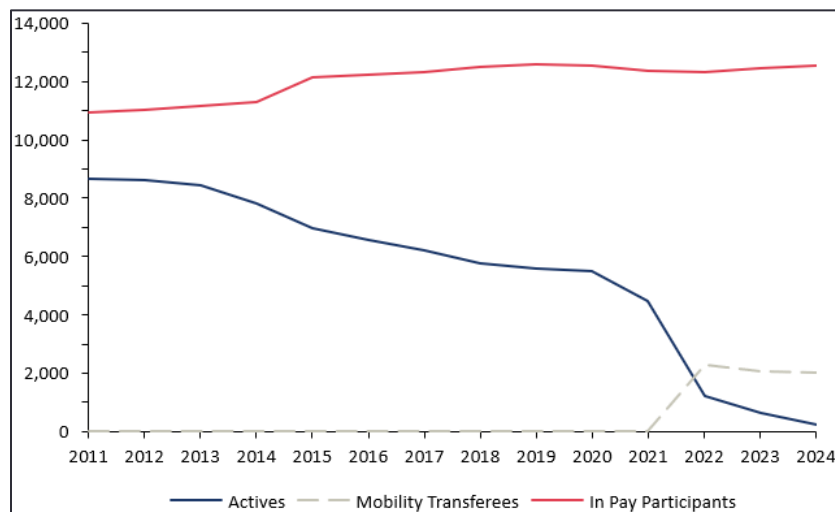
As the table above details, PREPA-ERS investment performance often significantly underperformed actuarial estimates over the last decade. In 2018, the System restated its assumptions down from 8.5% to an assumed investment rate of return of 5.75% in an actuarial revision performed with the assistance of the PREPA Governing Board. PREPA-ERS began liquidating assets in 2019 to fund pension benefits and avoid payment default. After 2022, the System's remaining liquid assets were held in cash and short-term government securities until they were nearly exhausted before receiving a loan from the Commonwealth in December 2023.

3.4 Changing plan demographics

A pension plan that pays benefits to retirees in the form of an annuity becomes increasingly mature the longer it is in existence. In other words, the ratio of pensioners to active participants increases over time. The more the pension plan matures, the less active participant contributions will help defray the cost of the pension plan, particularly when a plan experience is adverse (e.g., investment losses) and the losses must be made up through future contributions. Additionally, employer contributions will increase as a percentage of compensation as total payroll reduces and as contributions needed to fund previously accrued benefits increase. This dynamic is worsened when pensioners live longer due to mortality improvements.

A summary of the composition of the members of PREPA-ERS split between in pay participants (retirees, beneficiaries, and disabled workers), actives (those currently employed at PREPA), and the Mobility Transferees (discussed in Section 4.7) is presented below in Exhibit 7, based on the most recently available census data from PREPA-ERS.

Exhibit 7: Active and In-Pay Participants 2011–2024 (June 30)



Since 2011, PREPA-ERS has changed significantly in demographics, particularly due to the LUMA and Genera transactions described in Section 4.6. The number of actives in the System has decreased substantially from 8,659 in 2011 to 2,250 (including Mobility Transferees) in August 2024. Meanwhile, the retiree population has been rising gradually since 2011. With the reduced payroll levels, the cost of funding the System has increased significantly compared to total PREPA payroll and other employee-related costs, including PREPA-ERS employee contributions. The inability to restore assets being used for benefit payments for retirees via contributions translates to a further downward trajectory in the PREPA-ERS funded position.

Prospectively, the active workforce staying at PREPA will remain small (approximately 250 or fewer personnel), and the Mobility Transferees will slowly retire, leaving a plan that has almost entirely inactive members. In other words, the System's members will be almost entirely retirees with few remaining employees contributing to support the System.

As of June 30, 2021, there were also approximately 840 vested terminated participants who are no longer active employees but have not yet begun receiving a benefit.

3.5 Life expectancy changes

Another factor that contributed to the deterioration of the PREPA-ERS funded status was the increase in the average life expectancy in Puerto Rico and the United States. Benefits from PREPA-ERS are generally payable over the life of a pensioner and, in some cases, continue to a surviving spouse after the pensioner is deceased.

In developing the PREPA-ERS ADCs and associated liability measures, the System actuaries used a mortality table with assumed rates of mortality for different ages, varying by male and female pensioners. The assumptions are based on knowledge of the covered population and industry mortality trends. As a proxy for the life expectancy nearer the time PREPA-ERS was established, the actuarial valuation report produced in 1965 for the Puerto Rico Government Employees Retirement System utilizes an assumption generating a life expectancy for a 55-year-old (at that time) of 22.6 years for men and 26.7 years for women. By 2019, mortality assumptions have improved to use: i) actual System experience in determining base mortality rates, and ii) expectations for future mortality improvements that are incorporated based on studies released by the Society of Actuaries. An increase in life expectancy causes retired pensioners and beneficiaries to receive benefits for more years than expected under earlier mortality estimates. The resulting effect is that the expected amount of payment years had increased by 35% for men to 31.1 years and 30% for women to 33.7 years.

3.6 Short-term liquidity concerns

PREPA-ERS liquid assets have been depleted. In February 2023, PREPA-ERS issued a Certificate of Inability to Pay Pensions, saying it would have insufficient funds to pay pensions by May 2023. PREPA-ERS received additional funding from PREPA arising from multiple sources, including Commonwealth contributions for Mobility Transferees, an emergency budget amendment for FY2023 PayGo funded from PREPA's operating cash balances, bad debt recovery from the Puerto Rico Medical Services Administration, installment payments from the Puerto Rico Aqueduct and Sewer Authority, and money pursuant to a Global Settlement Agreement prior to the close of FY2023 between PREPA, OMB and the Puerto Rico Department of Treasury to settle certain past due accounts for periods prior to LUMA service commencement.

While these contributions provided temporary relief to maintain benefit payments, PREPA-ERS remained insolvent and was forced to seek additional funding in the absence of an increase in electricity rates to cover the monthly retiree benefit payments. Therefore, the Legislature enacted House Joint Resolution 485 in November 2023, a one-time budget amendment resolution authorizing an emergency \$300 million loan to PREPA intended to cover PREPA-ERS pension payments on a PayGo basis. Following the enactment of Joint Resolution 485, in December 2023, the Oversight Board, in coordination with the Commonwealth, approved an interim pension loan of \$300 million to fund an estimated 12 months of retiree benefits through December 2024. The loan agreement approved by the Oversight Board was completed on an emergency basis. As the loan was provided as a bridge to the implementation of a long-term solution through electricity rates, the Oversight Board included a covenant requiring PREPA to take necessary actions to implement a permanent solution by June 15, 2024.

In August 2023, PREB filed a resolution postponing the pending rate case and set forth a three-step process to review the current electricity rates to set up the procedural requirements for the rate review. After extensive deliberations and negotiations, PREB and LUMA agreed to a revised process to assess the costs of service for the System. However, in May 2024 PREB postponed the rate case until further notice, partially in response to the pending appeal in the First Circuit in the PREPA lien challenge litigation and the effect it might have on a PREPA plan of adjustment and, ultimately, rates charged to customers.

On November 15, 2024, PREPA filed an informative motion with PREB stating PREPA will be unable to continue to fund pension benefits in full after December 2024 and requested PREB's help. PREB responded

by rejecting the motion and requesting PREPA to either find funds for a budget reapportionment or take required action as provided under Act 57-2014, including requesting a rate increase to fund the monthly benefits. PREPA responded shortly after, stating it had identified \$74 million of pending reimbursements from FEMA that, once fully processed, would provide interim liquidity. PREPA did not identify a permanent solution to future funding needs at that time. Instead, PREPA requested continued support from the Commonwealth.

PREB approved PREPA's request to use \$74 million of FEMA reimbursements for pensions on December 26, 2004. On January 10, 2025, the Oversight Board certified an amended FY2025 budget for PREPA to account for receipt of such FEMA funding and its contribution to the PREPA-ERS.

PREB's Resolution & Order, dated December 26, 2024, approving the requested budget amendment required PREPA to file a proposal by the end of January 2025, identifying additional sources and the parties' plan to fund pension benefits after this most recent \$74 million cash infusion is depleted.

After three months of funding benefits for the months of January 2025 through March 2025, the System was again out of money and at risk of default. After considerable deliberations with the Commonwealth, the Oversight Board allowed the Commonwealth to fund an additional \$25 million to PREPA under the terms and conditions of the original \$300 million loan amount to ensure PREPA pensions were paid through April 2025. The Commonwealth agreed to additional advances in the following months, as additional \$25 million loans were approved for funding in May, June, July, and August 2025. These subsequent loans were intended to continue supporting pension payments during those months. As of September 19, 2025, the total current Commonwealth loan outstanding balance was \$425 million.

In February 2025, the Energy Bureau issued an order establishing requirements for a rate review to address PREPA's structural budget deficit, including evaluating a specific charge on customer's bills to pay for retiree's monthly benefit payments.

During spring and summer 2025, the Energy Bureau refined the rate review process in preparation of the formal submission from PREPA and its operators. On July 3, 2025, LUMA (on behalf of itself, Genera, and PREPA) filed an application for a revised permanent rate structure, as well as sought approval of an immediate interim or "provisional rate" to fund pensions while the permanent rate review to address PREPA's operating needs under the annual budgets.

On July 31, 2025, the Energy Bureau approved a dedicated pension cost recovery rider for PREPA to fund the ERS. The pension rider will initially be billed at a volumetric rate based on per kWh consumption, but LUMA must transition the approximately 1.92 cents-per-kWh rate to a fixed per-customer charge as soon as feasible. The Energy Bureau emphasized that pension funding remains a high-priority, non-deferrable expense, and that during the permanent rate review phase, the Energy Bureau will revisit the pension amounts based on updated actuarial data and the outcome of PREPA's Title III case.

The provisional rates took effect on September 1, 2025, and will remain in place until permanent rates are approved and implemented, which must occur no later than June 30, 2026.

While this development sets the foundation for a long-term funding solution that provides a sustainable funding source to PREPA retirees, it is imperative that PREPA and PREPA ERS ensure monthly benefits remain uninterrupted and work to develop a governance structure and administration framework that preserves and protects funding.

3.7 Proposed restructuring of PREPA-ERS

The Oversight Board engaged in a series of negotiations with PREPA-ERS and UTIER regarding the requirement that PREPA continue to maintain the PREPA-ERS as a defined benefit plan, as described in the CBAs and the PREPA-ERS Regulations. Specifically, the Oversight Board believes the following steps are essential to provide adequate funding for future PREPA-ERS pension obligations: (a) close the pension system to future participants; (b) freeze pension benefits as of the Effective Date of the Title III Plan of Adjustment for current active participants, including, for the avoidance of doubt, Mobility Transferees; (c) eliminate COLAs from and after the Effective Date for Participants; (d) convert PREPA-ERS from being funded based on actuarially determined contributions or other rate of annual payroll to a PayGo system; and (e) establish a PREPA PayGo Trust to support the payment of pensions. These measures are consistent with pension reform measures imposed previously by the Commonwealth Government with respect to its Employee Retirement System pursuant to Act 3-2013, and by the Oversight Board through the Commonwealth Plan of Adjustment with respect to the Teachers' Retirement System and the Judiciary Retirement System.

On March 28, 2025, the Oversight Board filed the Fifth Amended Title III Plan of Adjustment (POA). Under the POA, to avoid creating future pension liabilities and to stabilize the System for the benefit of future retirees and ratepayers, the System's benefit accrual shall be frozen upon the Effective Date of the POA. The modifications listed in the POA alter the obligations of PREPA (and any other Commonwealth instrumentality whose employees continue to participate in the System) to fund the benefits provided by the System as established in regulations by the Governing Board of PREPA on July 1, 1945; all subsequent amendments through the POA Effective Date, and are to be adhered to in the administration of benefits by the System.

Members will retain the benefits they have accrued up to and including the POA Effective Date; provided, however, that any future COLAs shall be eliminated pursuant to the POA, as any right to such future adjustments is not an accrued benefit and will not be an accrued benefit as of the POA Effective Date. Benefits accrued from and after the POA Effective Date shall be based on contributions and earnings in new segregated, defined contribution retirement accounts under Act No. 106 of August 23, 2017 funded by employee contributions.

The specific treatment of the plan benefits proposed are as follows:

Accumulated employee contributions – Participants retain a vested right to receive their accumulated employee contributions in accordance with the System plan documents in lieu of the retirement, death, disability, or termination benefits applicable under the System.

Retirement eligibility – If a participant is eligible for retirement as of the POA Effective Date the participant will remain eligible to retire. Otherwise, retirement eligibility will be delayed based on the participant's age on the POA Effective Date as shown in the table below.

Retirement Eligibility Age		
Attained Age at Freeze Date	Hired on or after January 1, 1993	
	Hired before January 1, 1993	
57 and up	61	65 or 61 + 5 years of service
56	62	65 or 62 + 5 years of service
55 and under	63	65 or 63 + 5 years of service

Retirement benefit amount – Participants who retire after the POA Effective Date will have their benefits calculated based on the plan formulas but utilizing the compensation and service that the participant had accrued as of the POA Effective Date. Benefits will not be reduced from the amounts the participant could receive if they were able and elected to retire on the POA Effective Date.

Ancillary benefits eliminated – Summer bonus, Christmas bonus, the minimum benefit, and the ability to use accrued, unused sick leave to purchase service would be eliminated for retirements after the POA Effective Date.

COLA elimination – COLAs would not be granted following the POA Effective Date. Retirees would retain any COLA provided prior to the POA Effective Date.

Death benefits – Participants who die prior to retirement would receive a refund of accumulated contributions.

Survivor benefit – Participants who retire after the POA Effective Date may continue to elect to have a 30% survivor benefit paid to their spouse upon death, but the annuity received in retirement will be reduced to be actuarially equivalent to the retirement benefit if no survivor benefit were to be paid.

Disability benefits – Disabled participants may retire, elect a deferred benefit, or receive a refund of Accumulated Contributions like the option that would have been available if the participant had separated from service for a reason unrelated to disability.

In addition to the modifications of the benefits provided by the System, the POA also described a funding mechanism that would be used after the POA Effective Date. The funding structure of PREPA-ERS will shift from a funded model to PayGo. PREPA-ERS will be reimbursed for PayGo payments to the extent provided in the POA with sufficient funds to do so that PREPA will contribute to the PREPA PayGo Trust. (Described in more detail in Section 5.2.)

3.8 Estimated future System costs

Under a PayGo system, the year-by-year projected payments are the projected future funding costs of the System. The System actuary for PREPA-ERS performs annual actuarial valuations that estimate the future benefit payments to participants based on their life expectancy and current demographic information. These projections use census data to project future benefits payable from each system. The projections reflect the benefit provisions for each plan and assumptions for future demographic experience, such as length of employment and future mortality rates.

The projections based on the most recently available census data were provided to the Oversight Board, along with underlying census data. The Oversight Board's actuaries used the census data, along with the plan provisions and assumptions described in the actuarial valuation reports, to perform an independent projection of the benefits payable under the System.

Exhibit 8: Estimated Plan Costs

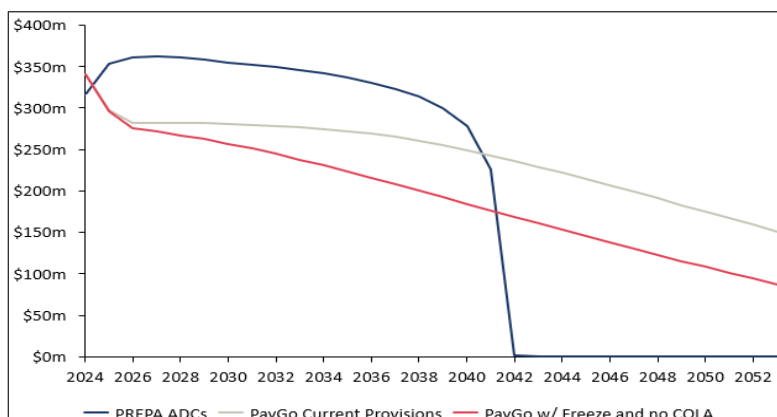


Exhibit 8 includes 30 years of estimated costs of maintaining the current system if the System returns to making full ADCs, as well as the underlying benefit payments that would be payable under a PayGo system. As the System has exhausted all liquid assets, significant added funds will be needed above and beyond current PayGo payments to return the trust to a fully funded level. The Commonwealth pension plans moved to a PayGo system under Act 106-2017 when similarly faced with insolvent pension trusts, and under the POA, this approach will be applied as well.

Exhibit 8 further demonstrates the estimated savings that could be achieved by freezing PREPA-ERS and eliminating any future COLAs as defined by the POA, similar to the adjustments made to the Commonwealth plans beginning in 2013 for the Puerto Rico Government Employees Retirement System with all plans being frozen following the Commonwealth Plan of Adjustment, and under the Commonwealth Plan of Adjustment for the Puerto Rico Teachers' Retirement System and the Puerto Rico Judiciary Retirement System. Under this approach, employees would keep all benefits they earned through the freeze date. The exhibit includes cost estimates as follows:

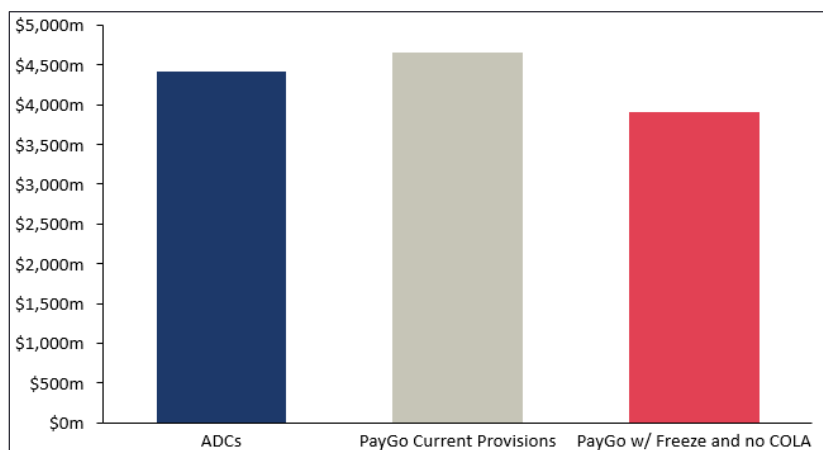
- PREPA ADCs, net of estimated Commonwealth contributions for Mobility Transferees
- PayGo reflecting benefits under the current provisions of PREPA-ERS
- PayGo adjusted for a freeze and elimination of COLAs, as defined by the POA.

3.9 Present value of future plan costs

Determining the present value of future estimated costs requires that the actuarial liability be calculated at an appropriate discount rate. For this purpose, the Oversight Board selected the discount rate.

In the selection of the discount rate of 3.75% to determine the present value of estimated future plan costs (from Exhibit 9), the Oversight Board recognizes that discounting using market bonds rates rather than an expected return on assets is common with respect to funded public pensions elsewhere in the United States.

Exhibit 9: Present Value of Estimated Future Plan Costs



Considerations used in the determination of the discount rate included, but were not limited to:

1. The Government Accounting Standards (GAS) Nos. 68 and 45 provide guidance for the valuation of public plan actuarial liabilities. Under these standards, the discount rate is prescribed to be:
 - Selected based on long-term expected rates of return for trust assets prior to the expected date of depletion of assets.
 - Selected based on prevailing municipal bond rates after the depletion date.

While these standards do not apply for all purposes, they offer general guidance based on industry standards.

2. Given that fund assets are generally depleted and future plan costs are likely to be funded on a PayGo basis, no reasonable basis exists for determining actuarial liabilities based on a long-term trust return.
3. While the Society of Actuaries' Report of the Blue Ribbon Panel on Public Pension Funding (the Panel) acknowledged that historical returns adjusted for expected changes in future conditions are a common reference point, the Panel indicated that it believes that the rate of return assumption should be primarily based on the current risk-free rate (e.g., the U.S. Treasury yield curve) plus explicit risk premia or on other similar forward-looking techniques.

3.10 Risks to PayGo arrangement

Given that PREPA-ERS's assets have virtually been depleted, following a schedule for ADCs would result in short-term contributions that are significantly higher than the amounts necessary to meet PayGo needs, as shown in Exhibit 9. However, strictly funding the lower PayGo amount (a minimum amount necessary to ensure benefits are paid) could add several risk factors:

- Variability in costs may result in actual costs different from those amounts budgeted, so mechanisms will need to be in place to cover those deficits. The rates collected from ratepayers must be sufficient to cover such costs, or an alternative source of funding must be identified.

- Raising funds from electric rates causes additional uncertainty due to variations in energy usage or ability to collect from consumers, including usage variations from significant events such as a hurricane.
- Significant deviations in cost are potentially unpredictable, and calculating the impact of these events may not be feasible.
- Costs are potentially higher overall under a PayGo approach than under a prefunded approach, where funded assets appreciate and accumulate investment earnings. However, the cost to bring PREPA-ERS back to fully funded status will be significantly higher in the first 20 years than under PayGo as ADCs will need to cover ongoing benefit payments and fund investments for future use.
- The term of the pension is longer in duration than the typical budgeting processes.

4. Legacy benefit provisions and existing benefits

4.1 Legacy traditional defined benefit formulas

PREPA-ERS is structured as a traditional defined benefit (DB) plan. Under a DB plan, a formula defines the benefit payable upon retirement, with the employer bearing the responsibility of securing adequate funding to deliver these benefit amounts. The benefit paid by the System is based on years of service and the compensation received by the employee in the years leading up to retirement. For PREPA-ERS, compensation is defined as the average of the three highest annual base salaries (annual base salaries are limited to \$50,000 for those hired on or after January 1, 1993).

The basic benefit is the basic retirement benefit that a participant has accrued (sometimes referred to as the accrued benefit). While the actual benefit paid in retirement (identified in detail below) may not equal the basic benefit, in many cases the benefit is defined in terms of the basic benefit. The primary components of this calculation are the years of service the employee has worked (and contributed to the System) and compensation (defined above). Specifically, the basic benefit is equal to 1.5% of compensation for each year of service, plus an additional 0.5% of compensation for each year of service after 20 years.

PREPA-ERS is a contributory plan, meaning that employees are required to have a portion of their salary withheld to pay for a share of the benefits accrued under the System. PREPA-ERS employee contribution levels are dependent on a variety of factors including the date of hire, employee elections related to his/her death benefit, including an election on whether the benefit will be coordinated with Social Security (Coordinated Benefits). Generally, employees hired prior to January 1, 1993 contribute 9.06% of their salary while those hired on or after January 1, 1993, generally contribute 11% of their salary.

Exhibit 10 shows a summary of the key benefits in effect as of June 30, 2024. Refer to Appendix B for additional DB plan details.

Exhibit 10: Summary of Benefit Provisions as of June 30, 2024

Hire Date	Prior to January 1, 1993	On or after January 1, 1993
Employee contribution rate (generally applicable)	9.06%	11.00%
Compensation	Final 3-year average	Final 3-year average, limited to \$50,000 annually
Eligibility for maximum benefits	25 years of service	Age 55 with 30 years of service
Maximum benefits	75% of compensation	75% of compensation
Accrued benefit	1.5% X service X compensation	1.5% X service X compensation
Eligibility for immediate benefits	20 years of service or age 60 with 5 years of service	20 years of service or age 60 with 5 years of service
Eligibility for deferred benefits (vesting)	10 years of service	10 years of service

4.2 Range of current benefits

Any member is eligible for pension benefits of 75% of the member's final average pay if the member retires with 30 years of credited service. Members hired before January 1, 1993 are eligible for pension benefits from 62.5% to 72.5% of their final average pay if they retire with 25 to 29 years of credited service. Effective January 1, 2015, active members who began working with PREPA on or after January 1, 1993, with age not less than 55 years and 30 years of creditable service, will be eligible for pension benefits from 62.5% to 72.5% of their final average pay if they retire at age of 50 to 54 years.

Exhibit 11: Census Data for PREPA-ERS

Active members at PREPA	259	Average age of pensioners	71.62
Mobility Transferees	2,064	Average monthly benefit	\$1,857
Pensioners and beneficiaries	12,543	Median monthly benefit	\$1,884
Terminated vested members	49	Census date	November 2023 for actives and April 2024 for inactive employees
Total participants	14,915		

The pension benefits provided by PREPA-ERS exceed the benefits provided by the Puerto Rico Government Employees Retirement System (PR-ERS) due to differences in benefit formulas, as well as the fact that the legacy DB under PR-ERS and associated COLAs have been frozen since 2013. The current average monthly benefit for PREPA-ERS of \$1,857 is almost double the PR-ERS average monthly benefit of \$995 reported in the 'Puerto Rico Pension Analysis under PROMESA Section 211' report from September 2019. Furthermore, while only 36% of PR-ERS retirees have monthly benefits of over \$1,000, 67% of PREPA-ERS retirees exceed this threshold. Exhibits 11 and 12 provide greater detail on the average benefits for PREPA-ERS and the distribution of PREPA-ERS retiree benefits.

Exhibit 12: Distribution of PREPA-ERS Benefits by Age and Amount for Pensioners and Beneficiaries

Age / Monthly Benefit (\$)	0-500	500-1000	1,000-1,500	1,500-1,750	1,750-2,000	2,000-2,250	2,250-2,500	2,500+	Total
<50	23	86	8	0	1	0	0	2	120
50-55	22	152	37	1	5	71	103	113	504
55-60	43	223	68	3	20	215	288	646	1,506
60-65	69	282	152	33	39	201	251	737	1,764
65-70	125	295	115	34	93	215	197	499	1,573
70-75	220	351	90	68	299	284	187	438	1,937
75-80	376	394	85	155	501	170	127	421	2,229
80-85	375	280	42	150	296	75	53	218	1,489
85-90	336	177	53	152	87	26	27	64	922
90-95	176	53	50	51	19	13	7	5	374
95-100	54	17	22	9	0	0	0	0	102
100+	6	2	9	6	0	0	0	0	23
Total	1,825	2,312	731	662	1,360	1,270	1,240	3,143	12,543

% of Total	15%	18%	6%	5%	11%	10%	10%	25%	
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4.3 Bonuses and other special payments

Beyond the base pension benefits, PREPA-ERS provides several types of benefit features, which are paid for by the System and include:

- **Cost-of-living adjustments (COLAs)** – PREPA-ERS provides current and future retirees with COLAs every three years. The amount of increase is discussed further in Section 3.4 of this report.
- **Disability pension** – Employees who become disabled are eligible to begin a pension with at least 5 years of service (10 if hired on or after January 1, 1993), are eligible to receive a disability pension that is equal to the greater of 90% of the basic benefit or 20% of final average compensation, payable immediately. If the disability retiree has elected a Coordinated Benefit, the benefit payable after age 65 will reduce by \$17.10 times each year of credited service (but no less than 17.5% of compensation.)
- **Disability lump sum** – Employees who become disabled but do not have the required 5 years of service (10 if hired on or after January 1, 1993) receive a lump sum equal to the last salary at the time of disability reduced proportionately for the number of years of service completed out of 5 (10 if hired on or after January 1, 1993).
- **Surviving spouse annuity** – In the event that a retiree dies, the surviving spouses will receive a life annuity equal to 30% of the annual pension payable to the members at the time of death subject to certain conditions.
- **Minimum benefits** – \$180 per month minimum retirement annuity.
- **Christmas bonus** – An annual bonus of \$400 is paid to all retirees and beneficiaries.
- **Summer bonus** – An annual bonus of \$100 is paid to all retirees and beneficiaries.
- **Funeral benefit** – A lump sum of \$1,000 is paid upon the death of all retirees.
- **Death benefit** – A lump sum payment equal to the last salary at the time of retirement from active service or death while in active service is payable upon the death of a participant who either has 20 years of service or is age 60 with 15 years of service. For death with less than the required years of service, the amount is reduced proportionately based on the ratio of the years of service worked to the years required for a full benefit.
- **Refund of employee contributions** – The employee contributions made through an employee's career are accrued at 5% and are refunded if a participant dies while in active service; if an employee terminates employment but is not entitled to a benefit; or if an employee chooses to receive the employee contributions in lieu of a deferred benefit upon termination. Furthermore, a retiree's beneficiary may be entitled to a partial refund of contributions based on the contribution elections made by a participant and the amount of retiree benefits that have already been received.

4.4 Amendments to the PREPA Regulations

In 1992, the Board of Trustees determined that the need existed to amend benefits for future employees to preserve the declining funded status of PREPA-ERS and adopted Resolution 92-099. As a result, the System was amended to reduce benefits and substantially increase the employee share of costs for those hired on or after January 1, 1993.

Specifically, PREPA-ERS was amended to:

- Cap compensation considered for the determination of benefits to \$50,000.
- Require members reach age 55 to receive the merit pension.
- Increase employee contributions to 11%.
- Increase the years of service required for a disability pension from 5 to 10 years.

While the amendment effective in 1993 was the primary amendment that modified plan benefits of PREPA-ERS, other minor amendments were adopted over the past 35 years that had relatively immaterial effects on the funded status of the System (both increases and decreases), including:

- Effective on January 1, 2000, amendments were adopted to provide benefits to minors when a retiree dies, reduce benefits for those with less than 30 years of service who are eligible for a merit annuity, and to allow use of sick leave balances for service credits toward merit annuities.
- Effective in 2004, the summer bonus was adopted.
- Effective in 2015, the funeral expense benefit was adopted and benefits were reduced for those eligible for a merit annuity prior to age 55.

4.5 Cost-of-living adjustments (COLAs)

Pension COLAs are provided for retirees under PREPA-ERS, with the latest modification to the COLA provisions being approved in Resolution 92-98 and effective on July 1, 1992. The COLA is currently an automatic feature providing increases every three years for current and future retirees.

Effective July 1, 1992, increases to all pensions are as follows:

- 8% increase for the monthly pension up to \$300
- 4% increase for the monthly pension between \$300 and \$600
- 2% increase for the monthly pension in excess of \$600

The minimum monthly increase is \$25, and the maximum is \$50. Actuarial pensions are awarded the minimum increase of \$25 per month if they were granted on or before June 30, 1990. These increases are applied automatically every three years beginning July 1, 1992, or from the retirement date for all those who retired after June 30, 1990.

4.6 Other Post-Employment Benefits

Other post-employment (non-pension) benefits (OPEB) provided by PREPA to retired employees include medical benefits. These medical benefits are not paid from the PREPA-ERS trust and instead are budgeted and paid directly by PREPA to OPEB participants. The OPEB medical benefits are completely unfunded. Currently, the OPEB medical benefits are included in PREPA's operating budget and cost approximately \$8 million annually.

Retired employees with thirty (30) years of service are eligible to receive the medical benefits. As of June 2024, approximately 8,200 retired employees receive the OPEB medical benefits. Benefit provisions under the OPEB plan are established and may be amended by PREPA's Governing Board. The OPEB plan for all retirees is capped at \$300 per member per month for retirees under age 65 and \$200 per member per month for retirees aged 65 and over. In the event the retiree dies, the OPEB plan will revert to contributing \$300 per month for surviving spouses under age 65 and \$200 per month for surviving spouses aged 65 and over. The effective contribution made for surviving spouses under and over age 65 is effectively \$0, since the OPEB plan is reimbursed for its contribution to spouse coverage from the retiree's pension.

Employees retiring on or after September 1, 2009, having accumulated at least 30 years of service, and all retired employees that retired before September 1, 2009, regardless of length of employment, are eligible to participate in the OPEB plan. To remain eligible to participate, Medicare-eligible retired participants and their spouses must enroll in Medicare Part B at age 65, or whenever eligible, at their own expense. The benefit provisions to retired employees are established and may be amended by PREPA.

4.7 LUMA and Genera transactions

Transformation of PREPA's Transmission and Distribution (T&D) System.

The Government of Puerto Rico and the Oversight Board have long aligned on their determination that a complete transformation of PREPA operations was necessary, particularly with respect to the generation of electricity in Puerto Rico and the T&D system, by leveraging the expertise and cost efficiencies of the private sector. The transformation to private operators was necessary to bring safe, reliable, and modern T&D system services to PREPA's customers and to move Puerto Rico's electric system and economy forward. On June 21, 2018, the Government enacted Act 120-2018, also known as the Puerto Rico Electric Power System Transformation Act, that authorizes the legal framework required for the sale, disposition, and/or transfer of the assets, operations, functions, and services of PREPA, including a transaction under which operations of the T&D system would be assumed by a private manager, with ownership remaining at PREPA.

Act 120 designates the Puerto Rico Public-Private Partnerships Authority (P3A) as the government entity responsible for the functions, services, or facilities for which public-private partnerships in the electric sector would be established and the process to evaluate and select qualified bidders and negotiate the terms and conditions of any public-private partnerships in the electric sector.

On June 5, 2018, the P3A launched a procurement process to award a long-term contract to a qualified operation and maintenance service provider for the T&D system. On October 31, 2018, the P3A issued a Request for Qualifications (RFQ) with four experienced and reputable respondents selected as qualified to participate in the next stage of the process. On January 11, 2020, the P3A selected LUMA Energy as the preferred proponent to operate the T&D system.

On June 22, 2020, the T&D Contract was executed. Under the T&D Contract PREPA continues to own the assets of its T&D system and LUMA Energy acts as PREPA's agent in operating and maintaining the T&D system. LUMA Energy does not manage PREPA's energy generation system, which is subject to its own separate transformation process. The T&D Contract has a term of 15 years from service commencement, during which time LUMA Energy will continue to provide operation & maintenance (O&M) Services.

On June 1, 2021, LUMA Energy initiated the interim service commencement period and officially assumed control of the T&D system. Since then, LUMA Energy has been responsible for the management, operation, maintenance, repair, restoration, and replacement and other related services for the T&D system. This includes electric transmission, distribution and load serving, long-term planning, dispatch, asset management, community and media relations, public and employee safety, billing and collection, reporting and record keeping, finance and accounting, emergency response, and customer service.

Despite these successful steps toward a safe, reliable, and affordable energy service, there remains immense progress that is required before PREPA can be the utility the people of Puerto Rico deserve. Among other things, the impact of Hurricane Fiona demonstrated the need for further hardening of the T&D system to ensure future storms do not leave Puerto Rico without power again.

On November 30, 2022, the P3A voted in favor of, and the Oversight Board approved, an extension of the interim service period, thus avoiding the potential termination of the T&D Contract on account of PREPA's failure to exit from Title III with a confirmed plan within eighteen (18) months of the interim service period commencement. Thus, the 15-year term of the contract does not become effective until PREPA's exit from Title III.

Transformation of PREPA's Generation System

Just as with the T&D system, pursuant to Act 120, the P3A commenced a procurement process for public-private partnerships to complete the transformation of PREPA operations with a private sector operator assuming control of the generation of electricity on Puerto Rico.

On August 10, 2020, the P3A issued an RFQ for companies or consortia interested in managing, operating, maintaining, asset managing and decommissioning the generation assets. The objectives of the transformation of the generation assets included (a) introducing private sector operation expertise, (b) increasing the safety, reliability, resiliency, power quality, and efficiency of the Generation Asset operations, (c) facilitating Puerto Rico's transition to PREPA's "Vision for the Future of Power in Puerto Rico," as described in the proposed 2019 Integrated Resource Plan (IRP), (d) implementing operational excellence of electricity generation facilities consistent with prudent industry practices, including improved safety and compliance with environmental and other applicable regulatory requirements, and (e) increasing cost efficiency while achieving the aforementioned operational objectives in coordination with the operator of the T&D system.

On January 25, 2023, following a multi-year competitive bidding process to attract and identify qualified candidates to manage PREPA's electric generation operations, the P3A and PREPA selected Genera PR LLC (Genera) to operate and maintain legacy power plants. The partnership with Genera completed another critical element of Puerto Rico's energy transformation, ensuring a reliable and cleaner source of power while Puerto Rico moves toward the renewable energy goals defined by Puerto Rico's Act 17-2019.

On July 1, 2023, Genera officially became the operator, marking the end of PREPA as the sole public entity responsible for generating electricity on the island of Puerto Rico and making Genera the second private company to have significant control over a part of the energy system.

4.8 Mobility Transferees

Act 120 requires that no PREPA employee be left unemployed nor lose benefits as a result of any PREPA transaction. As a result, the Public-Private Partnerships entered with LUMA and Genera resulted in the Commonwealth initializing two mobilization programs for PREPA employees in positions that were eliminated by the transactions of those who neither retired nor became employees of LUMA or Genera.

- First, in June 2021, as part of the transition to LUMA as the operator of PREPA's T&D system, the Commonwealth and PREPA reassigned approximately 2,500 employees from PREPA's operations to various other public corporations and central government agencies across the Commonwealth.
- Second, upon the commencement of Genera's services, approximately 350 additional PREPA employees chose to transfer to the Commonwealth and other government entities.

Those employees who transferred to the Commonwealth and other government entities because of the LUMA and Genera transactions, known as Mobility Transferees, continue to have employee contributions deducted from their paychecks and paid to PREPA-ERS. PREPA-ERS has taken the position that Mobility Transferees are eligible to accrue additional years of service and are entitled to continue to accrue PREPA benefits under PREPA-ERS, even if such employees have been transferred to other government entities. The Government has not disputed this position and in fact continues to withhold employee contributions and transfer these amounts to PREPA-ERS each pay cycle.

The laws governing the LUMA and Genera transactions do not provide explicit guidance on how Mobility Transferees' participation in PREPA-ERS is impacted after transition to the Commonwealth. Act 8-2017 specifies that the fringe benefits and base salary employees had prior to the transaction must be consistent with those provided within the mobility plan, though the Act leaves open the issue of whether this requirement extends to the retirement systems. Act 120-2018 provides that Mobility Transferees retain their vested rights and privileges, obligations, and status with respect to any pension or retirement plan, while leaving uncertain whether Mobility Transferees would continue ongoing participation, gain vesting in benefits accrued to date, or continue to make contributions to the System. Furthermore, even if it is determined that Mobility Transferees should continue to accrue a benefit in PREPA-ERS, neither the P3A guidance nor the PREPA-ERS regulations explicitly define the basis for determining employer contributions related to Mobility Transferees. Nonetheless, funds have been budgeted for the Commonwealth to make employer contributions to PREPA-ERS for Mobility Transferees, subject to certain considerations.

The payroll costs projected in the Commonwealth Fiscal Plan incorporate salaries, as well as adjustments for healthcare, Social Security, and other benefits, for these Mobility Transferees. The expenses include an assumption that each agency to which a former PREPA employee was mobilized will contribute on behalf of its Mobility Transferee(s) to the PREPA-ERS, in addition to the contributions currently being withheld from the earnings of such employees for their individual employee contributions. Initially, these funds were to be held in a custodial account until the Commonwealth provided, to the satisfaction of the Oversight Board, the following documentation to the Oversight Board:

- A formal written legal opinion identifying the legal basis on which former PREPA employees transferred to the Commonwealth may continue to participate in the PREPA-ERS, as opposed to being enrolled in the Commonwealth Act 106 Defined Contribution plan, including the Government's ability or obligation to assume the PREPA-ERS employer contributions for Mobility Transferees. The legal opinion was also required to identify whether a distinction should be made between employees with 10 or more years of PREPA service and employees with less than 10 years of PREPA service for purposes

of determining eligibility to continue participating in the PREPA-ERS after mobilization, including identifying whether continuing participation in the PREPA-ERS is a vested right under Act 17-2019 (amending Act 120-2018) and whether such right also applies to employees with less than 10 years of PREPA service (who would not have been vested in their PREPA-ERS pension benefit prior to the mobilization date).

- Identification of the point in time at which these contributions will be made and how these contributions will be transferred to and accepted by PREPA-ERS.
- A financial model with the basis for the calculation of such contributions (with supporting source documentation) and an estimate of the approximate cost.
- Confirmation that any pension reform measures applied to PREPA-ERS would also be applied to Mobility Transferees.

Documents required for the release of those funds were provided to the Oversight Board by the Government on August 19, 2022.

Given the liquidity concerns faced by the System, the Commonwealth elected to fund the employer contributions for Mobility Transferees to maintain vested benefits. The Commonwealth annually allocates funds from the General Fund under the custody of the Office of Management and Budget (OMB). To date, OMB has funded approximately \$14 million of accrued employer contributions for the period after LUMA took control of the T&D system from June 1, 2021, through September 30, 2023, with the last payment made in January 2024. These amounts are budgeted annually, with the funds held under the custody of OMB, as the process to transfer funds has not been automated. Funds are transferred by OMB upon request from PREPA. The System reports an additional \$6 million of accrued employer contributions owed from OMB for the period through December 31, 2024. The Commonwealth's certified budgets include an ongoing budgeted amount of approximately 6.52% of Mobility Transferees' compensation, which equates to approximately \$370,000 per month of employer contributions to the System (or \$4.5 million annually).

5. Future funding sources and sustainability

5.1 Potential funding sources

Absent significant funding outside of PREPA, funding PREPA-ERS is an operating expense financed, like all operating expenses, by PREPA's charges to customers. That is, PREPA customers are the only source of payments to PREPA-ERS.

5.2 PREPA PayGo Trust

The POA includes provisions for the establishment of a PREPA PayGo Trust that will be funded from an incremental increase to electricity rates in the amount needed for funding for PayGo plus an additional \$50 million per year for the first 5 years to establish a back-stop reserve. The PREPA PayGo Trust is described as follows:

- On the effective date of a confirmed POA for the Commonwealth, the funding structure of PREPA-ERS will legally shift from a funded model to a PayGo system.
- The PREPA PayGo Trust would be funded by PREPA in the amount needed for PayGo, plus \$50 million per year for the first 5 years, with the target of accumulating assets in the trust equal to one year of expected pension payments.
- PREPA-ERS will make PayGo payments to retirees and be reimbursed quarterly from the PayGo Trust.
- The assets of the new PayGo Trust will be held in trust for the sole benefit of PREPA-ERS.

Assets in the PREPA PayGo Trust, including investment returns, will be used to reimburse the PREPA-ERS on a quarterly basis for PayGo payments and administrative expenses, to the extent PREPA-ERS is entitled to such reimbursement under the POA.

5.3 Sustainability

Pension estimates are also subject to risk of actual behavior and economics being different from those assumed when making the projections. One important type of assumption relates to employee demographics, including, but not limited to turnover, retirement, and mortality rates. These behaviors also may be linked to other economic assumptions that impact Puerto Rico's economy and population. To the extent that actual experience is different than expected, actual costs will deviate from these estimates.

Additionally, given PREPA customers are the only source of payments to PREPA-ERS and therefore funding for PREPA-ERS will come from rates charged to customers, the amount of revenue generated is expected to vary with electricity demand and usage. The objective of accumulating assets equal to one year of expected pension payments in the PREPA PayGo Trust is intended to help maintain a source of pension funding despite any potential, temporary, partial or complete disruption of payments from ratepayers.

Appendix A: Sources

Actuarial valuation reports

Actuarial valuation reports as of the fiscal year end dates between June 30, 2016 and June 30, 2021, produced by the PREPA-ERS actuaries were referenced for historical information such as ADCs, plan provisions, actual contribution amounts and demographic data, were provided to the Oversight Board and are generally located at <https://retiro.aeepr.com>.

Selected other sources:

- Legislation as referenced in the body of this report:
 - Puerto Rico Oversight, Management, and Economic Stability Act
 - Act 29-2009
 - Act 17-2019
 - Act 120-2018
 - Act 57-2014
 - Act 8-2017
 - Act 106-2017
- Certified as of February 6, 2025 – Fiscal Plan for the Puerto Rico Electric Power Authority (<https://drive.google.com/file/d/1WksRhtfmoLvaZFb-5pUNkFXGEiT3t6vp/view>)
- Demographic and financial statistics, and audited financial information including the Audited Financial Report, 2023, found at <https://retiro.aeepr.com>
- Puerto Rico Life Expectancy (<https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=PR>)

Appendix B: Additional detailed plan provisions

The DB plan includes additional provisions beyond those listed in the table in Section 4.1, including:

Benefit payable in retirement: The amount of benefit payable in retirement depends on a variety of factors including the accrued benefit, compensation, and the age / service of the participant at retirement. The four (4) primary types of benefits that a retiree may receive are listed below along with a description of the conditions under which each benefit is received:

- **Age Retirement:** The basic retirement benefit payable to employees.

Eligibility: 60 years old with at least 5 years of service

Non-coordinated benefit amount: basic benefit

Coordinated benefit amount: basic benefit prior to age 65, reduced by \$19 thereafter.

- **Merit Annuity:** The enhanced benefit payable to long-service employees.

Eligibility: If hired prior to January 1, 1993, 25 years of service and age 55, or 30 years of service. If hired on or after January 1, 1993, 55 years old with 30 years of service.

Non-coordinated benefit amount: 2.5% of compensation times service (up to 30 years of service). Participants hired prior to January 1, 1993, that retire prior to age 55 have added benefit reduction of 2.5% per year of retirement prior to age 55 (effective January 1, 2015). These benefits range from 62.5% to 75.0% of Compensation.

Coordinated benefit amount: Non-coordinated benefit amount prior to age 65, reduced by \$40 for each year of service thereafter (up to 30)

- **Actuarially Equivalent (Early Retirement):** Benefit payable to long-service employees who are not old enough to retire under the Age Retirement but also do not have enough service to receive the enhanced Merit Annuity. In determining these benefits, the concept of actuarial equivalence is utilized. We say two annuities are actuarially equivalent if they have the same present value under a set of assumptions and thus are the same value (from the System's perspective). In this case, the assumptions used would be those specified by the System at the time of retirement.

Eligibility: 20 years of service

Non-coordinated benefit amount: An annuity actuarially equivalent to the Non-Coordinated Age Retirement that would have been paid if the employee had deferred commencement to age 60.

Coordinated benefit amount: basic benefit to age 65 and an actuarially equivalent value of the coordinated benefit after age 65.

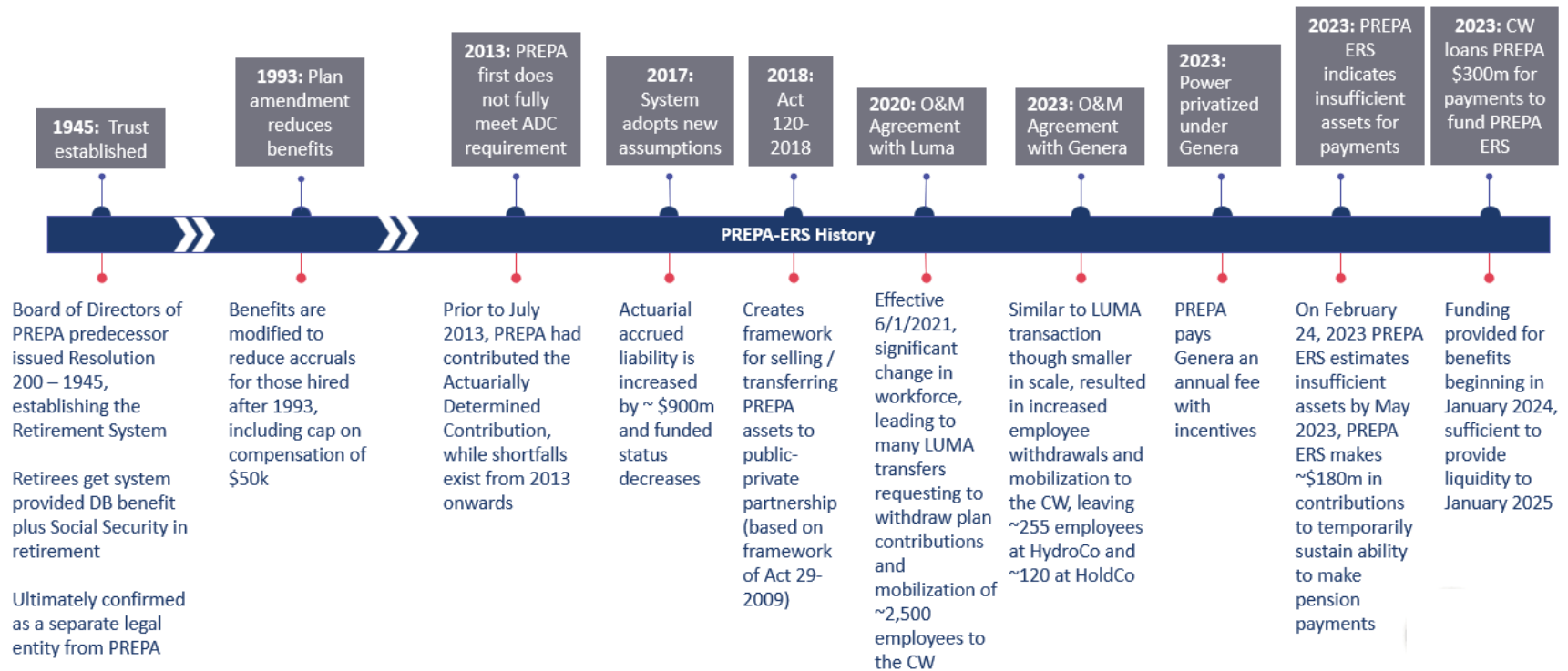
- **Separation Pension:** The benefit paid to a member who is not eligible to retire but is vested upon termination of employment.

Eligibility: 10 years of service

Non-coordinated benefit amount: Deferred age retirement non-coordinated benefit amount commencing at age 60.

Coordinated benefit amount: Deferred age retirement coordinated benefit amount commencing at age 60.

Appendix C: Timeline of PREPA Legislative Events



Appendix D: Public Pension Coordinating Council Public Pension Standards

The Public Pension Coordinating Council (PPCC) established Public Pension Standards (the Standards) to reflect minimum expectations for public retirement system management, administration, and funding. The Standards serve as a benchmark by which to measure public defined benefit pension plans.

All public retirement systems and the state and local governments that sponsor them are encouraged by the PPCC to meet the Standards.

The Standards include five areas of assessment:

1. **Comprehensive benefit program:** The System must provide a comprehensive benefit program, including service retirement benefits, in-service death benefits, disability benefits, vesting and provisions for granting a cost-of-living adjustment.
2. **Actuarial:** An actuarial valuation must be completed at least every two years using generally recognized and accepted actuarial principles and practices.
3. **Audit:** The System must obtain an unqualified opinion from an independent audit conducted in accordance with government auditing standards generally accepted in the United States.
4. **Investments:** The System must follow written investment policies and written fiduciary standards, and the System must obtain an annual investment performance evaluation from an outside investment review entity.
5. **Communications:** Members must be provided a handbook or summary plan description, regular updates to the documents, and an annual benefit statement. Meetings of the governing board of the System are conducted at least quarterly with adequate public notice.