

**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: Hearing Examiner's Informal
Thoughts on the Federal Funds Panel

Hearing Examiner's Informal Thoughts on the Federal Funds Panel

Over the next week or two, I will be working with the Commissioners and our consultants to rethink and refashion the agenda for the Federal Funds panel. As part of that task, I wish to share with the parties my informal thoughts—on the Federal Funds panel specifically, and the federal fund subject's role in this proceeding generally. These thoughts are solely mine; I have not shared them with the Commissioners before sending issuing this document. I offer them to get back your thoughts, in a mutual effort to make the December 18-19 panel as productive as possible.

The statutory purpose of this case is to set just-and-reasonable rates based on a revenue requirement. To determine the revenue requirement, we have to project the likely costs and revenues. That task includes predicting what amount of federal funds will arrive, and be available for use, in FY26 and FY27.

Were this case a management audit of the utilities' federal-funds efforts, we would be gathering facts about the quality of the utilities' efforts, making judgments about those efforts, and then assigning consequences for their performance. A rate case is not a management audit case. In this rate case, especially where there is no direct way to make the utilities financially accountable, the focus must be less on performance and more on prediction. We must predict the near-term federal funds flow. To the extent we assess performance in pursuing federal funds, the assessment should focus on whether and how near-term changes in procedures can change the near-term predictions. Because our context is not the normal IOU context, because we cannot cause the utilities to absorb costs that we deem unnecessary in light of ostensible failings to get federal funds, what matters are the predictions, not aspirations.

I acknowledge that there is an overlap between management audit case and a rate case. A rate case's efforts to predict the federal funds flow will produce some information about the quality of the utilities' efforts to identify, propose, receive, and manage federal funds. But our purpose, still, is different. Our purpose is to set rates sufficient to produce the revenues needed to meet the electric system's needs. A party may well be dissatisfied with the utilities' performance on federal funds. But unless we can identify specific near-term actions that will change the near-term results, we cannot just say "reduce NFC and increase FF." Doing so in a way that varies from the likely outcome will deprive the system of the revenues that it needs.

Therefore: The Federal Funds panel, and the federal funds segment of the final order, must focus on two questions: (a) What amount can we reasonably project will be the flow of federal funds? and (b) What measures can we put in place so that if the actual federal funds flow differs from our rate case projections, we can adjust the rates, up or down, so that there is neither overrecovery from customers nor underrecovery.

I wonder, also, if we are overly concerned about overrecovery. Each utility has proposed a Constrained Budget and an Optimal Budget. Assume, solely for purposes of discussion, that the final approved revenue requirement will not contain all the items in the Optimal Budgets. Under that assumption, the existence of the Optimal Budgets means that each utility has made plans for projects and activities that will not be part of the approved revenue requirement. That fact has this result: As long as the Energy Bureau requires the utilities to have shovel-ready, useful projects beyond what goes into the revenue requirement, and as long as the Energy Bureau establishes a process by which it can approve those projects, any overrecovery from rates due to underestimating federal funds can go to those projects. The result is not that we hurt customers but that we accelerate improvement. Or, of course, the Energy Bureau can require refunds.

All of the above boils down to this: I wonder if we are spending too much time arguing with the witnesses about the availability federal funds, and insufficient time arriving at solutions to the unavoidable uncertainties. More acceptance of the unavoidable uncertainties, more recognition that funds collected from customers will go to good uses, more focus on this proceeding's rate-setting purpose, and less arguing over who is the better predictor of federal funds flow, will make this evidentiary record more valuable to the Commissioners.

I look forward to the parties' thoughts about the above, specifically in terms of what should be our focus December 18-19.

Be notified and published.



Scott Hempling
Hearing Examiner

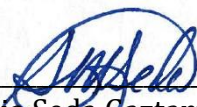
CERTIFICATION

I certify that the Hearing Examiner, Scott Hempling, has so established on November 25, 2025. I also certify that on November 25, 2025, I have proceeded with the filing of the Order, and a copy was notified by electronic mail to: mvalle@gmlex.net; alexis.rivera@prepa.pr.gov; jmartinez@gmlex.net; jgonzalez@gmlex.net; nzayas@gmlex.net; Gerard.Gil@ankura.com; Jorge.SanMiguel@ankura.com; Lucas.Porter@ankura.com; mdiconza@omm.com;

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I sign this in San Juan, Puerto Rico, on November 25, 2025.




 Sonia Seda Gaztambide
 Clerk