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

IN RE: PUERTO RICO ELECTRIC POWER AUTHORITY RATE REVIEW	**CASE NO.:** NEPR-AP-2023-0003 **SUBJECT: LUMA's Revenue Requirement Brief**

LUMA'S REVENUE REQUIREMENT BRIEF

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TO THE HONORABLE PUERTO RICO ENERGY BUREAU:

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

I. Introduction

There are moments in life that require courage. They choose us. We don't choose them.

But so chosen, *we* have a choice. We can choose to do right by future generations. We can do the necessary thing, the hard thing, the unpopular thing. We can bear a burden now to improve the future for the people of Puerto Rico. Or we can take a path of half-measures, and continue to bear witness to the accelerated degradation of the electric grid and the resultant impacts to quality of life and economic prosperity in Puerto Rico.

The state of Puerto Rico's electrical grid and how we got here needs no repetition. This moment is ours because past generations made choices that now leave the responsibility with us. We, in our moment, owe the future generations of Puerto Rico better.

We must treat this situation like the true crisis it is. First, we must acknowledge the past and its legacy. We must admit that Puerto Rico today invests less than 10% per customer of its average mainland neighbors on Transmission and Distribution ("T&D") Non-Federally-Funded Capital ("NFC"). This situation is untenable and has always been untenable. We must therefore acknowledge that we have no choice but to change. To change now. And to change *forever*.

We must empower the thousands of competent, dedicated men and women working day and night to harden and strengthen the grid. That will require sacrifice from every customer. But this sacrifice must be viewed for what it really is: both back-payment for decades of underpayment and vital investment in the future of the island.

And it will require courageous leadership from this body—leadership that is willing to accept the hand of friendship, place trust where trust is earned through competence, reject cynicism and despair, ignore those who would use the system merely to further their own interests, and choose the hard road, the road that leads to success for the people of this island, even if it means risking political unpopularity.

LUMA has the right plan and the right people. LUMA now needs time, space, and funds to work. From this Honorable Puerto Rico Energy Bureau ("PREB"), we ask for courage and wisdom. This is LUMA's plea: Give us the tools so we can finish the job.

II. T&D Revenue Requirement

Consistent with utility regulator norms, PREB should approve LUMA's Optimal Revenue Requirement to ensure that the utility is provided the funds it needs to provide reliable service to the customers. The record supports LUMA's proposed Optimal Budget, grounded on just and reasonable costs, programs and activities, to stabilize and improve the T&D System with measurable projected reliability benefits to customers, all in alignment with energy public policy and statutory and contractual mandates. PREB should decline to approve a constrained budget that does not meet the needs of the utility.

Expert witness for LUMA, Mr. Branko Terzic ("Mr. Terzic"), with more than five decades of experience spanning roles as a Commissioner of the Wisconsin Public Service Commission, a Commissioner of the Federal Energy Regulatory Commission, and the CEO of a regulated utility, offered opinions on the differences in the regulation of public-owned electric utilities, some regulatory issues created with the PREB requirement to submit two annual revenue requirements for the same year, and some regulatory issues raised with the requirement to file a constrained budget with new performance indicators. Exhibit 19.0, p. 3, ll. 13-17, p. 8, ll. 122-126. Mr. Terzic's

opinions are grounded in accepted public utility ratemaking principles, extensive regulatory experience at both the state and federal levels, and a correct understanding of the regulatory framework governing the Puerto Rico Electric Power Authority ("PREPA") and the legal mandate to approve just and reasonable rates that provide reliable service at the lowest reasonable cost. *Id*., p. 14, ll. 249-261.

As a threshold matter, Mr. Terzic correctly frames PREPA's rate regulation as fundamentally different from the oversight of investor-owned utilities, because PREPA is a public entity whose governing standard is to provide reliable and adequate service at the lowest reasonable cost rather than to police private monopoly profits. Exhibit 19.0, p. 12, ll. 209-214. Classic cost-of-service principles, as synthesized by Professor James Bonbright and subsequent regulatory scholarship, nonetheless apply to public power, and the touchstone remains recovery of necessary and prudently incurred costs through rates that are just and reasonable. *Id*., p. 12, ll. 215-219, p. 13, ll. 218-227. This articulation aligns with PREB's February 12th Order, which emphasizes ensuring just and reasonable rates consistent with sound fiscal and operational practices at the lowest reasonable costs, reinforcing that PREB will adopt a single rate outcome that meets this standard. *Id*., p. 14, ll. 252-261.

Consistent with national practice and sound regulatory administration, Mr. Terzic urges PREB to focus its review on the Optimal Budget, which represents the utility's best estimate of necessary costs to achieve just-and-reasonable performance. Exhibit 19.0, p. 16, ll. 302-306, p. 17, ll. 307-308.[1]Bondholder witness Dr. Susan Tierney ("Dr. Tierney"), also a former utility regulator, expresses a similar opinion about the job of a regulator in determining the revenue requirement.

[1] Mr. Terzic notes that requiring two revenue requirements for the same test year is atypical and risks conflating management's statutory obligation to propose a necessary revenue requirement with its speculative judgments about customer "transition" preferences. Exhibit 19.0, p. 15, ll. 271-283, p. 16, ll. 284-290

She stated that the job of the regulator is to figure out what funding the utility needs to do its job to provide service at just and reasonable rates, and that while regulators are concerned about rate impact and have tools to lessen the impact, they do not include giving a haircut to the revenue requirement. Transcript 12/11, p. 417, ll. 4-22.

Mr. Terzic explains that performance-based payments are end-of-period determinations that do not require artificial constraints in the revenue requirement upfront; PREB can approve the full amount in the revenue requirement, and any amount not earned through performance necessarily remains with PREPA for other purposes, eliminating the risk of over-recovery. Exhibit 19.0, p. 17, ll. 309-320.

PREB should credit and adopt the core conclusions of Mr. Terzic's testimony. PREB should anchor its decision in LUMA's Optimal Budget as PREPA's necessary cost to achieve just-and-reasonable performance. As will be discussed, the evidentiary record fully supports these outcomes under Puerto Rico's governing statutes. Mr. Terzic's testimony provides a coherent, experience-tested framework for achieving reliable, affordable service through just and reasonable rates that transparently recover necessary and prudently incurred costs.

A. Critical costs of the Capital Programs and Operations Departments.

1. The System is in dire need of capital investments that the Optimal Budget is designed to supply.

"[T]he [S]ystem is in … dire need of capital dollars." Transcript 11/12, p. 318, ll. 24-25. "[The Federal Emergency Management Administration] FEMA cannot cover it all." Transcript 11/17, p. 140, l. 25; p. 141, ll. 1-6. "There are thousands and thousands of critical conditions that exist on the island." Transcript, 11/13, p. 67, ll. 16-17. "The [S]ystem . . . is literally falling apart around us on a daily basis." Transcript 11/17, p. 96, ll. 4-6; p. 97, ll. 4-19. As Mr. Kevin, Burgemeister, Senior Vice President of Operations ("Mr. Burgemeister") testified, we are at "an

inflection point of making some hard decisions. And for customers, unfortunately, what has gotten us to where we are today is going to take investments to get us out of it." Transcript 11/17, p. 138, ll. 20-24. LUMA's Optimal Budget includes needed rate-payer capital investments in T&D programs to stabilize the T&D System and make necessary improvements. Exhibit 5.0, p.44, Table 5; Transcript 11/12, p. 207, ll. 7-11.

The T&D System is not stable and, lacks redundancy and resilience. This "means that every time [there is] an event, the [S]ystem has the risk . . [of] major regional outages …." Transcript, 11/12, p. 198, ll. 7-10. Without additional funding, the T&D System is expected to see an increase in the unsustainable trend of emergent failures and out of service equipment ("OOSE") with the transmission breakers as well as other critical equipment. Exhibit 514 (item 2); *see also* Exhibit 74.10, same as Exhibit 727 (failure rates). Mr. Pedro Meléndez ("Mr. Meléndez"), LUMA's Chief Capital Programs & Grid Transformation Officer, illustrated System degradation through an example where due to OOSE at a substation, 2,500 customers would need to be served by another substation, doubling customers served in the in-service substation to 5,000. Transcript 11/12 p. 194, ll. 15-25; p. 195, l. 1. If the substation now serving 5,000 customers goes out of service, the likelihood of failure increases. *Id.,* p. 295, ll. 5-15.

"With a weakened grid, small events have big impacts." Exhibit 5.0, p. 19, l. 449. The growing number of faults due to the age and degradation of the equipment, leads to exponential degradation of the System. Transcript 11/17, p. 106, ll. 7-25; p. 107, ll. 1-9. "[T]he frequency and severity of failures means that LUMA has fewer resources . . . [for] planned work … that is necessary to deliver greater reliability for the system. . . . LUMA must plan for a far broader range of potential failure scenarios than other utilities because even relatively new equipment is frequently so far out of normal operating ranges that early failure is likely." Exhibit 5.0, ll. 451-

457. "[R]eturning a weakened grid to a healthy state is more expensive, time-consuming, and logistically challenging than maintaining an existing baseline for a healthy grid. To arrest and eventually reverse the continued deterioration of the grid, LUMA must increase NFC funding and quicken the pace of federally funded projects. . . ." *Id.,* ll. 441-445; *see also* Exhibit 727.

"[T]he continued wave of failures attributable to an aging and fragile T&D infrastructure continues and, in most cases, outpaces LUMA's ability to restore and repair assets." Exhibit 5.0, p. 18, ll. 427- 429. "Without significant increases in funding, the system will not improve, and the rate of deterioration will likely worsen." *Id.,* p. 19, ll. 437-438. Degradation will stop through investments and repairing all out of service and failing equipment. Transcript 11/12, p.195, ll. 15-17.

"The net effect of the state of the current grid is that [absent] any investment, electric system reliability is projected to deteriorate by 4 to 5% annually, nearly double that experienced by similarly sized North American electric utilities." Exhibit 5.0, p. 20, ll. 475-478; Transcript 11/17, p. 97, ll. 4-19. If PREB funds less than the proposed NFC investments of the Optimal Budget, LUMA's ability to execute the necessary projects will be compromised and there will be less benefits overall regarding reduction of frequency and duration of outages across the entire System. Transcript 11/12*,* p. 193, ll. 3-10.

As Mr. Meléndez explained, "investments in the [S]ystem are exponential, not linear, so the sooner you make bigger investments, the sooner you [are] going to be able to improve … [S]ystem reliability." *Id.*, p. 194, ll. 3-7, p. 195, ll. 5-25, p. 196, ll. 1-6. Given the state of degradation that Mr. Meléndez aptly illustrated and is supported by the evidentiary record, proposed investments, particularly on major equipment, are exponential and also have a lever effect to improve reliability. *Id.*, p. 195, ll. 5-25, p. 196, ll. 1-17, p. 199, ll. 21-25, p. 197, ll. 1-19.

As will be discussed, the Optimal Budgets of the Operations Department and Capital Programs include just and reasonable costs and needed investments to benefit customers now, and in the future. The Optimal Budget is the budget that will combat degradation and start making a positive improvement in an effective way. *Id.,* p. 202, ll. 24-25, p. 203, ll. 1-2. If investments are deferred, the T&D System will continue experiencing degradation and customers will not see benefits. Transcript 11/13, p. 398, ll. 4-15. Conversely, customers will benefit from proposed investments. Transcript 11/17, p. 131, ll. 4-11.

2. Capital Programs' Optimal Budget

The Optimal Budget for Capital Programs of $401.3 million for FY2026, $646.3 million for FY2027, and $790.7 million for FY2028, includes the Operations and Maintenance ("O&M") and NFC costs needed to implement LUMA's Long-Term Investment Capital Plan ("LTIP"), stabilize the grid and improve system reliability and service. Exhibit 5.0, p. 28, ll. 639-643, p. 29, Table 1, Exhibits 5.15, 6.15, 132, and 135. Planned projects include repairing and hardening the T&D System; modernizing, repairing, and hardening substations; streetlight installation; repairing of meters, lines, and poles; metering infrastructure; third party attachments; new business service connections; enabling technologies for the T&D System, distribution automation, interconnection facilities and transmission upgrades; and fire mitigation. Exhibit 5.0, p. i, ll. 43-49, pp. 29-56, Table 1, p. 29, l.650, Exhibits 5.01-5.14.

"Capital Programs employed a bottom-up approach . . . defining, in collaboration with the Operations Department, total system needs without considering constraints on the availability of the funding or resources required to undertake the needed investments." Exhibit 5.0, p. 29, ll. 663-664, p. 30, l. 665. Capital Programs then factored in the executability of projects in terms of resource availability and supply chain considerations, which combined with a historical

perspective . . ., result[ed] in a 10-year projection … .” *Id.*, p. 30, ll. 673-676. Projections were adjusted to focus on “preventing any further slippage in the period originally contemplated in the System Remediation Plan; … achievability, accounting for the effect that responding to emergencies and unexpected equipment failures will have on the deployment of … current resources and a reasonable ramping up profile; and … staff augmentation ….” *Id.,* ll. 676-683.

Capital Program’s NFC request covers thirteen programs to complete repairs and hardening not covered by federal funds and stabilize the T&D System. *Id.*, p. 43, Table 4 (describing programs), p. 44, Table 5 (with breakdown of costs per each program), Exhibits 5.01-5.14. NFC investments “will make significant strides in repairing, restoring, and rebuilding the grid and, consequently, improve customer satisfaction.” Exhibit 5.0, p. 47, ll. 928-929. Capital Programs also requested funding to purchase lands for battery energy storage systems (“BESS”), which costs were approved in the Provisional Rate Order. *Id.*, p. 69, ll. 1362-1369, p. 70, ll. 1370-1374; Exhibit 639. Furthermore, the Optimal Budget includes costs to improve electric service by executing and, where necessary, originating agreements with telecommunication companies, enforcing them, and incorporating any new requirements, codes for third party attachments. Exhibit 5.0, p. 35, ll. 782-788.

NFC costs adhere to cost estimate principles that reasonable operators would apply, that do not exceed what a reasonable utility would pay under the same circumstances and are tailored to allow LUMA to meet contractual and legal requirements and mandates. Exhibit 5.0, p. 55, ll. 1086-1089, p. 56, 1090-1091; Exhibit 74.26. Table 6 of Exhibit 5.0, includes costs estimates for each of the NFC programs, showing that project cost estimates leverage at least one source or a combination of data across RSMeans (material, labor and equipment costs), historical data from LUMA experience or subject matter experts in prior projects and local rates. Exhibits 136, 641

(BESS). There are cases where labor costs are adjusted to represent a more accurate and realistic estimate for work performed in Puerto Rico. *Id.*

The Department's O&M costs include staffing; materials and supplies; transportation, per diem, and mileage; technical and professional services; and miscellaneous expenses. Exhibit 5.0, p. 36, Table 2. "The O&M budget is largely reflective of the increased workload that is required to support a projected five-fold increase in NFC funding and over $4.2 billion in total capital work managed or performed by the organization." *Id.,* p. 36, ll. 815-817. "Capital Programs is projecting adding 1,172 Full Time Equivalents ("FTE") over the three-year period. This workforce is needed to assure: (1) the safe and efficient execution of capital programs, (2) that the company is optimally staffed with employees and contractors to meet project and program requirements, (3) that any skills and competency gaps to perform the full breadth of work are adequately covered, and (4) that the appropriate supporting activities are in place to provide safe and efficient delivery." *Id.,* p. 36, ll. 818-819, p. 37, ll. 820-823. For staffing budgets, historical data was reviewed to determine the percent of labor that has been categorized as O&M costs, adjusted to accommodate activities such as an expanded maintenance program. *Id.*, p. 38, ll. 843-849.

The proposed investments of the Optimal Budget will improve reliability and reduce outages and outage duration. *Id.*, p. 54, ll. 1055-1063; Transcript 11/17, p. 102, ll. 5-16. Customers will also benefit from improved resiliency and, overall, from a more modern utility. Exhibit 5.0, p. 54, ll. 1063-1067, p. 55, ll. 1068-1071. Failure to fund the requested O&M Budget will severely impact project execution. *Id.*, p. 41, l. 888. LUMA expects "there will be fewer projects executed in FY2026 and LUMA will not be able to effectively manage the increase in large projects nor oversee the execution of major repairs." *Id.*, ll. 891-893. "This could lead to unplanned increases

in project scopes, schedule slippages, budget overruns, quality concerns, and a growing backlog of unaddressed emergent repairs." *Id.*, ll. 893-895.

a. Costs for seconded labor are reasonable and necessary to ramp-up critical capital work.

LUMA's planned and unprecedented ramp-up of capital work necessitates specialized engineering, project management, compliance, and technical expertise and know-how that seconded employees provide. Transcript 11/17, p. 223, ll. 20-24, p. 224, ll. 1-10. As Mr. Meléndez and Ms. Ivonne Gómez, LUMA's Chief People Officer ("Ms. Gómez"), testified, leveraging seconded employees also allows LUMA to develop the local workforce and conduct knowledge transfer whereby seconded employees train local employees and once the secondment ends, a locally based workforce can assume those responsibilities. *Id.*, p. 224, ll. 8-10, p. 214, ll. 7-20. As the record shows, there is no mark-up for profit for secondee-costs, which costs are "pass-through costs." *Id.*, p. 168, ll. 19-25, p. 169, ll. 1-7, p. 172, ll. 22-25, p. 173, l. 1; Exhibit 48, p. 7, ll. 157-161, p. 8, ll. 162-184, p.9, ll. 185-200. (pre-filed testimony by Mr. Juan Saca, LUMA's CEO).[2]

LUMA's seconded workforce is rooted in Section 4.2 (k) of the Puerto Rico Transmission and Distribution System Operations Agreements ("T&DOMA"), which states that, as necessary to provide operations and maintenance services ("O&M Services"), LUMA ServCo., may hire employees of its affiliates. Exhibit 489, p. 48.0; Exhibit 388; Exhibit 48, p. 8, ll. 179-184, p. 9, ll. 185-189. "LUMA's ability to leverage seconded employees is also one of the key reasons why LUMA was selected as T&D Operator, because of the depth of the resources and specialized talent the Parent Companies and their affiliates can bring whenever needed." Exhibit 388, p. 2; *see also* Exhibit 48.0, p. 9, ll. 190-195. As Mr. Meléndez explained, "seconded employees fill critical skill

[2] As Mr. Meléndez testified the parent companies may lose profits given that their employees, while seconded to LUMA, are not working somewhere else where there might by a profit associated with their work. Transcript 11/17, p. 180, l. 25, p. 181, ll. 1-2.

and capacity gaps as the energy industry is experiencing high demand for qualified professionals. Seconded employees are an essential part of the reconstruction and reliability improvement work on the T&D infrastructure[][.] [W]ithout their involvement and availability during critical periods, the much-needed reconstruction work would likely face significant delays." Exhibit 388, p. 2.

Seconded employees may work part-time and may be physically located outside Puerto Rico. Transcript 11/17, p. 215, ll. 8-23. Some seconded employees are paid by the hour with no benefit to the parent company, meanwhile others are given specific assignments at LUMA for a particular period of time and LUMA pays for that work. *Id.* p. 172, ll. 22-25, p. 173, ll. 1-9. These staffing decisions are driven by operational necessity and not by an intent to subsidize parent-company labor.

As of the hearing date, LUMA employed approximately 325 seconded employees, inclusive of field and professional staff; the vast majority of which are assigned to Capital Programs. *Id.*, p. 150, ll. 3-14, p. 151, ll. 2-3. Of this total, approximately 150 are field employees, primarily assigned to federally funded reconstruction projects, and expected to transition out to contractors once third-party contracting processes are completed. *Id.,* 166, ll. 11-15, p. 167, ll. 20-25, p. 168, ll. 1-6, p. 213, ll. 21-25, p. 214, ll. 1–6, p. 219, 5-11.

In cross-examination, Mr. Meléndez clarified that the figures of projected seconded labor during the rate period that are referenced in his pre-filed testimony, ranging from approximately 600 to nearly 800 seconded employees, represent budgeted or projected ramp-up levels, rather than the number of active seconded employees at any single point in time. *Id.* p. 155, ll. 6-14, p. 156, ll. 4-25, p. 157, ll. 1-14, p. 158, ll. 22-25, p. 159, l. 1, ll. 12-25, p. 160, ll. 4-14. He testified that, as of mid-2025, the active number was closer to 450 seconded employees. *Id.* p. 156, ll. 4–9.

Both Mr. Meléndez and Ms. Gómez explained that LUMA plans to continue using seconded employees, based on LUMA's assessment of execution needs, rather than reimbursement expectations. *Id.,* p. 209, ll. 8-25, p. 210, ll. 1-14. The record establishes LUMA's well-founded position in response to FEMA's objections to certain secondee-employee costs related to hurricane Fiona, showing that these costs are consistent with federal funding requirements and should be deemed reimbursable. Exhibit 388, p. 2; Transcript 11/17, p. 207, ll. 19-25; *see also* Exhibit 547.3 (appeal documents before FEMA). As Mr. Meléndez testified, the Central Office for Reconstruction, Recovery and Resiliency ("COR3") issued a letter acknowledging the reasonableness of the certain seconded-employee costs that FEMA contested, which matter is on appeal. Transcript 11/17, p. 225, ll. 10-25, p. 226, ll. 1-18; *see also* Exhibit 547.3, pp. 73-84 (bates ALL COST 18, 00128-00139) (COR 3 letter to FEMA dated August 22, 2025, stating that: "**COR3 recommends that FEMA reconsider its determination relating to the reasonableness of the labor rates of ATCO and Quanta's employees**, referred to as the **seconded employees**, which should have been compared to the rates of other contractors, and not to the rates of PREPA's previous force account. To assist FEMA in this endeavor, COR3 submits its own cost analysis, included herein as Exhibit C, for FEMA's consideration. COR3's **cost analysis** compares Quanta's rates to GSA contractors and **validates the reasonableness of the costs presently in dispute**.") (emphasis added).

Argumentative questions and hypotheticals posed by opposing counsel during the November 17th hearing are not evidence, much less substantial evidence to reject reasonable and necessary secondee costs. Nor can PREB reasonably ground a decision on speculation inherent to hypothetical questions. The record is devoid of any shred of evidence to challenge the need and reasonableness of these proposed costs. As Mr. Meléndez amply testified, these costs are necessary

for the work that needs to be done and the ramp-up of capital work to benefit ratepayers. *See e.g.,* Transcript 11/17*,* p. 218, ll. 24-25, p. 219, ll. 1-4. As contemplated in the T&D OMA and validated by the Government of Puerto Rico when it executed the T&D OMA, this arrangement benefits ratepayers and the public interest. Exhibit 48, p. 9, ll. 185-189. It bears noting that PREB certified that the T&D OMA complies with energy public policy and did not take issue with the decision of the parties to the T&D OMA to leverage seconded employees as necessary for O&M services. *See id.*

As discussed above, LUMA follows a considered hierarchy before deciding to rely on seconded labor. Transcript 11/17, p. 221, ll. 4-25, p. 222, ll. 1-7. Additionally, LUMA has a strategy and plan to reduce this workforce, particularly, seconded labor on the field and for substation work. *Id*., p. 211, ll. 1-25, p. 214, ll. 1-25, Exhibit 388.

As the record demonstrates, "[i]n the FY2026 Optimal Budget, there are 245 full time equivalents (FTE) seconded employees whose costs are funded by base rates. Costs for seconded employees comprise 5.4% of LUMA's proposed Optimal Budget for FY2026. Seconded employee expenses to be funded from other sources is greater than $450 million for FY2026, compared with approximately $90 million funded from base rates." Exhibit 547, p. 4. PREB should approve these proposed costs because they are essential to stabilize and transform the T&D grid and will allow LUMA to leverage necessary expertise for science-based work, such as protection and control systems, that is not available in Puerto Rico, and transformer deployments, that require specialized skill sets. Transcript 11/17, p. 224, ll. 15-25, p. 225, ll. 1-4.

LUMA's Optimal Budget includes investments and operational expenditures required to improve the energy system's operational performance and quality of service consistent with established performance targets and public policy goals. Exhibit 388, p. 4. Achieving this

improvement requires "an increase in resources compared to levels currently in place. While those increased resources are sourced from various areas (i.e., direct hires and contractors) one of the resources available to LUMA [resultant from the T&D OMA] is the ability to call on resources from its parent company affiliates and scale up a large workforce in a short period of time to respond to surges in work, ... LUMA has a pool of resources available at its disposal to employ when it cannot meet demand with qualified local hires or industry hires willing to relocate to Puerto Rico." *Id.* This employee-resource tool catapults the necessary transformation, benefits ratepayers, and is supported by the T&DOMA.

3. Operations' Optimal Budget

The Optimal Budget for the Operations Department of $548.7 million for FY2026, $582.1 million for FY2027, and $621.3 million for FY2028, includes O&M and NFC costs to shift from a reactive maintenance approach to a proactive one, while simultaneously responding to tree-caused outages and instituting the cyclic trimming program to keep pace with the growing vegetation across the System; deploy specialty contracts for work requiring knowledge and skills; and hire new operators and line workers to ensure a fully staffed productive workforce within 3.5 years. Exhibit 6.0, p. 18, Table 1; p. 22, ll. 446-447, p. 23, ll. 448-463, pp. 24-28, Tables 3, 4. Labor costs include base salaries, benefits, bonuses, and overtime payments, and compensation for 29 seconded employees. Exhibit 6.0, p. 29, ll. 542-547. As Mr. Burgemeister testified, LUMA has a plan to have workforce in place for the proposed ramp-up in maintenance that includes ongoing training of Puerto Rican qualified line-workers and substation technicians. Transcript 11/17, ll. 1-25, p. 120, ll. 1-19.

The Optimal Budget for Operations pursues several objectives: improve reliability; increase effectiveness of work planning and workforce management to support early identification

of deficiencies that can lead to failures and timely resolution of required repairs; a transition towards an industry standard maintenance program; and use of technology in areas such as system operations and revenue protection Exhibit 6.8, pp. 48-49, Table 7, p. 51, ll. 992-998. Maintenance efforts are critical for a System that has not been maintained for a long time and equipment that is past its age of useful life. Transcript 11/17, p. 91, ll. 6-14. Maintenance is needed to help the equipment **survive**, while it may be replaced. *Id.*, ll. 11-14.

Table 6 of Exhibit 6.0 includes a breakdown of NFC costs per program for Operations. The NFC request is driven by the need to address out-of-configuration equipment; address safety hazards that do not qualify for federal funding for damages due to Hurricanes María and Fiona; and comply with the PREB requirement on retail wheeling. Exhibit 6.0, p. 37, ll. 688-708.

Per prudent utility practices, the Optimal Budget shown in Table 3 of Exhibit 6.0, and the preventive and corrective maintenance plan detailed in Table 4, were designed to achieve a four-year maintenance cycle, to maintain all substations, breaking the current pattern whereby due to limited funding, approximately 50% of substations have been maintained. Transcript 11/17, p. 86, ll. 10-25, p. 87, ll. 10-22, p. 88, ll. 11-22, p. 90, ll. 14-25, p. 91, 1-5. LUMA would also maintain transmission lines and conduct visual and thermography inspections in feeders within five years. *Id.,* p. 88, ll. 16-25, p. 89, ll. 1-6, p. 121, ll. 9-25, p. 122, ll. 1-3; Exhibit 6.0, Table 4.

Customers will experience reductions in service restoration times and will benefit from fewer unplanned customer interruptions attributed to failed equipment, reduced costs, overall improvements in work management, fair and accurate billing, improved communication during restoration, and timely new business connections. Exhibit 6.0, p. 50, ll. 956-975, p. 51, ll. 976-978. Customers will also benefit from a more strategic and comprehensive approach to vegetation management activities, reducing the number of vegetation-caused outages and customer-incurred

outage costs. *Id.*, p. 52, ll. 1014-1017. The Optimal Budget also enables LUMA to comply with Contract Standards as required by the T&DOMA. *Id.*, p. 54, ll. 1047-1055.

Through the proposed increase in utility workers (line workers, and substation technicians) primarily hired through LUMA's apprenticeship program, LUMA will have more resources for preventative and corrective maintenance activities and to support outage restoration at peak times. *Id.*, p. 53, ll. 1027-1044.

Professional and Technical Outsourced Services include vegetation management contracts totaling $125.0 million, specialty contracts that total $69.4 million and several ancillary contracts, that total $9.6 million. *Id.*, p. 32, ll. 591-594, p. 33, ll. 610-628.

Operations applied a bottom-up budgeting approach, first defining total System needs, and then adjusting needs to reflect work required to achieve system stability. *Id.*, p. 20, ll. 389-397. The Department applied a historical perspective and adjusted projections considering duration, achievability, accounting for responses to emergencies and unexpected equipment failures, and areas of increased levels of overtime. *Id.*, ll. 390-397. A full "bottom up" approach was applied to the costs associated with preventive maintenance ("PM"). *Id.*, ll. 398-399, p. 21, ll. 400-402. Meanwhile, for corrective maintenance ("CM"), LUMA used an industry known average of CM's that are typically experienced in the utility industry (ranging between 5% and 20% of assets inspected and /or tested) and applied an additional "Puerto Rico" factor of 1.5 to 2.0 of the percentage of facilities expected to need corrective maintenance, to account for System degradation. *Id.,* ll. 403-410; *see id.*, p. 24, Table 3 (CM and PM costs profile), p. 26, table 4 (maintenance plan); Transcript 11/17, p. 93, ll. 7-16, p. 94, ll. 12-19. The "Puerto Rico" factor is grounded on LUMA's experience of failure rates in the System and applying engineering judgment. Transcript 11/17, p. 93, ll. 11-16, 24-25, p. 94, ll. 1-6, p. 95, ll. 8-24. Mr. Burgemeister

explained that these estimates are conservative, recognizing the increase in funds requested. *Id.*, p. 95, ll. 18-24, p. 96, ll. 1-6, p. 105, ll. 23-25, p. 106, ll. 1-25, p. 107, ll. 1-9.

The Constrained Budget will get the System in a net positive on substation and transmission, but the distribution world would stay at a net negative. *Id.*, p. 99, ll. 1-8, p. 103, ll. 2-11. With the Constrained Budget, the distribution side suffers particularly, as LUMA would not be able to maintain all feeders. *Id.,* p. 114, ll. 7-15, p. 115, ll. 3-8.

Operation's Optimal Budget is the budget that will allow LUMA to meet maintenance prudent utility practice. *Id.*, p. 90, ll. 22-25, p. 91, ll. 1-5. The Optimal Budget will achieve net positive levels for substations and distribution, placing the System in a much better position in ten years *Id.*, ll. 10-14, p. 100, ll. 4-22. As Mr. Burgemeister testified, investments proposed in the Optimal Budget are critical, including costs to replace assets. *Id.*, p. 97, ll. 20-25, p. 98, ll. 1-11.

a. Vegetation Management ("VM")

LUMA's VM program is central to reliability performance and customer safety. In his prefiled direct testimony, Mr. Burgemeister explained that VM is one of Operations' key functions, implemented through an integrated approach that optimizes inspection and maintenance intervals, identifies and removes high-risk trees, and reduces vegetation-caused outages. Exhibit 6.0, p.8, ll 149-252. The Operations Department applies industry best practices at substations and across transmission and distribution rights of way ("ROWs ") and supports storm restoration by clearing debris and addressing tree-caused outages. *Id.*, ll. 154-157, ll. 457-460.

Increasing VM funding by $75 million annually – bringing the annual O&M total to approximately $125 million included within Professional and Technical Outsourced Services – allows LUMA to increase annual miles maintained nearly threefold, from roughly 1,400 miles to approximately 4,000 miles, and to perform initial herbicide treatment on ROWs addressed by

federally funded work. *Id.,* p. 28, ll. 531-539; Exhibit 553 (showing Optimal and Constrained VM O&M budgets, with $125 million, $131.25 million and $137.8 million under the O&M Optimal scenario for FY2026-FY2028); Exhibit 554 (segregating O&M VM by transmission and distribution for FY2026-FY2028).

Mr. Burgemeister also identifies the severe consequences of underfunding LUMA's vegetation management program, including that reducing vegetation management funding would perpetuate reactive tactics, prevent proactive clearances resulting in more outages, elevate public safety risk, hinder execution of the integrated VM operating model, and critically erode the benefits of the federally funded clearing by allowing regrowth, jeopardizing federal eligibility in future disasters. Exhibit 6.0, p. 35, ll. 655-672.

LUMA's VM program is grounded on evidence-based workplan and budget architecture. The O&M budget was built bottom-up at the cost-center and Kind of Expense ("KOE") level, ensuring alignment with the System Remediation Plan ("SRP"), the T&DOMA, and applicable law, and to avoid double counting. Exhibit 6.0, pp. 20-22, ll. 389-445. VM is identified as a principal driver of O&M spending growth because it is foundational to reliability and requires increased contractor capacity while LUMA builds internal staffing. *Id.,* p. 22, ll. 446-447, p. 23, ll. 448-460, p. 30, Table 5; *see also* Exhibit 516 (expected SAIDI and SAIFI impacts). Consistent with this operating model, LUMA relies exclusively on external contractors for clearing because vendors supply equipment, vet and train resources, provide an agile workforce that can scale with funding, and broaden the talent pool. LUMA retains arborists and field technicians to oversee work and ensure compliance with the VM Plan. Exhibit 165. Moreover, consistent with prudent utility practice, the hearing record confirms that LUMA's VM contracts, as examined during the November 14th evidentiary hearing, were competitively structured and evaluated for best value,

not just lowest line-item price, using pre-established, bias-avoiding criteria and an "apples-to-apples" normalization of differing vendor cost structures to determine fair market value for integrated VM services (as opposed to unbundled equipment rentals).[3]

During the November 12, 2025 evidentiary hearing Mr. Burgemeister testified that vegetation is responsible for "consistently" around 50 percent of outages, and that absent the funding requested, the problem will worsen. Transcript 11/12, p. 13, ll. 3-21. The hearing record establishes why O&M and federal capital clearing are not substitutes. Mr. Burgemeister described that O&M-funded maintenance targets worst-performing feeders with focused spot clearing to deliver 12-18-month relief, whereas FEMA capital clearing performs end-to-end ROW width clearing, hazard tree removal beyond the ROW, and edge trimming – activities that cannot be matched by O&M spot-treatments. Transcript 11/12, p. 53, ll. 5-25. For that reason, LUMA measures O&M progress in miles maintained and federal progress in miles of ROW reclaimed, and uses "blended rate" benchmarking to plan cost per worked mile recognizing variability by voltage, vegetation type and density, accessibility, and vendor. Transcript 11/12, p. 45, ll. 17-25 20-25, p. 46 ll. 1-14; p. 49, ll. 22-25, p. 50, ll. 1-16, Exhibit 515. The record includes vendor-specific actual miles and spend, segregated by quarter and voltage level for FY2023-FY2025, presenting observed average $/mile outcomes that corroborate the reasonableness of

[3] Transcript 11/14, pp. 371 (criteria to evaluate proposals are set during procurement process, before proposals are received; value proposition and cost evaluation); 372 (criteria established early in RFP design); 373 (multi factor evaluation – cost, experience, qualifications, financial stability, safety – to confirm fair market value); 376-378 (value proposition: higher daily rates can yield higher productivity with similar cost per mile across vendors); 408 (importance of reviewing entire rate sheet to understand blended vs. itemized overheads); 409-411 (no vendor guaranteed any spend; LUMA retains dispatch flexibility); 459-463 (budgets anchored in four years of observed results and per mile benchmarking targeting 4,000 miles/year at ~$30,000 per mile, with active productivity metrics, quality inspections, and work reallocation if performance lags); 424-426, 476-479 (standardized pricing sheets used to ensure uniform cost disclosures and "orange- to-orange" comparisons without imposing fixed price caps that could limit competition or foreclose below cap pricing); and 402, 405, 407 (line item rates for equipment and labor are components within integrated VM contracts, so cherry picking single inputs outside the full contract context is misleading).

contracted unit costs in light of terrain, density, and access variability. PC Exhibits 557, 557.1, 557.2, 557.3.

LUMA has implemented professional standards in organization, staffing, and tools with regards to VM. LUMA created a centralized vegetation management function spanning O&M and federally funded programs, hired qualified arborists to develop the plan and uplift contractor quality, and is maturing field-enabled IT tooling to manage inventory, LiDAR[4]-informed clearances, and work management (now supported by interim tools pending full enablement). Transcript 11/12, p. 41, ll. 15-25, p. 42, ll. 1-6, 15-25, p. 43, ll. 1-10; p. 91, ll. 19-25, pp. 92, ll. 2-10, p. 93, ll. 12-22, p. 94, ll. 1-15, p. 95, ll. 8-17; Exhibit 6.14. Mr. Burgemeister also testified that LUMA is developing municipal collaboration agreements aimed at post-reset maintenance, where municipalities can be effective on frequent inspections and fast-growing species management, while LUMA and its vendors retain control over complex, safety-critical clearing. Transcript 11/12, p. 99, ll. 8-15, p. 103, ll. 7-15, p. 111, ll. 3-16.

On readiness and integration, Mr. Burgemeister testified that hurricane response readiness is strong – with ample contracts and pre-positioned resources – system readiness is improving, and both preventive preparation and reactive response capability are essential. Transcript 11/12, p. 31, 21-25, p. 32, ll. 1-25, p. 33, ll. 1-19. LUMA also coordinates vegetation clearing with rebuild work where feasible to gain access efficiencies and reduce cost, consistent with utility standards. Transcript 11/12, p. 106, ll. 14-25, p. 107, ll. 1-25, p. 108, ll. 1-4.

Finally, the hearing record documents the real-time cash flow constraints during FY2025-FY2026, how LUMA protected VM spend as long as possible, and the resulting temporary pause of planned (not reactive) O&M VM work for roughly six weeks due to vendor

[4] Light Detection and Ranging.

payment limits – underscoring the operational fragility when O&M is underfunded. Transcript 11/12, p. 43, l. 25, p. 44, ll. 1-12, p. 70, ll. 17-25, p. 71, ll. 1-16, p. 72, ll. 5-16, p. 116, ll. 12-24, p. 117, ll. 1-2, 22-25, p. 118, ll. 1-4, 17-23, p. 134, ll. 19-25, p. 135, ll. 1-7, p. 137, ll. 22-25, p. 138, ll. 1-14.

During the November 12th hearing, the Hearing Examiner questioned whether 3,100 distribution miles and 729 transmission miles would be deferred under LUMA's Constrained Budget scenario, per LUMA's VM and Capital Clearing Implementation SRP Program (Exhibit 6.14). Transcript 11/12, p. 76, VM O&M request was about $75 million (versus $130 million under the optimal scenario), rising to approximately $130 million in FY2027 (then inflating). The constrained scenario thus reduces, but does not foreclose, FY2026 activity. It does not imply a full 4,000-mile deferral, but rather a number closer to 1,500 miles. Transcript 11/12, p. 76, l. 25, p. 77, ll. 1-25, p. 78, ll. 1-6.

Furthermore, the record shows that federal capital clearing is essential but not sufficient. O&M work is needed to: maintain 230 kV and substation cycles; perform spot clearing on worst-performing feeders for near-term customer benefit; conduct post-reset herbicide treatments and species-specific re-inspections; and address DOE-ordered facilities that lack FEMA eligibility. Transcript 11/12, p. 38, ll. 10-16, 21-25, p. 39, ll. 1-8, p. 53, ll. 5-25, p. 54, ll. 1-25. This delineation mirrors Mr. Burgemeister's prefiled direct testimony that failure to fund the O&M increment risks loss of federal benefits and future FEMA eligibility, continued reactive posture, and higher outage frequency and duration. Exhibit 6.0, p. 35, ll. 663-672. The tradeoff is thus stark. Underfunding VM O&M prolongs a reactive approach, elevates System Average Interruption Duration Index ("SAIDI") and System Average Interruption Frequency Index ("SAIFI"), increases restoration costs and overtime, and degrades customer experience, while adequately funding vegetation

management anchors reliability improvements, preserves federal reset benefits, and reduces long-run costs. *Id.* p. 35, ll. 655-672; p. 50, ll. 965-966; p. 52, ll. 1014-1021, p. 53, ll. 1022-1024; p. 56, ll. 1082-1089; Transcript 11/12, p. 78, ll. 8-25; p. 79, ll. 1-21; *see also* PC Exhibit 516.

4. NFC costs for programs shared by Capital Programs and Operations.

Capital Programs and Operations each have NFC costs for the following programs: Grid Automation, Distribution Line Rebuild, Substation Reliability, Substation Rebuilds, Transmission Priority Pole Replacement, Distribution Pole and Conductor Repair and New Business Connections. Exhibit 5.0, p. 44, Table 5; Exhibit 6.0, p. 36, Table 6; Exhibits 5.15 and 6.15. Costs incurred by the Operations Department are focused primarily on emergent and routine maintenance, whereas Capital Programs is focused on rebuilding and restoring assets. Exhibits 133, 137 (same as Exhibit 74.08). Operations responds when something breaks and fails, and Capital Programs conducts planned work identified after inspections, to restore the highest priority out-of-service facilities, remediate the most degraded facilities and address imminent failures. *Id., see also* Transcript 11/12, p. 293, ll. 12-25, p. 294, ll. 1-23.

a. Transmission Facilities

i. Transmission pole and tower replacement

This Program replaces damaged overhead transmission poles and towers, along with associated hardware and conductors. Exhibit 5.0, p. 44, Table 5; Exhibit 5.04; Exhibit 144.1, rows 12-36, includes details of the need of each of the projects. The FY2026 Optimal Budget request for Capital Programs is approximately $14 million. Exhibit 5.0, p. 44, Table 4; Transcript, 11/12, p. 162, ll. 10-14. Amounts increase in FY2027 and FY2028. Exhibit 5.0, p. 44, Table 5, Transcript, 11/12, p. 161, ll. 19-22, p. 162, ll. 10-14. As LUMA continues assessments, it expects to continue finding needed pole replacements. Transcript 11/12, p. 232, ll. 9-15, p. 236, ll. 6-9.

Replacements are triggered by condition-based assessments supplemented by engineering analysis. Transcript 11/12, p. 150, ll. 12-16. Selection is not simply like-for-like replacement, but an upgrade to current standards, including higher wind ratings and structure configurations appropriate to location and soil conditions. *Id.,* ll. 24-25, p. 151, ll. 1-16. Inspection patrols identify structures with structural deficits; engineering then validates and scopes the necessary replacements. *Id.,* p. 151, l. 25, p. 152, ll. 1-6. Budget estimates are a bottoms-up aggregation of engineering/design, owner's engineer, materials, and construction, developed with RSMeans and informed by actual contract execution experience. *Id.,* p. 156, ll. 6-14. Mr. Meléndez explained that these costs were informed by experience, having done over 20,000 pole replacements. *Id.*, p. 157, ll. 12-25, p. 158, ll. 1-10. Budget estimates incorporate learning on terrain, access, and execution rates. *Id.*

Many of the most urgent replacements overlap with FEMA-eligible categories, such that LUMA seeks to balance federal and ratepayer dollars based on risk and timing. *Id.*, p. 162, ll. 2-9. Ratepayer funds are requested to address urgent needs of the T&D System. *Id.*, p. 165, ll. 2-8. Spending non-federal capital allows LUMA to replace poles to avoid large scale events (outages) in transmission structures. *Id.*, p. 165, ll. 17-25, p. 166, ll. 1-13. Ratepayer funding is needed even where Department of Energy ("DoE") funds are made available for pole replacements, because there is sufficient work that needs to be done to stabilize the System. *Id.*, p. 247, ll. 15-25.

Mr. Meléndez identified as a risk of not approving the Optimal Budget, that there would be outages associated with pole failures. Transcript 11/12, p. 164, ll. 7-15. Under a Constrained Budget scenario that reduces project scope by 13% ($16.6 million), LUMA would defer replacement of deficient transmission structures, resulting in more costly reactive maintenance. Exhibit 5.0, p. 62, ll. 1204-1208.

For FY2026, the Operations Department's NFC Budget is $10 million, increasing to $12 in FY2027 and $16.2 in FY 2028. Exhibit 6.0, p. 36, Table 6. These NFC funds will be used to address transmission line emergent capital failure replacements. *Id.,* p. 40, ll. 772-773. Key actions include replacement of capitalizable transmission line components including poles, insulation, hardware, conductor, and other property units that have failed, or are in the process of failing, and should be replaced. *Id.,* ll. 774-778. The funding identified for this emergent work is based on forecasted failures and find rates from proactive inspection and maintenance activities. *Id.,* ll. 778-779. LUMA used an initial factor of approximately 65% capital investment (NFC) to O&M (inspections, preventive, and corrective maintenance), based on industry standards and four years of experience. *Id.,* ll. 788-787; Transcript, 11/12, p. 318, ll. 8-22.

Mr. Burgermeister testified that in the long term, federally funded capital expenditures should reduce O&M, but such savings were not estimated for the three-year rate period, as LUMA is not expecting to start to see some of the costs savings during the rate period. Transcript,11/12, p. 322, ll. 21-25, p. 323, ll. 1-14, 21-25, p. 324, ll. 1-14, p. 348, ll. 9-19.

b. Substations

i. Substation Reliability and Rebuilds

Requested funds for the Substation Reliability Program are to reinforce and upgrade existing and aging infrastructure to improve reliability, including the replacement of transformers, oil circuit breakers, distribution circuit breakers, high voltage equipment, relays, and auxiliary systems, along with protection and control upgrades and procurement of emergency spares. Exhibit 5.0, p. 43, Table 4; Exhibit 144.1, rows 94-139; Exhibit 147. Funding for Substation Rebuilds will be allocated to repair and rebuild of damaged substations, and for upgrades to the latest codes, industry standards and practices, including installation of switchgear, and replacement

of electromechanical and electronic relays. Exhibit 144.1, rows 94-139. As Mr. Meléndez testified, LUMA applied utility practices on what is done with assets and how you operate facilities to improve reliability, including replacement of assets to ensure they are the best. Transcript 11/12, p. 457, ll. 2-17. The budget line for "Transformers 'On-site' Preparation Costs" covers the activities required to receive and prepare transformers on-site. Exhibit 147, p. 2. These funds are necessary to enable required substation equipment corrections and improvements. *Id.*

LUMA prioritized capital investment needs to return assets to normal configuration, considering that about 25% of the System has substation equipment that is overstressed. Transcript 11/12, p. 366, ll. 16-23. This includes transformers that have been out of service for a long time at both the transmission and distribution levels and should be deployed as quickly as possible. *Id.*, ll. 2-12. LUMA applied engineering analyses to understand the conditions and health of the assets. *Id.*, p. 394, ll. 23-25, p. 395, ll. 1-25.

Costs were estimated using RSMeans and information on prior equipment purchases and the sites where work will be performed. *Id.*, p. 393, ll. 2-16. LUMA made projections of future work considering that it has ordered eighty transformers and also considering the conditions of assets and buildings. *Id.*, p. 393, ll. 23-25, p. 394, ll. 1-25, p. 395, l. 1-25.

Mr. Meléndez provided several examples of substation reliability projects, including replacement of Monacillos Transformer banks, Exhibit 2.05, line 163, as to which LUMA allocated $6.2 million of NFC in FY 2026, explaining that the two transformers have been out of service for a significant amount of time due to failure. Transcript 11/12, p. 371, ll. 8-22. He explained that LUMA is also doing protection and control upgrades. *Id.,* p. 372, ll. 1-9. Some of these projects are federally funded, but the NFC funds are needed to execute the projects for components that are

not federally funded, such as upgrades to the Monacillos transformer that are not eligible. *Id.,* p. 371, ll. 8-16, p. 373, ll. 7-25, p. 374, ll. 1-25, p. 375, ll. 1-5

The funding request for Operations is to address substation emergent capital failure replacements and out-of-service equipment, as well as high-priority needs. Exhibit 6.0, ll. 741-742, Exhibit 6.12; Exhibit 133. Key actions include replacement of capitalizable substation components that have failed or are in the process of failing. Exhibit 6.0, p.39, ll. 744-748. Costs estimates are built upon historic actuals and industry trends. *Id.,* ll. 750-751. LUMA applied an initial factor of 15-25% capital investment (NFC) to O&M activities (inspections, preventive, and corrective maintenance). *Id.*, ll. 755-756, p. 40, ll. 757-758.

The Optimal Budget for these programs allows for advancements, meanwhile the Constrained Budget is a pullback on how much work is performed. Transcript 11/12, p. 400, ll. 1-4. LUMA would replace five transformers less under the Constrained Budget in FY2026. *Id*., ll. 5-7, 11-20. If the Constrained Budget is approved, LUMA expects significant operational and safety risks, failure to safely and efficiently keep pace with system-wide load growth and related connection of new customers. Exhibit 5.0, p. 59, ll. 1141-1149. Repercussions of reducing the proposed budgets include reductions in replacing transformers, breakers, and relays with adverse impacts on reliability, presenting operational risks and hazards, and delaying substation remediation by at least two years. Exhibit 134 (discussion of impacts). Put simply, failure to fund the Optimal Budget will mean that more equipment is likely to fail in storms and restoration times will be longer and more costly. *Id.*

ii. Substation rebuilds

For Capital Programs, this Program includes required repair and rebuilding of damaged substations, upgrades to the latest codes, industry standards and practices to improve long term

reliability. Exhibit 5.0, p. 43, Table 4; Exhibit 5.07; Exhibit 144.1, rows 130-139. Budgeted amounts are $3 million in FY2026, $5 million in FY2026 and $15million in FY28. Exhibit 5.0, p. 44, Table 5. Cost estimates reflect industry perspectives, adjusted to reflect the realities of performing work in Puerto Rico. *Id.*, p. 46, Table 6. Meanwhile, the NFC budget for Operations is $1.2 million for FY 2026 and $1.5 million for FY2027. *Id.* Key actions include installation and commissioning of high accuracy revenue metering at generation facilities to fully demarcate Transmission and Generation equipment. Exhibit 6.0, p. 40, ll. 761-763. Projected costs are based on industry standards, factored to account for the comparative condition of the assets. *Id.,* ll. 763-768.

c. Distribution

Costs assumptions on the distribution side are driven by an overloaded system. Transcript 11/13, p. 109, ll. 18-25, p. 110, ll. 1-19. LUMA used historical data for cost assumptions for pole replacements, as well as information obtained from assessments and RS Means. *Id.,* p. 110, ll. 21-25. p.111, ll. 1-25, p. 112, ll. 1-24. As Mr. Meléndez testified, LUMA has a significant amount of equipment in its warehouses or in production, such as poles, transformers and switches to execute the work. *Id.*, p. 113, ll. 8-13.

i. Distribution Pole and Conductor Repairs

LUMA will repair and replace distribution poles and associated hardware and conductors. Exhibit 5.0, p. 43, Table 4; Exhibit 585; Exhibit 633; Exhibit 157. Costs were projected using historical information, adjusted for inflation. Exhibit 5.0, p. 46, Table 6.

The current state of the population of poles demands that over 14,000 poles need to be replaced over the rate period based on a target of addressing known defects over 10 years. Exhibit 157, p. 2. Mr. Meléndez explained that funds for distribution pole replacement are associated with

criticality to, for example, to replace a pole that failed and must be restored using NFC and poles or assets that are near failure. Transcript, 11/13, p. 22, ll. 16-25, p. 23, ll. 1-25, p. 24, ll. 1-25, p. 24, ll. 1-4, p. 25, ll. 9-22, p. 65, ll. 11-18. Criticality means that LUMA cannot wait to perform the work, therefore, in the NFC request LUMA prioritized the work it believes has to be done now. *Id.,* p. 25, ll. 16-22, p. 66, ll. 12-24. That does not negate the possibility that LUMA could later submitting the costs to FEMA as completed work to obtain federal funds. *Id.*, p. 26, ll. 5-23, p. 68, ll. 1-11. As Mr. Meléndez explained, however, it is not possible to estimate what FEMA would decide in terms of obligating these projects. *Id.,* p. 68, ll. 13-25, p. 69, l. 1. These circumstances therefore render just and reasonable, LUMA's expert judgment to propose an NFC funding allocation for these projects.

Regarding corrective maintenance projects, Mr. Meléndez testified there are several levels of priority, based on the items that the Operations teams identifies need corrections or replacing assets. *Id.,* p. 82, ll. 7-21. The funding request for Out of Service activities increases over the rate period to put more components back in service. *Id.*, p. 85, ll. 10-18. Projects for nonstructural repairs include necessary repairs on functional components that do not involve a full pole/structure replacement. Exhibit 144.1, rows 47-48; Transcript 11/13, p. 90, ll. 15-25, p. 91, ll. 1-4. Cost estimates for nonstructural repairs are based on historical costs, identified work and a necessary ramp-up. *Id.,* p. 94, ll. 6-25, p. 95, ll. 1-3.

The *PRW-Distr.Pole.Repl.Mar-22-FWD* project involves failed components and emergent work by Operations to replace failed items. *Id.*, p. 97, ll. 12-22; Exhibit 144.1, row 49. Further, the project on third party damage involves pole replacements due to damage caused by third parties. Exhibit 144.1, rows 50, 87; Transcript 11/13, p. 98, ll. 24-25, p. 99, ll. 1-7; Exhibit 144.1, row. 87.

Capital Programs is putting forth a reasonable and necessary budget of $70 million for FY2026, $226 million for FY2027, and $261 for FY2028. Exhibit 5.0, p. 44, Table 5. The NFC budget for Operations is $28.4 million for FY2026, $29.0 million for FY2027 and $35.6 for FY2028. LUMA Exhibit 6.0, p. 36, Table 6. If the Constrained Budget is approved, LUMA would reduce the number of the deficient poles and non-structural components that will be replaced, resulting in higher levels of more costly reactive maintenance and risks of limited operational flexibility, negative impacts on reliability and elevated public and employee safety concerns. Exhibit 5.00 p. 58, ll. 1131-1132, p. 59, ll. 1133-1138; Exhibit 5.08. On the Operations side, the replacement of fewer deficient poles and non-structural components will result in higher levels of more costly reactive maintenance while incurring the risks of (1) negatively impacting reliability (2) elevating concerns around public and employee safety, and (3) limiting operational flexibility (e.g., unplanned out-of-service lines often results in suboptimal system configurations / operating regimens). Exhibit 6.00, p. 58, ll. 1126-1134; Exhibit 6.09.

ii. Distribution Grid Automation

The funding request for this program is to install intelligent reclosers, including single phase and three-phase reclosers, and fault indicators on select feeders to reduce the number of customer interruptions per outage event. Exhibit 5.0, p. 43, Table 4; Exhibits 5.09 and 6.08; Exhibit 144.1, rows 75-78; Transcript 11/13, p. 114, ll. 19-25, p. 115, ll. 1-8; Exhibits 146, 585, and 633. LUMA is also adding telecom infrastructure to integrate the assets to the control center. Transcript 11/13, p. 114, ll. 21-25; p. 115, l. 1. The focus is to improve reliability, reduce outages, and extend the life of assets. Exhibit 6.0, p. 37, ll. 710-711, p. 38, l. 712.These investments will give LUMA visibility to isolate problems and help reduce the number of customers impacted and duration of outage events. Transcript, 11/13, p. 115, ll. 1-5, 10-14, p. 112, ll. 3-4; Exhibit 146. The

Program also includes implementation of technology to enhance wildfire resilience. Exhibit 144.1, row 77, Transcript 11/13, p. 116, ll. 10-18, p. 117, ll. 2-13; Exhibit 633.

Asset conditions and input from the engineering team inform the decisions on proposed investments. Transcript 11/13, p. 117, ll. 24-25; p. 118, ll. 1-3. Capital Programs estimated costs using historical costs adjusted for inflation. Exhibit 5.0, p. 46, Table 6. The funding request is $2.0 million, $4.0 and $9.0 million for FYs 2025, 2026 and 2027, respectively. Exhibit 5.0, p. 44, Table 5. Costs for the Operations Department to primarily address emergency replacement of reclosers, and directional fault indicators, were developed using historical records to project workload and unit replacement costs. Exhibit 6.0, p. 38, ll. 714-716. The funding request for Operations is $0.9 million for FY 2026. *Id.*, p. 36, Table 6.

In sum, proposed investments will improve reliability and resilience and are essential to reduce outage duration and frequency. Exhibit 146. If the PREB approves the Constrained Budget, LUMA would have to defer the installation of reclosers and a portion of wildfire mitigation efforts. Exhibits 5.09, 6.08. This could increase risks of outages and affect the program's timeline and objectives to improve reliability and resilience. *Id.*

iii. Distribution Line Rebuild

The NFC budget for Capital Programs is $37 million for FY2026, $57 million for FY2027 and $72 million for FY2028. Exhibit 5.0, p. 44, Table 5. The budgeted costs for Operations are: $5.1 million in FY2026 and $5.2 for each of FYs 2027 and 2028. Exhibit 6.0, p. 36, Table 6. Costs projections for Operations are based on forecasted failures and find rates. *Id.*, p. 38, ll. 730-733. LUMA considered historical costs plus inflation and projected emergent work based on industry standards, factored to account for the comparative condition of the assets. *Id.*, p. 39, ll. 737-739.

Failure to make the replacements budgeted in the Optimal Budget will increase exposure to risk and adversely affect the reliability of the underground distribution system. *Id.*, ll. 735-736.

LUMA will replace, harden, and/or recondition damaged or ineffective distribution lines to improve reliability and resiliency and improve distribution capacity. Exhibit 5.0, p. 43, Table 4; Exhibit 144.1, rows 84-93; Exhibit 585, 633, 634. For Operations, the funds are required to restore out-of-service circuits, complete construction on currently abandoned circuits, perform circuit voltage conversions to improve capacity, reduce distribution energy line losses, and install underground cable and / or tree wiring. Exhibit 6.0, p. 38, ll. 718-723.

The Program also includes a project to enhance resilience against wildfires. Exhibit 633, Exhibit 144.1, row 93. The scope includes planning, engineering, and initiation of designs for developing mitigation solutions on at least 10 priority miles at approximately $2 million per mile. Exhibit 633.

Furthermore, this Program includes upgrade costs resulting from identification of components exposed to overloads due to interconnection of solar systems. Transcript 11/13, p. 104, ll. 6-25; p. 105, ll. 1-25; p. 106, ll. 1-25; p. 107, ll. 1-2; Transcript 11/14, p. 135, ll. 8-21, p. 136, ll. 2-10, p. 143, ll. 7-16, p. 154, ll. 6-13 (Mr. Meléndez explaining costs projections); Exhibits 141, 142; Exhibit 144.1, row 87; Exhibit 2.05, line 155 (total of $45.9 million for the rate period). As stated in Exhibit 142, LUMA's proposal is consistent with its obligations under the T&D OMA, including operating within safe thermal loading levels, providing acceptable voltage performance and providing for safe and reliable operation of the distribution infrastructure in general. The beneficiaries of the upgrades are the individuals connected to the circuit as the system will come back into configuration. Transcript 11/13, p. 104, ll. 13-25, p. 105, ll. 1-5; Transcript, p. 173, ll. 17-20. The budget request for Fiscal Years '26, '27, and '28 is comprised of

LUMA's estimation of what upgrades would cost based on past expenditures and technical evaluations, Transcript 12/4, p. 438, ll. 7-24, p. 445, ll. 14-25, projections of necessary additions to the system, *id.*, p. 432, ll. 3-12, p. 445, ll. 21-25, and equipment replacement requirements, *id.*, p. 439, ll. 1-2. *See also id.,* p. 445, ll. 13-25; Exhibit 142, section (d).

d. Customer Experience

i. New Business Connections

Proposed costs for this Program are necessary to manage the process to connect new customers, including evaluating, endorsing, and inspecting connections. Exhibit 5.0, p. 43, Table 4; Exhibit 144.1, rows 140-146; Transcript 11/13, p. 170, ll. 23-25; p. 171, ll. 1-25; p. 172, ll. 1-25; p. 173, ll. 1-6; Exhibit 6.06; Exhibit 635. Requested NFC costs for Capital Programs are $13 million for FY2026 and FY2027 and $14 million for FY2028. Exhibit 5.0, p. 44, Table 5. This category covers planning studies and system upgrades required to serve new large customers (e.g., hotels), including at the 38 kV level that is considered transmission. Transcript 11/12, p. 219, ll. 5-22; Exhibit 2.05, NFC, line 140.

The Operations Department requires an annual amount of $2.3 million to install or connect new customers. Exhibit 6.0, p. 44, ll. 844-847, p. 36, Table 6. Average estimates were established for three scenarios: existing pole with installation of a new transformers, pole replacement with installation of a new transformer, and an increase to existing transformer capacity; with an average per project cost of $12,000 thousand and an average of 18 projects per month. Exhibit 6.0, p. 44, ll. 847-850.

Capital Programs used historical data to project volume and knowledge of large projects that are connected. Exhibit 5.0 p. 46, Table 6; Transcript 11/13, p. 174, ll. 2-7; Exhibit 659. The

Constrained Budget would risk failure to meet service agreements and decrease responsiveness. Exhibits 5.11, 6.06.

This program entails necessary and reasonable costs to benefit customer experience and allow LUMA to interconnect new customers, which is LUMA's duty as Operator of the T&D System. Transcript 11/13, p. 405, ll. 23-25, p. 406, ll. 1-25, p. 407, ll. 1-4.

5. Capital Programs' NFC programs

a. Transmission Facilities

i. Transmission Line Rebuilds

The program targets 230 kV, 115 kV and 38 kV projects to strengthen, harden, and upgrade the transmission system, restore and upgrade line design capacity, rebuild towers, reinforce/replace anchors and guys, and address corrosion. Exhibit 5.0, p. 43, Table 4, *Id.,* p. 44, Table 5; Exhibit 5.05; Exhibit 144.1, rows 53-72. Transmission projects include projects to increase capacity for loads and renewable generation projects. Exhibit 130; Transcript 11.14, p. 49, ll. 18-25, p. 50, ll. 1-6, p. 51, ll. 11-22 (Mr. Meléndez explaining NERC design standards and guiding principles for transmission lines rebuilds designed by LUMA). To develop the budget, LUMA utilized information from work performed and evaluated the conditions of the assets to understand what needs replacement. Transcript, 11/12, p. 149, ll. 9-16; Exhibit 144.1, rows 53-72

The decision to rebuild a line segment involves condition-based engineering assessments and turns on a combination of factors, including the end-to-end condition of structures and hardware, the conductor type and current-carrying capacity, system criticality, and whether the line's operational characteristics (e.g., voltage profile, congestion) counsel reconductoring or larger-scale rebuild. Transcript, 11/12, p. 150, ll. 12-16, p. 155, ll. 4-10; p. 169, ll. 2-17, 24-25, p. 170, ll. 1-25, p. 171, ll. 1-25, p. 171, ll. 1-20. The process relies on power flow and related analyses

to identify operability constraints and congestion. *Id.,* p. 171, ll. 4-20. These planning results are then matched with asset conditions to determine the most cost-effective intervention. *Id.,* ll. 17-20. Rebuilds can include reconductoring, capacity increases, and/or full replacement of poles and wires, as dictated by engineering analysis and System needs. *Id.,* p. 169, ll. 2-18; p. 170, ll. 11-18.

For transmission structures, designs target wind resistance up to approximately 160 mph and are selected considering soil conditions and adjacent spans to ensure structural integrity. *Id.,* p. 151, ll. 4-16. Mr. Meléndez explained that inspections identify candidate structures, engineering refines the scope, and budgets reflect engineering, materials, and construction, calibrated by ongoing execution experience and contracts currently in place. *Id.,* p. 155, ll. 4-21. Line-specific detail is provided for near-term FY2026, while later years are necessarily aggregated at the program/category level due to the large number of projects and uncertainty in schedule sequencing, funding availability, and environmental/permitting timelines, especially for transmission rebuilds. *Id.,* p. 186, ll. 4-15; p. 197, ll. 8-9, p. 189, ll. 2-21. Mr. Meléndez cautioned that forcing detailed, line-specific allocations far in advance would result in "false precision." *Id., p*. 189, ll. 24-25, p. 190, ll. 1-24.

The funding request is: $40 million for FY2026, $38 million for FY 2027, and $51 million for FY 2028. Exhibit 5.0, p. 44, Table 5. To estimate project costs, LUMA utilizes RSMeans which is a standard tool that provides details of current labor costs and prevailing wages. Transcript, 11/12, p. 149, ll. 20-25; p. 150, ll. 1-4; Exhibit 5.0, pp. 44-46, Table 6. LUMA also has information on actual project costs and contracts in place that give a pretty good idea of execution rates. Transcript, 11/12, p. 155, ll. 4-21.

LUMA's budgeting bottoms-up approach included accounting for the different stages of the FEMA process. *Id.,* p. 305, ll. 20-24. LUMA analyzed FEMA eligibility for each rebuild

element, evaluated hazard mitigation options, and optimized funding sources accordingly. *Id.,* p. 172, ll. 5-20, p. 173, ll. 2-9. Portions of the ratepayer-funded rebuild portfolio are driven by urgency where FEMA obligation timing would not align with likely failure risk, considering that transmission projects take a long time, are not easy, and sometimes cannot be done within one calendar year, including due to environmental impact. *Id.,* p. 176, ll. 2-10, 22-25, p. 177, ll. 1-2, 24-25, p. 178, ll. 1-5. LUMA analyzed synergies between non-federal capital funds and federal funds. *Id.,* p. 173, ll. 2-9, 24-25, p. 174, ll. 1-25, p. 175, ll. 7-24.

As Mr. Meléndez testified, availability of federal funds does not negate the need for non-federally funded capital because the needs of the T&D System and to stabilize the system in light of imminent failures, are greater; over $22 billion are needed which amount exceeds the funds available under the FEMA grant. *Id.*, p. 303, ll. 24-25, p. 304, ll. 1-25, p. 305, ll. 1-7.

Ratepayer funding of $10 million is needed for the transmission Line AD700 project as a priority. *Id.*, p. 249, ll. 8-13, 20-25, p. 250, ll. 1-7, 21-25, p. 251, ll. 1-4, 10-14, p. 252, ll. 5-10. Although in the provisional rate order PREB stated an expectation that federal funding is available, the project has not gone through the process and thus, LUMA cannot speculate about what FEMA would decide. *Id.*, p. 251, ll. 21-25, p. 252, l. 1.

The evidence on record supports the requested funding for the PREPA and PREB-approved federally-funded Vieques Advanced Microgrid Project to provide reliable service to the island of Vieques. *Id.,* p. 258, ll. 2-22, p. 260, ll.2-21, p. 281, ll. 11-17, Exhibit 5.0, p.17, ll. 411-12, p. 18, ll. 413-414. Furthermore, rebuild costs for Line 8700 are prudent and necessary to restore and upgrade line capacity and to address failed structures of an essential line that should be restored sooner rather than later and LUMA has determined it cannot wait for the FEMA process to

conclude. Exhibit 144.1, row 55; Transcript, 11/13, p. 18, l. 25, p. 19, ll. 1-20, p. 20, ll. 10-25, p. 21, ll. 1-25, p. 22, ll. 1-5; Exhibit 2.05, row 123.

Under the Constrained Budget, the Transmission Line Rebuild Program is reduced in scope by 30% (nearly $40 million) and LUMA would have to defer projects intended to mitigate the impacts of wildfires. Exhibit 5.0, p. 59, ll. 1152-1154. LUMA expects increased exposure related to load growth and connection of new customer loads, impacting economic development and risking failures due to thermal overloads. *Id.,* ll. p. 60, 1156-1158. Interconnections of new residential and small commercial Distributed Energy Resources and battery energy storage systems ("BESS") and critical reliability projects would be delayed. *Id.,* ll. 1158-1166.

ii. OT Telecom Systems

Telecom investments are to improve and revamp the telecom voice and data systems to improve responder and emergency response communication and greater resilience of the internal telecommunications network. Exhibit 5.0, p. 43, Table 4, p. 44, Table 5; Exhibit 5.03. Costs for telecom nodes were estimated using quotes. Exhibit 5.0, p. 45, Table 6. Design engineering and implementation costs were estimated leveraging industry and LUMA experience, and labor costs using known rates for in-house staff. *Id.* The requested funding for these critical systems is $4.0 million annually, for the rate period. Exhibit 5.0, p. 44, Table 5.

b. Distribution

i. Distribution Grid Reliability

The requested funding for Distribution Grid Reliability is: $21 million for FY2026, $23 million for FY 2027, and $26 million for FY 2028. Exhibit 5.0, p. 44, Table 5. Proposed work will strengthen grid resilience and improve service for customers. Exhibit 5.0. p. 43, Table 4; Exhibit 585; Exhibit 633; Exhibits 143, 146. Activities include installing fault current indicators ("FCIs"),

optimizing fuse coordination, circuit enhancements, improving worst-performing feeders, addressing regional reliability needs, and installing fuse cutouts for better segmentation and adding automation to reduce current impacts of system failures. Exhibit 5.0. p. 43, Table 4; Transcript 11/13, p. 43, ll. 2-13, 23-25; p. 44, ll. 1-16; p. 102, ll. 21-25; p. 103, ll. 1-13; Exhibit 144.1, rows 73-74, 151; Exhibit 146. The Program targets feeder remediation, including regional investments to balance performance improvements. Exhibits 143, 585 and 634. Reliability improvements include those related to facilities that do not meet codes, reconductoring, and transformer replacements. Transcript 11/13, p. 79, ll. 5-25, p. 80, ll. 1-25; p. 81, ll. 1-4.

Through in-depth assessments, LUMA identifies feeders that are not performing well to develop a scope of work for repairs. *Id.,* p. 47, ll. 19-25, p. 48, ll. 1-4; p. 118, ll. 14-25, p. 119, ll. 1-4, 13-25, p. 120, ll. 1-3. LUMA assesses the T&D System to better understand asset conditions, conducts power flow type analyses, and determines the work needed in a distribution feeder. *Id.,* p. 46, ll. 7-16, p. 103, ll. 15-18. LUMA conducts more detailed assessments to maximize dollars and time. *Id.*, p. 46, ll. 18-22. Based on historical information, an average cost of $210,000 per feeder was chosen as a starting point, scaling up to average costs of $500,000. Exhibit 5.0, p. 46, Table 6; Exhibit 143.

Capital Programs works with Operations to determine the work to be funded through NFC versus FEMA funding, also applying criticality criteria. Transcript 11/13, p. 50, ll. 19-25, p. 51, ll. 1-4, p. 52, ll. 4-25, p. 53, ll. 7-10. For Operations, the target is to conduct in-depth assessments of feeders on a five-cycle as per prudent utility practices. *Id.* p. 47, ll. 19-25, p. 48, ll. 1-12, p. 122, ll. 7-17.

ii. Distribution Streetlights

Requested NFC funds are to upgrade and replace distribution streetlights that pose a physical safety hazard or are scheduled for repair or replacement based on their criticality. Exhibit 5.0, p. 43, Table 4; Exhibit 5.12; Exhibit 144.1, rows 79-83. The budgetary request is $4 million in FY2026, $15 million in FY2027 and $21 million in FY2028, to comply with public policy on streetlight replacements to light emitting diode (LED) lamps, as well as with PREB orders. Exhibit 5.0, p. 44, Table 5, Transcript, 11/13, p. 123, ll. 16-25. Public safety risks, asset conditions and imminence of failure drive the need and reasonableness of these costs. Transcript, 11/13, p. 133, ll. 11-25, p. 134, ll. 1-13, p. 135, ll. 24-25, p. 136, ll. 1-14, 18-24, p. 137, ll. 1-9, p. 140, ll. 24-25, p. 141, ll. 1-3, p. 142, ll. 6-21.

The budget is based on preliminary estimates of how many luminaries LUMA will replace. Exhibit 5.0, p. 46, Table 6; Exhibit 752. Historical rates and failure rates informed by the judgment of LUMA's subject matter experts and adjusted for the realities of performing work in Puerto Rico were used. *Id.,* Transcript 11/13, p. 335, ll. 19-23, p. 336, ll. 15-25; Exhibit 750 (historical replacements). Cost increases reflect the projected number of replacements and establishment of a streetlight program managed by LUMA. Exhibit 5.0, p. 46, Table 6; Exhibit 752; Transcript, 11/13, p. 333, ll. 15-21, p. 335, ll. 4-13.

If the Constrained Budget is approved, LUMA risks non-compliance with targets outlined in Act 17-2019 regarding replacement of high-pressure sodium (HPS) lamps with LEDs. Exhibit 5.12. LUMA expects increased risks to public safety. *Id.,* Transcript 11/13, p. 124, ll. 20-25, p. 125, ll. 1-8, p. 125, ll. 14-25, p. 126, ll. 1-9. The streetlight system will require an additional four years to achieve a remediated state regarding installations of LED lights. *Id.*

c. System portfolio

i. Compliance and Studies

This Program includes costs to collect dynamic data on generation facilities and ensure accurate representation in predictive models and tools; respond to interconnection requests for cluster studies (<25 kW) and supplemental studies (>25 kW); study deteriorated, broken, or vandalized grounding risers in substations, and wildfire Mitigation. Exhibit 5.0, p. 43, Table 4. Estimates are based on industry experience, adjusted to account for the need to hire outside consultants. *Id.,* p. 45, Table 6. The budgetary NFC request is: $10 million for FY2026, $13 million for FY 2027, and $20 million for FY 2028. Exhibit 5.0, p. 44, Table 5.

During the evidentiary hearing, Mr. Meléndez testified about the need to conduct technical evaluations and studies given that DG systems inject power, meanwhile the T&D System was not originally designed for that. Transcript 11/14, p. 233, ll. 12-25, p. 234, ll. 1-9. As explained in Exhibit 141, subsections (a), (d), and (e), the budget includes costs to fund technical evaluations on entire feeders and feeder-level impacts to ensure the safe thermal, voltage and protection performance of the distribution infrastructure. Exhibits 141, Exhibit 142, subsection (b); Transcript 12/04, p. 413, ll. 5-18. These technical evaluations determine the impacts of aggregated interconnections on the safe and reliable operation of the T&D System. Exhibit 141, subsections (a) and (e) These are reasonable costs that LUMA incurs as a prudent operator. Costs incurred by LUMA during the past years, informed projections for the rate period. *Id.*

d. Enabling Portfolio

i. Asset Data Integrity

Proposed costs of $5 million annually, Exhibit 5.0, p. 44, Table 5, are to ensure the integrity of key asset data within Geographic Information System ("GIS") and Asset Suite, by identifying data requirements, determining processes and templates for storing data and updating asset data systems. Exhibit 5.0, p. 43, Table 4, page 44, Table 5; Exhibit 5.14. Costs were estimated using

historical data. Exhibit 5.0, p. 47, Table 6. GIS integrates data of all assets that are in the field, engineering-based data. Transcript 11/14, p. 242, l. 25, p. 243, ll. 1-10, p. 244, ll. 6-13. As Mr. Meléndez testified, part of the work is to collect data that can help with the connectivity model to help with deployment of the Energy Management Control System ("EMS"). *Id.*, p. 245, ll. 3-12. From an operational standpoint, GIS is the tool that helps LUMA know the System. *Id.*, p. 251, ll. 15-23. This helps from the field perspective and with planning, improves outage prediction and response, and provides a foundation for better coordination, improved data accuracy, and more informed decision-making. *Id.*, ll. 24-25, p. 252, l. 1. Exhibit 830. Investments in GIS are prudent and necessary to operate the grid to benefit customers.

6. Operations' NFC programs

a. Meter Replacement and Maintenance and Standardized Metering and Meter Shop Setup Programs

Meter Replacement and Maintenance costs focus on correction, replacement, and maintenance of non-NEM meters, new connections, and net metering meter change (ensuring two-way remote communication until Advanced Metering Infrastructure ("AMI") is fully deployed). Exhibit 6.0, p. 41, ll. 791-794; Exhibit 6.02. Proposed costs of $14.0 million for FY2026, $11.0 million for FY 2027, and $8.3 million for FY 2028, Exhibit 6.0, p. 36, Table 6, are based on historical costs plus inflation overlaid with anticipated support for the AMI Program. Exhibit 6.0, ll. 798-800. Standardized Metering and Meter Shop Setup costs are to achieve remediated state after implementing a new meter shop and purchasing minimal test equipment. *Id.*, p. 42, ll. 813-814; Exhibit 6.03. Investments will allow LUMA to ensure that equipment functions, pass meter acceptance testing, and provide clients with accurate metering results, furthering sound practices consistent in accordance with contract requirements, laws, and regulations. *Id.*, p. 42, ll. 813-819. LUMA considered historical costs on meter testers, plus inflation. *Id.*, ll. 819-820. These proposed

budgets consider a reduction over time of legacy meters while LUMA rolls outs AMI meters. Transcript 11/13, p. 188, ll. 12-20, p. 191, ll. 19-25, p. 192, ll. 1-4.

b. Critical Energy Management System

Funds for EMS upgrade are to replace an obsolete and unsupported EMS that does not afford LUMA visibility of what is happening in the System. Exhibit 6.0, p. 42, ll. 803-804, Transcript 11/13, p. 425, ll. 2-9; Exhibit 6.05. The project, that requires $2.9 million in FY2026, will establish a fully functional digital and 21st century EMS integrated to platforms such as the Outage Management System (OMS). Transcript 11/13, p. 425, ll. 6-9.

The EMS is a computer-based system that is used by operators to monitor, control and optimize the performance of the generation, transmission, and distribution system. Exhibit 6.0, p. 42, ll. 805-807. Costs estimates of projected work are based on industry experienced costs and considerations of the realities of performing work in Puerto Rico. *Id.,* ll. 807-810.

c. Aviation and Tools and Repairs

NFC costs of $23.7 million for FY2026, $10.7 million for FY 2027, and $9.6 million for FY 2028, Exhibit 6.0, p. 36, Table 6, for aviation are just and reasonable to purchase an additional helicopter to serve increased substation and line inspections and outage response activities. Exhibit 6.0, p. 44, ll. 852-853. Also, to purchase a hanger and maintenance facility to eliminate ongoing rental costs and implement assets and support for internal Drone ("UAS") program. *Id.*, ll. 854-858. Cost estimates for the helicopter and hangar are based on previous detailed estimates, adjusted to reflect the current market. *Id.*, ll. 859-861.

The Tools Repair and Management Program involves prudent and necessary investments to support field activities. *Id.*, ll. 863-865; Exhibit 6.01. LUMA considered historical costs plus

inflation and overlayed increased tooling requirements associated with a larger workforce. Exhibit 6.0, ll. 871-873.

d. Retail Wheeling ("RW")

RW is a legal and regulatory mandate to implement the energy wheeling mechanism in Puerto Rico. Exhibit 6.0, ll. 875-897; Exhibit 6.04. In an Optimal Budget scenario that require funding in the amounts of $3.1 million for FY 2026, and $15.5 annually for FYs2 027 and 2028, LUMA will (1) recruit a team to define requirements for procuring necessary equipment and services, (2) revise cost estimates, (3) solicit costs from vendors, and (4) transitioning into implementation. Exhibit 6.0, p. 36, Table 6, p. 46, ll. 898-902.

7. Estimated reliability benefits of NFC investments

The testimonies of Mr. Meléndez and LUMA's industry expert Mr. Jack Shearman ("Mr. Shearman"), support LUMA's projections on reliability improvements of planned programs under the Optimal Budget. Exhibit 5.0, p. 50, ll. 988-898, p. 51, ll. 990-1010, p. 52, ll. 1011-1022, p. 53, ll. 1023-1039, Exhibit 75. Proposed investments will mitigate the risk of large-scale regional outages and gradually improve outage frequency and duration. Benefits materialize over time as programs advance. Transcript, 11/12, p. 198, ll. 8-24.

With the proposed investments (including those that will be FEMA funded), SAIDI and SAIFI numbers should decrease to between 288 and 738 minutes and between 1.9 and 4.1 outages, respectively, within the next 10 years, meaning that the average customer could see as much as an approximate 80% decrease in hours of outages and a nearly 75% decrease in frequency of outages. Exhibit 5.0, ll. 997-1002, p. 53, Table 8; *see also* Exhibit 74.16 (illustrating minimum expected reliability improvements of certain components of the investment portfolio: Distribution Line Rebuild, Distribution Automation, Distribution Pole and Conductor Repair and Grid Reliability

programs); Exhibit 74.18, same as Exhibit 146 (Investing in Grid Automation is expected to reduce SAIDI by approximately 270 minutes and SAIFI by 1.67, while investing in Grid Reliability programs is expected to reduce SAIDI by about 40 minutes and SAIFI by 0.16.).

As the record establishes, investments in specific areas that LUMA has defined as providing the most reliability values plus project execution, will yield projected benefits over time. Transcript 11/12, p. 200, ll. 5-19; p. 204, l. 25, p. 205, ll. 1-7. Economic benefits are also expected from reduced outages. Exhibit 5.0, ll. 1002-1005.

The uncontested record, supported by the expert opinion of Mr. Shearman, establishes that LUMA's reliability methodology, that applies structured engineering judgment and is supported by historical performance, is not only reasonable, but consistent with accepted practices in emerging or data-limited environments. Exhibit 75.0, p. 7, ll. 207-209; *see also id.*, p. 75, ll. 850-852; *see also* Exhibits 74.03, 74.05, 74.06 and 74.22, 74.23 a and b, 74.24 (explaining methodology). No party challenged Mr. Shearman on his highly technical and detailed analysis that supports LUMA's reliability methodology and refutes critique by Bondholder's expert Anthony Hurely.

As Mr. Shearman proposed and substantiated in Exhibit 75.0, PREB should conclude "that Mr. Hurley's critique rests on an overreliance on idealized modeling practices developed in large, data-rich investor-owned utilities (IOUs) and fails to account for the unique constraints of Puerto Rico's electric system that preclude their use. His recommendation that PREB require LUMA to "adopt a new approach" is neither feasible nor reflective of the current operational and data context." *Id.*, p. 7, ll. 203-206, p. 10, ll. 243-247. Moreover, PREB should rely on Mr. Shearman's uncontested detailed explanation and support of LUMA's reliability methodology, explained on pages 13 through 20 of his prefiled testimony, Exhibit 75.0.

LUMA's reliability methodology, including its mathematical model and structured engineering approach, has shown observable improvements in key reliability metrics. Exhibit 74.0, p. 15, ll. 290-300; Exhibit 75.0, p. 22, ll. 430-438:

> Early performance data show some observable improvements in a number of key reliability metrics. For example, over the past 4 years, since LUMA took over T&D operations, Distribution average outage duration has declined by ~18%, from 422 to 344 minutes per outage. Human error caused CMI's have declined significantly and the average length of Vegetation caused Distribution outages has fallen by 16% from 428 minutes (i.e.~7 hours) to 358. These and other emerging results of LUMA's efforts to improve reliability look promising, although still modest overall, due to the limited amount of capital that has been available.

Exhibit 75.0, p. 22, ll.432-438; Exhibit 74.0, p. 15, ll. 293-300. Those results support LUMA's projections on expected reliability improvements of proposed NFC investments, as well as the need and reasonableness of the NFC investments that Mr. Meléndez and Mr. Burgermeister sponsor. As Mr. Shearman established:

> where LUMA has been able to make investments, there has been reliability improvement[.] . . .
>
> The results produced by … early efforts are in line with what I would expect from such investments based on insights from numerous reliability enhancement projects I have delivered to more than 50 utilities over the past 25 years. And while data gaps still constrain LUMA from being more precise in their estimates of reliability improvement that should be expected from each investment, **the Model they use appears to be effective at prioritizing the right Reliability Improvement strategies or programs.** And the fact that the first of these strategies, Distribution Automation, is delivering value and concrete reliability benefits, is encouraging evidence that the strategies LUMA has developed, and the improvement programs that LUMA has built the LTIP around, will work in Puerto Rico in much the same way they work in utility distribution systems the world over.

Exhibit 75.0, p. 23, ll. 446-447, 458-464, p. 24, ll. 465-467 (emphasis added).

8. Executability

a. LUMA's NFC Project Plans Are Executable.

The NFC projects for which LUMA seeks funds in this rate proceeding are fully executable if PREB provides adequate funding and PREPA timely transfers the funds to LUMA as required

by the T&D OMA. LUMA's NFC executability challenges stem from a lack of *money*, not manpower, equipment, or shovel-ready projects. As LUMA's CFO, Andrew Smith ("Mr. Smith"), explained,

> [O]ur single biggest obstacle to performing work today is money. . . . It's not boots on the ground. It's not it's not a list of, [we've] got lots of projects to do. We got lots of people to do them. We need money. That is . . . the straw that stirs the drink.

Transcript 12/18 p. 404, ll. 2-8. As even the Bondholders' expert concedes, LUMA has consistently executed its NFC project goals. *See* Exhibit 51.0 p. 44, ll. 2-4. And as Mr. Meléndez explained

> In reviewing LUMA's performance on NFC projects, LUMA has demonstrated effective execution in "consistently utilizing the entirety of its budgeted non-federally funded capital expenditures each year." (quoting Hurley at Q 37). This demonstrates that when unencumbered by the processes and uncertainties endemic to federally funded work, LUMA has the project management practices in place to meet investment plans.

Exhibit 74.0, p. 24, ll. 474-477. The NFC requests in both the Optimal and Constrained Budgets for the rate case period do represent an increase of between 2.7x (Constrained) and 4.4x (Optimal) from prior budgets and will require an accompanying ramp-up in execution. As Mr. Meléndez and LUMA's outside industry expert, Mr. Jack Shearman ("Mr. Shearman") both testified, LUMA has a plan in place to execute NFC projects. Among other things, LUMA has a list of shovel-ready projects, and has put in place an extensive network of Master Services Agreements with more than a dozen architecture, engineering, and construction firms using standardized terms, authorized maximum funding, and targeted work scopes to enable rapid deployment. Exhibit 74, p. 26; Exhibit 75.0, p. 63. LUMA has also procured key long lead items and worked diligently for the past several years to increase the number of qualified lineworkers on the island. Exhibit 74.0, p. 26, ll. 515-520; Exhibit 74.0, p. 52, ll. 1071-1089. As Mr. Meléndez explained, any skills gap in LUMA line personnel can be remedied by employing contractors and, if absolutely necessary, secondees. *Id.*, p. 52, ll. 1085-1089.

Ramp-ups in capital project spend of similar magnitude are common and well precedented in the industry. Mr. Meléndez provided two such examples in which he was personally involved. At Jacksonville Electric, Mr. Meléndez managed a multi-year capital project of over $10 billion. During the first 18 months of the plan, he doubled annual capital spending (from $400 million to $800) and then doubled it *again* during the subsequent 18 months—a ramp-up of $400 million to $1.6 billion annually in three years. Exhibit 74.o, p. 46, ll. 940-946. At ITC Holdings, Mr. Meléndez oversaw growth in annual capital projects from $80 to $800 million, a tenfold increase, with most of the growth occurring during four years. *Id.*, p. 46, ll. 947-952. Further, Mr. Shearman, who brings more than 40 years of experience advising major utilities on six continents, provided numerous additional examples from industry of similar ramp-ups. Exhibit 75.0, p. 68, ll. 702-726; Exhibit 75.16 (chart showing trends in utility T&D capital spending).

LUMA has also had the benefit of several years of experience operating the T&D System, thus understanding the System's needs as well as challenges of implementation. Further, as Mr. Shearman testified, based on his long experience, the ramp-up challenge LUMA faces here is actually less formidable in light of the historically low NFC expenditure. Transcript 11/17, p. 511, ll. 4-25, p. 512, ll. 1-25, p. 512, l. 1. As he explained, "you should find it easier to ramp from such a low level than other companies that were already spending a lot of money and tried to ramp, as in the case of PSE&G in New Jersey." *Id.*, p. 512, ll. 22-25, p. 513, l. 1. And that makes sense. To quadruple a $400 million capital budget in three years like Mr. Meléndez did in Florida is naturally far more challenging than quadrupling the much more modest historical NFC budget here. Mr. Shearman's detailed analysis shows that LUMA has set in place industry best practices and that its readiness today mirrors the steps taken and lessons learned by other utilities that have successfully scaled their capital spending. Exhibit 75.0, pp. 61-65 (providing detailed analysis regarding

industry best practices, historical example of NFC ramp-up, and LUMA's preparations). As Shearman summarized,

> [I]n my professional opinion, LUMA's approach to capital program and portfolio management is consistent with best industry practices and I have high confidence in their ability to support the significant ramp rate in planned annual NFC spending over the next 3 years.

Id. p. 66, Q. 69. While LUMA faces competition for both equipment and talent like every other utility, there has been no evidence submitted by any witness in this proceeding that such competition presents an insurmountable hurdle to execution.

Further, it bears repeating that we have no choice but to ramp up and do it now. The *status quo* is not tenable. *It has never been tenable*. "PREPA has starved the system, the T&D system, for many years." Transcript 11/17, p. 499, ll. 2-4. The System is in desperate need of the projects that will be funded by this capital. Historical NFC spending rates in Puerto Rico have been woefully inadequate, averaging a mere $75.00 to $78.00 per customer per year, less than 13% of the $558.00 cutoff line for the *bottom 25%* of its North American peers. *Id.*, p. 499, ll. 4-13; Exhibit 75.16. In other words, three quarters of utilities spend *more* than $558.00 per customer per year in NFC—and those utilities aren't facing the decades of underinvestment that plague the system here. *Id.*

For Puerto Rico to have a reliable and resilient grid, NFC spending must be ramped up to the level requested in the Optimal Budget immediately and funded at least at that level, adjusted for inflation, ***forever***. Transcript 11/17, p. 108, ll. 16-17. The consequence of failing to fund NFC adequately will be the continued degradation of the System at four to five percent per year. *Id.*, p. 97, ll. 11-19. As Mr. Burgermeister explained, the past four years' level of NFC spend was "putting a band-aid on a fatal wound. We're trying to stop the bleeding, but what we need is, we need to start replacing, we need to start investing in the system." *Id.*, p. 98, ll. 8-11. Only full funding and

execution on the Optimal Budget will arrest degradation. Funding and execution of the Constrained Budget might at least arrest degradation on major transmission lines, but the distribution will continue to fall apart. *Id.*, p. 98, ll.13-18, 22-25, p. 99, ll. 1-4, p. 103, ll. 2-11.

i. Bondholders' Focus on the Executability of Federally Funded Projects in the Context of Needed NFC Capital is a Distraction.

Federal funds are not a substitute for NFC. It is a mistake—and a risky one—to conflate the two. The system needs to be able to stand on its own two feet now and in perpetuity regardless of federal funding. As Mr. Shearman recommended in response to Commissioner Torres's questions, PREB should "[r]esist the temptation to use FEMA funds to offset those NFC funds . . . ." Transcript 11/17, p. 499, ll. 19-21. Federal funds are meant to repair storm damage and "accelerate the repair and rebuilding of the system," not to artificially suppress rates below the real cost of adequately maintaining the system over time. *Id.*, p. 516, ll. 9-15. Similarly, as PREB Consultant Guímel Cortes explained,

> Federal and non-federal capital reinforce each other but serve different purposes. FEMA cannot fund ongoing maintenance like vegetation management after initial clearing, nor can it fund capital expenditures unrelated to federally declared disasters. Without sufficient non-federal capital to maintain FEMA-funded improvements, the electric system will deteriorate and Puerto Rico risks losing access to future federal funding, since damage from deferred maintenance is ineligible for FEMA reimbursement.

Exhibit 65.0, p. 10.

Thus, the criticisms from the Bondholders' experts, which rely on conflating historical execution of federally funded projects with NFC projects, should be given little weight. As noted above, there is no dispute that LUMA has historically executed on 100% of NFC. Historical execution on federally funded projects has been lower due to a laundry list of issues outside of LUMA's control, which will be detailed in the federal funds section below. But for the purpose of

this section, it suffices to note that many of the problems stem from lack of access to ready capital, which can be remedied in part by funding the system adequately. As Mr. Meléndez explained:

> Given the absence of sufficient working capital caused primarily by the failure of PREPA to fund at least 4.5 months of expected federally funded capital investments every month in compliance with the T&D OMA, LUMA is constrained in its ability to execute as planned on long-term projects.

Exhibit 74.0, p. 19, ll. 386-389. The WCA process, while helpful, is inefficient and causes delays of more than 100 days between each 25% funding tranche. *Id.*, p. 20, ll. 397-404.

ii. "Overcollection" is a misnomer in this context given the dire state of the grid.

Finally, the risks of underfunding NFC—accelerated grid degradation, potential catastrophic collapse, inability to promptly buy long-lead items with the consequent delay implementing federal projects, excessively prolonged timeline to achieve reliability/resiliency improvements, degradation of recently installed assets due to lack of maintenance, inability to procure and maintain reserve equipment to quickly repair normal and storm-related outages, having to address unplanned failures instead of working on system upgrades, etc.—grossly outweigh the consequence of what has been termed "overcollection." As explained above, ratepayers have been underpaying for T&D NFC for decades. The System needs more than $21 billion (in 2024 dollars and before considering recent tariffs) of capital work just to achieve mainland-levels of reliability, far more than is available with federal funds. Exhibit 74.0, ll. 410-21. As Mr. Meléndez testified, the whole notion of "overcollection" of NFC here makes no sense "as the NFC budgets are developed to address activities that do not qualify for federal funding, and to the extent that the recategorization to federal funding does occur, these dollars will then be freed up and immediately deployed to address any corrective maintenance backlogs, restore out-of-commission equipment, or if urgency requires, support other in-flight capital programs." Exhibit 74.0, p. 48, ll. 992-997. Rather, "what is incorrectly characterized as 'over-collection' is in

fact designed to remain a prudent use of available capital to reduce service restoration times / address emergency repairs with appropriate controls and administrative processes in place to advance customer's service." Exhibit 74.12, p. 2. LUMA will execute if PREB gives it the tools to do its job.

B. Health, Safety, Quality, and Environment (HSEQ) and Waste Management

LUMA's Health, Safety, and Environmental Quality Department ("HSEQ") has an undeniably critical role within LUMA and Puerto Rico as a whole: ensuring the health and safety of the public, LUMA's employees, and LUMA's contractors related to the electrical grid. Exhibit 8.0, p. 3, ll. 57-58. LUMA operates a transmission network of over 2,500 miles, inherent to which are countless hazards both to humans and to the environment. It is HSEQ's role to prepare for and address these hazards through training, mitigation, and awareness.[5] *Id.*, p. 3, ll. 62-68, p. 4, ll. 85-92, p. 5, ll. 93-102, p. 12, ll. 236-243, p. 13, ll. 244-246. LUMA strives for complete safety for all persons—even one injury is too many—as well as a compliant and safe physical environment. *Id.,* p. 3, ll. 58-60. Funding is needed to ensure the safety of the public and those working for LUMA.

HSEQ seeks a modest $3.85 million increase on its FY2025 budget for FY2026 to facilitate necessary training for its employees and the public, support environmental reviews necessary for overall operations and permitting capital projects, and ensure a safe and compliant physical environment. *Id.,* p. 7, ll. 140-142, p. 8, Table 1; Transcript 11/14, p. 275, ll. 1-20. Over a three-year period, HSEQ seeks only $11.42 million in FY2026, $11.49 million in FY2027, and $11.68 million in FY2028. Exhibit 8.0, p. 8, Table 1.

[5] HSEQ facilitates training programs for its employees and the public at large. *See* Exhibit 8.0, p. 4, l. 91, p. 5, l. 93. HSEQ has also installed numerous policies and procedures for hazard identification and management. *Id.,* p. 3, ll. 60-62.

The largest component of HSEQ's Optimal Budgets is staffing. *Id.*, Table 1,p.8, l. 156, p. 9, ll. 157-179, p. 10, ll. 180-199, p. 11, ll. 200-219, p. 12, ll. 220-235. Over FY2026 and FY2027, HSEQ needs to hire 15 additional safety personnel to enhance oversight of employee and contractor safety, which will reduce the risk of injuries, lower liability, prevent project delays, and strengthen compliance with OSHA. *Id.*, p. 10, ll. 180-186. These hires are also necessary to keep pace with the overall increase in LUMA personnel and projects. *Id.,* ll. 191-192. Mr. Michael Granata (LUMA's Senior Vice President, Safety, Security, and Emergency Response) explained in his prefiled testimony that the industry benchmark is to have one safety advisor for 100-150 employees. *Id.*, p. 11, ll. 209-212. LUMA currently has one technical trainer for over 1,500 field employees and one safety trainer for every 1,000 employees. *Id.*, p. 10, ll. 192-194.

The lack of safety advisors has significantly limited HSEQ's implementation of its safety and awareness programs, creating a substantial risk for both LUMA employees and the public. As Mr. Granata stated at the hearing:

> [I]n the past we have experienced a number of serious accidents in LUMA. And a substantial number of those accidents were in the electrical safety fundamental utility electrical safety category…. [W]e need to continue to reinforce basic technical electrical safety and high-risk safety procedural training…. [A]dditional funds [are needed] so that we can continue to be aggressive in addressing and reinforcing these core technical skill sets in our workforce.

Transcript 11/14, p. 269, ll.14-25, p. 270, ll. 1-6.

Without the requested funds, HSEQ will not have the resources to promptly train new employees, delaying their ability to work on the T&D System. Exhibit 8.0, p. 13, ll. 248-251. This increases the risk of workplace accidents and significant disruption to the T&D System. *Id.*, ll. 255-258.

After their initial training, all employees require ongoing safety briefings and trainings. As Mr. Granata explained, there is a critical need for ongoing training that is only possible with the funding called for the Optimal Budget:

> And this goes back to the earlier questions about the program brief, why investing in training for our employees is so important. People are going to get the skill sets that they need. And over time, their bad habits are going to come back in. And so we always have to be pushing hard to reinforce and renew those habits.

Transcript 11/14, p. 302, ll. 24-25, p. 303, ll. 1-2.

The Lone Worker, Switching Course, Lineman Excellence, and Safety at Heights training programs will be provided to 1,500 current field personnel and 1,000 new personnel, requiring specialized expertise and the retention of additional safety employees. Exhibit 8.00, p. 12, ll. 237-243, p. 13, ll. 244-246.[6]

Constrained by limited funding, HSEQ's programs have reached only 1% of Puerto Rico's population. *Id.*, p. 12, ll. 226-228. Additional funding is needed to ensure the safety of all of Puerto Rico's citizens and five additional safety personnel will help LUMA communicate critical information to the public. *Id.,* ll. 231-235.

HSEQ's request for a modest $3.85 million increase on its FY2025 budget for FY2026 will cover these safety trainings and protocols for employees, contractors, and the public by allowing for the retention of necessary safety employees and implementation of training programs. This money will prevent injuries and save lives. Transcript 11/14, p. 328, ll. 17-25, p. 329, ll. 1-6. It will also help address HSEQ's environmental responsibilities, including providing funding for the Waste Management Program activities, without which LUMA is at significant risk of penalties,

[6] Costs for these programs falls under the Miscellaneous category in the Optimal Budget, rather than the Staffing category. *See* LUMA Ex. 8.00 (Table 1).

legal costs, remediation costs, and reputational harm. Exhibit 8.0, p. 4, ll. 69-83, p. 5, ll. 96-102, p. 13, l. 266, p. 14, ll. 267-279.

C. Finance

As explained in the testimony of Mr. Andrew Smith, Chief Financial Officer ("Mr. Smith"), LUMA's Finance Department oversees day-to-day financial management for the enterprise, covering accounting, treasury bank account and cash management, payment processing, payroll, risk management and insurance, financial planning and analysis, finance business partnering, tax, federal reimbursements, finance transformation, and internal audit, whilst ensuring that base rate revenues are effectively managed to support operational excellence for customers. Exhibit 2.0, p. 51, ll. 1035-1048. The Department is organized into functional areas mapped to specific cost centers, *Id.*, p. 58, ll. 1191-1192, and is requesting a budget of $63.10 million (O&M $46.90 million; NFC $16.20 million) for FY2025; $62.67 million (O&M $48.60 million; NFC $14.07 million) for FY2026; and $94.45 million (O&M $51.05 million; NFC $43.40 million), for FY2026. *Id.*, p. 65, l. 1339, Table 5.

The record demonstrates an understaffed Finance Department with both a quantitative and qualitative increase in workload due to inherited gaps in critical financial systems and controls, persistent non-standardized and manual processes, and outdated or inadequate software, compounded by demands from multiple oversight bodies and shared-services obligations and transitions with PREPA and Genera, alongside the complexity and scale of federally reimbursed projects. *Id.*, p. 54, ll. 1099-1104, p. 56, ll. 1164-1167, p. 57, ll. 1168-1178. Consistent with this need, the evidence shows Finance must execute a multi-year modernization. The Optimal Budget included staffing costs to mitigate manual-workload risks and meet regulatory and federal requirements, technical and professional services tied largely to the Oracle Enterprise Resource Planning ("ERP") project, and the Critical Financial Systems program to ensure reliable, timely

financial information and compliance. *See id.*, p. 64, ll. 1329-1338, p. 65, ll. 1339-1354, p. 66, ll. 1355-1364, p. 67, ll. 1365-1385, p. 68, ll. 1386-1408, p. 69, ll. 1409-1431, p. 70, ll. 1432-1454, p. 71, ll. 1455-1475, p. 72, ll. 1476-1498, p. 73, ll. 1499-1520, p. 74, ll. 1521-1543, p. 75, ll. 1544-1566, p. 76, ll. 1567-1589, p. 77, ll. 1590-1611, p. 78, ll. 1612-1634, p. 79, ll. 1635-1647.

Mr. Andrew Smith's prefiled testimony explains the Finance Department's functions and the mapping of those functions to cost centers,[7] showing where budgeted dollars will be deployed. *Id.*, p. 58, l. 1192, Table 5. The testimony details current-state deficiencies inherited from PREPA-non-standardized processes, outdated or inadequate software, and disconnected systems that force manual intermediaries-driving labor-intensive operations and elevated risk of error. Exhibit 2.0, p. 52, ll. 1067-1069, p. 53, 1090-1092. Mr. Smith describes manual management of bank accounts, cash reporting, and accruals for approximately $30 million of monthly invoices, and the absence of a risk management information system-conditions that increase workload and risk. *Id.* p. 53, ll. 1089-1097. The result is an understaffed Department whose processes require extensive review to mitigate human error, with consequences for audit response, regulatory compliance, decision support, federal reimbursement, and fraud/error risks. *Id.*, p. 54, ll. 1099-1121, p. 55, l. 1022.

As stated in Mr. Smith's testimony, staffing costs cover wages, salaries, and benefits for 150 existing employees and add 34 new FTEs in FY2026 across FEMA reimbursements/compliance, finance business partners, financial planning and reporting, finance transformation, general accounting, plant and project accounting, and risk management, with inflation adjustments for FY2027-FY2028. *Id.*, p. 65, ll. 1341-1350. The Department's headcount

[7] The Finance Department comprises the CFO Office; Controller's Office (AP and Accounting Services, General Accounting, LUMA Accounting); Financial Planning and Analysis (FP&A), including Finance Business Partners, Plant and Project Accounting, and Treasury; Risk Management; Federal Reimbursements (Finance Operations, FEMA Compliance); Finance Transformation; and Internal Audit. Exhibit 2.0, p. 57, ll. 1180-1184.

rises to 184 in FY2026, 193 in FY2027, and 198 in FY2028. *Id.*, p. 66, l. 1364. These additions target risk areas in controls, processes, systems, and best practices, and support LUMA's capital plan and federal reimbursement execution. *Id.*, p. 65, ll. 1350-1354, p. 66, ll. 1355-1359.

During the December 4th evidentiary hearing, Mr. Smith confirmed the staffing and acknowledged that the Finance headcount had decreased to approximately 139 following layoffs, with core functions continuing but at a higher risk profile due to manual processes and non-integrated systems. Transcript, 12/4, p. 12, l. 25, p. 13, ll. 1-22, p. 42, ll. 4-25, p. 43, ll. 1-25; p. 44, ll. 1-2. He further testified that not approving headcount increases raises risk in financial controls and compliance-even if not quantified, because manual processes heighten error exposure, and explained that the headcount proposal relied on managers' workload assessments and his experience leading finance organizations. *Id.* p. 42, ll. 4-25, p. 43, ll. 1-25, p. 44, ll. 1-2.

Mr. Smith also clarified that approximately six federal-reimbursement roles are 90% FEMA reimbursed and that the 90% is not included in Finance O&M, *Id.*, p. 186, ll. 6-15, which is relevant in assessing the O&M impact of those hires. Mr. Smith testified that professional services spending will ease as LUMA transitions out of the three-year period and internal staffing grows and modernization completes, aligning with the plan to replace consultants with internal resources for steady operations. Exhibit 2.0, p. 75, ll. 1550-1551; Transcript 12/4, p. 188, ll. 7-18. The record also describes the creation of Finance Business Partners to embed financial expertise across LUMA's departments to close historic gaps in project management and performance translation, a functional need tied to requested staffing. Exhibit 2.0, p. 68, ll. 1407-1408, p. 69, ll.1409-1416; Transcript 12/03, p. 250, ll. 9-25, p. 251, ll. 1-25, p. 252, ll. 1-5.

With regards to technical and professional services, Finance requests to fund process mapping, assessments, software development within finance transformation, expert support for

financial reporting and analysis, and staff augmentation until internal capacity is built. Exhibit 2.0, p. 74, ll. 1541-1543, p. 75, l. 1544. The primary driver of the increase from FY2025 to FY2026 is the Oracle ERP project, *id.*, ll. 1544-1545, whilst the plan focuses from 2027 onward on replacing consultants with internal labor for day-to-day operations, though some external expertise will remain necessary for activities such as rate review. *Id.*, ll. 1550-1552.

On December 4th, opposing counsel questioned growth in technical/professional services despite plans to internalize work. In response, Mr. Smith testified that approximately 90% of the Finance department's FY2026 technical and professional services Optimal Budget is devoted to the ERP project, because the current Oracle EBS is not functioning as an integrated ERP, lacks cross-company integration, and has an end-life in 2032. Transcript, 12/4, p. 190, ll. 6-13, 21-25; p. 191, ll. 1-3, p. 192, ll. 12-16. He described a prudent and efficient implementation path: first mapping and improving processes, then selecting and implementing technology, with a roughly 36-month horizon covering process mapping in FY2026 and implementation in FY2027-FY2028. *Id.*, p. 193, ll. 1-17. He projected that once modernization work is completed, outsourced technical/professional spend should decline around 2029 as internal capacity replaces consultants for steady-state operations. *Id.*, p. 188, ll. 15-25; *see also* Exhibit. 2.0, p. 75, ll. 1562-1566, p. 76, ll. 1567-1589, p. 77, ll. 1590-1594. The pre-filed testimony ties these investments to the prudence of ensuring long-term supportability, accurate and timely financial data, and the capability to meet regulatory and federal requirements. *Id*.

Finally, the Critical Financial Systems program funds optimization of technology supporting critical financial data for regulatory, FEMA, and audit requirements, relying on specialized outside expertise *Id.,* p. 77, ll. 1600-1604. This program's projected NFC budget increase from FY2025 to FY2026 is attributable to the ERP Oracle replacement, as described

above. *Id.,* l. 1611. NFC costs decrease from FY2026 to FY2027 because the grant management and procure-to-pay systems are expected to be largely completed in FY2026, before rising again in FY2028 as the Oracle ERP replacement ramps-up. *Id.*, p. 78, ll. 1614-1619.

In his pre-filed testimony, Mr. Smith describes the risks of the Constrained Budget, which defers ERP implementation and automation, leaving manual processes in place, with continued risks to financial reporting timeliness and accuracy, and a continued reliance on manual cash management controls. *Id.*, p. 80, ll. 1662-1672, p. 81, ll. 1673-1674. Without ERP modernization, LUMA would remain on an older, expensive-to-maintain system lacking modern functionality, increasing long-term cost and operational risk. *Id.,* p. 80, ll. 1669-1672, p. 81, ll. 1673-1674. Critically, Mr. Smith's testified that without needed enhancements, future reporting requested by PREB, including enabling FERC USoA adoption, would be deferred to FY2028, jeopardizing readiness for the next rate review. *Id.,* ll. 1657-1661.

In sum, the record establishes that LUMA's Finance Department operates under non-standardized, manual, and outdated conditions inherited from PREPA, with material implications for audit readiness, regulatory compliance, federal reimbursement, and decision support. Approval of anything less than the proposed Optimal Budget would entail deferral of ERP implementation and automation, perpetuating manual controls and delaying enhancements necessary for future FERC USoA reporting-outcomes inconsistent with prudent financial management and the PREB'S objectives for accurate, timely, and reliable information. LUMA requests that PREB approve the Optimal Budget for FY2026-FY2028 as set forth in Exhibit 2.0, including staffing increases, ERP transition and replacement, and funding for the Critical Financial Systems.

D. Corporate Services and Internal Audit

In Section VIII of Mr. Smith's prefiled testimony, LUMA identifies "Other Costs" that are not otherwise addressed in other witnesses' testimonies but are nonetheless forecast in the test

period revenue requirement. These include a distinct cost center titled "Corp Services, Chief Corporate Service Officer" and the Internal Audit department. Exhibit 2.0, p. 89, ll. 1859-1860, p. 90, ll. 1861-1862.

For the Chief Corporate Services Officer ("CCSO") cost center, LUMA is requesting approximately $0.75 million, $0.68 million and $0.71 million in O&M funds under the Optimal scenario for FY2026 through FY2028, respectively. *Id.,* Table 8, p. 90, ll. 1864-1865. Mr. Smith explained that the budget provides for a future Chief Corporate Services Officer following the prior incumbent's resignation, and that "Corporate Services" encompasses Corporate Security, Emergency Preparedness, Corporate Communications, Health, Safety & Environment, and Facilities. In the interim, two employees in the cost center support these subdepartments and report to the Chief People Officer until the CCSO role is filled. *Id.*, p. 90, ll. 1869-1872, p. 91, ll. 1873-1882. Materials and supplies cover routine office needs, while miscellaneous expenses reflect infrequent departmental costs with inflation applied to out-years. *Id.*, p. 91, ll. 1886-1889, p. 92, l. 1890.

Regarding the Internal Audit Department,[8] LUMA is seeking an Optimal Budget with total O&M of approximately $1.22 million in FY2026, $1.64 million in FY2027, and $2.00 million in FY2028, primarily driven by staffing additions from five current auditors to nine in FY2026, thirteen in FY2027, and sixteen in FY2028 to address medium/high-risk audits, support external audit, and undertake operational audits. *Id.,* p. 90, Table 9, ll. 1866-1867, p. 91, Table 10, l. 1884. Miscellaneous expenses for Internal Audit are largely training to maintain professional credentials

[8] Per Mr. Smith's testimony, LUMA's Internal Audit function plans, executes, and reports on operational, financial, and regulatory compliance audits; updates risk assessments and audit programs to address emerging risks; and monitors management's remediation of findings, with a primary focus on safeguarding PREPA-owned assets for the benefit of ratepayers, all consistent with Annex I(VI)(D)(2) of the T&D OMA and Act 17-2019. Exhibit 2.0, p. 60, ll. 1254-1289.

and keep pace with evolving standards, along with reimbursed professional fees. *Id.*, p. 92, ll. 1892-1896. Technical and professional services are driven by IT licenses for the Workiva audit platform. *Id.*, ll. 1898-1900.[9]

Mr. Smith testified that inclusion of these costs in the revenue requirement is warranted to restore the CCSO function needed to align approximately 300 Corporate Services employees under coherent leadership, reduce direct reports to the CEO, and ensure efficient operations; and that adequately funding Internal Audit – also a T&D OMA requirement – advances financial oversight, proper use of ratepayer funds, regulatory compliance, and operational improvements that foster customer confidence and transparency. *Id.*, p. 93, ll. 1914-1925, p. 94, ll. 1926-1931.

E. Procurement and Materials

Procurement and Supply Chain recommends that PREB approve its proposed Optimal Budget of $16.87 million for FY2026, $16.19 million for FY2027, and $16.70 million for FY2028, consisting of O&M and NFC costs sized to (1) increase procurement staffing and managerial oversight; (2) fund workforce augmentation where local hiring markets are thin and compliance complexity is high; and (3) invest in materials management remediation, including barcoding, oil containment structures, racking and material handling equipment replacement, and Asset Suite optimization, all of which mitigate safety, environmental, and outage-duration risks. Exhibit 15.0, p. 13, ll. 257-262, p. 21, ll. 446-448, p. 22, ll. 449-457, p. 23, ll. 477-486, p. 24, ll. 504-509. p. 25, ll. 522-539, p. 27, ll. 580-591, and p. 28, ll. 592-593. The proposed costs are just, reasonable, and necessary to meet statutory, contractual, and regulatory obligations and to sustain safe, reliable, and efficient system operations in Puerto Rico.

[9] Constrained Budgets were also provided for both CCSO and Internal Audit (Tables 11 and 12), and that for CCSO the constrained figures exceed the optimal due to the application of inflation to FY2026 numbers in FY2027-FY2028. Exhibit 2.0,p. 92-93, ll. 1903-1911.

The functions of Procurement and Supply Chain are mandated by the T&DOMA since it requires LUMA, as PREPA's agent, to conduct procurement consistent with an approved procurement manual; to use that manual for both federally funded capital improvements and O&M services; and to comply with audit and oversight rights of PREPA, P3A, the Central Office for Recovery, Reconstruction and Resiliency ("COR3"), FEMA, and the Energy Bureau. *Id.*, p. 5, ll. 92-101. These obligations shape staffing, process, and documentation requirements and necessitate robust controls, training, and systems. *Id*., p. 4, ll. 88-91. LUMA's Procurement Manual—approved by P3A and COR3—governs competitive and noncompetitive methods, solicitation, evaluation, documentation, conflicts, emergency procurements, and oversight, and imposes affirmative steps for small/minority/women-owned and labor surplus firms. *See* Exhibit 15.02. Compliance with this manual is mandatory for all applicable procurement activities, both federally and non-federally funded. *Id.*, p. 4, ll. 74-80.

Ms. Mariana Pérez, Vice President, Procurement and Contracts for LUMA ("Mr. Pérez"), presented a pre-filed direct testimony sponsoring the Procurement and Supply Chain's optimal and constrained O&M and NFC budgets, together with a program brief for Materials Management. Exhibits 15.0-15.03. Ms. Pérez explained that LUMA consolidated procurement and materials management into a single end-to-end department responsible for sourcing, solicitation, evaluation, contracting, vendor onboarding, compliance, inventory, warehousing, transportation, and logistics to support planned and/or unplanned work and emergency restoration. Exhibit 15.0, p. 3, ll. 65-77, 81-84. This integrated structure is necessary to execute T&D OMA obligations and to deliver materials and services effectively across federally and non-federally funded activities. *Id.,* ll. 84-86.

As Ms. Pérez explained, procurement cycle times are prolonged by a heavy compliance regimen and understaffing, resulting in a substantial backlog that delays critical projects and material deliveries. Exhibit 15.0, p. 21, ll. 447-448, p. 22, ll. 449-457, p. 23, ll. 488-496, and p. 24, ll. 497-502. Additional hires, especially managers, are essential to reduce cycle times, increase throughput, and improve training. *Id*., p. 23, ll. 478-486. Technical and/or professional services are necessary to augment capacity, given the steep learning curve and limited pool of experienced local candidates. *Id.*, p. 24, ll. 504-509 and p. 25, ll. 524-532.

Proposed investments enable and support the timely execution of federally funded work across the company by improving tools and/or spares access, warehouse operations, and response readiness. Transcript, 11/14, p. 262, ll. 7-25; p. 263, ll. 1-23, p. 264, ll. 23-25, p. 265, ll. 1-9; Exhibit 15.0, p. 31, ll. 663-667.

The Materials Management program brief evidences active remediation efforts, including environmental safeguards (oil containment), inventory control and barcoding, warehouse safety (racking and handling equipment), covered storage, and logistics tools and GPS, with milestones targeting a remediated state by the end of FY2028. Exhibit 15.03. Ms. Pérez identified specific activities at risk under a constrained budget, including deferrals of barcoding, oil-handling training, and/or mobile app, and Asset Suite reconfiguration, which would delay the program by two years and increase environmental, safety, and federal reimbursement risks. Exhibit 15.0, p. 31, ll. 653-660; Exhibit 15.03; Transcript, 11/14, p. 259, ll. 12-18. NFC investments in barcoding, oil containment, racking and handling equipment, and Asset Suite optimization directly mitigate safety and environmental risks and enhance outage response and the defensibility of federal funding. Exhibit 15.0, p. 28, ll. 594-599; Transcript, 11/14, p. 264, ll. 23-25, p. 265, ll. 1-9.

Cost variances across years reflect one-time investments such as barcoding and oil containment in FY2026, followed by warehouse equipment initiatives (e.g., respooling machines, racks, loaders) in later years, a profile consistent with prudent staging of remediation and modernization workstreams. Transcript, 11/14, p. 284, ll. 9-16. Ms. Pérez also explained that if only the constrained budget were approved, deferrals would particularly hit barcoding and oil containment, impairing inventory accuracy, environmental compliance, and timely emergency response. *Id*., p. 255, ll. 13-25, and p. 256, ll. 1-2. PREB consultant's questioning corroborated the operational value of barcoding, as it reduces outage duration by improving material location and dispatch, thereby reinforcing the prudence of the requested NFC investments in materials management. *Id*., p. 231, ll. 23-25, and p. 232, ll. 1 and 5-22.

Ms. Pérez's testimony and the Materials Management program brief demonstrate that these investments are foundational to safe, compliant warehouse operations and to enabling federally funded work streams, including environmental protection (oil containment), inventory integrity (barcoding and/or Asset Suite), and safety upgrades (racking and/or material handling). Exhibit 15.0, p. 27, ll. 580-591 and p. 28, ll. 592-593. Deferrals increase risks of environmental noncompliance, safety incidents, and reduced ability to substantiate federal reimbursements, and prolong outage durations, all contrary to prudent utility practice. Exhibit 15.0, p. 28, ll. 594-599, p. 29, ll. 623-630, and p. 31, ll. 662-667; Transcript, 11/14, p. 264, ll. 23-25, p. 265, ll. 1-9.

The record shows that Procurement and Supply Chain's Optimal Budget proposal is grounded in an integrated procurement and materials management framework approved by public authorities, aligned with the T&DOMA, and calibrated to mitigate operational, environmental, and customer risks arising from staffing constraints, compliance complexity, and inventory and/or logistics deficiencies. The record ties each cost category to concrete, enforceable obligations and

operational necessities. Staffing and managerial increases address cycle-time reductions, backlog relief, and compliance throughput within a documented, training-intensive environment. Exhibit 15.0, p. 21, ll. 446-448, p. 22, ll. 449-457. Consultant support is a near-term bridge given the expertise shortage and steep learning curve under federal and local compliance rules, consistent with prudent augmentation. *Id*., p. 25, ll. 522-539.

Further, LUMA's Procurement Manual provides comprehensive requirements for competition, documentation, evaluation, conflict management, and oversight, supporting the reasonableness of process-related costs and time, and explaining the need for specialized staff and systems. Exhibit 15.02.

The record shows that underfunding Procurement and Supply Chain prolongs cycle times, degrades project throughput, delays long-lead materials, and increases outage frequency and duration due to a lack of timely materials and qualified vendors—outcomes that harm customers. Exhibit 15.0, p. 28, ll. 609-615, p. 29, ll. 616-630. Conversely, investments in barcoding and materials management reduce time-to-restore by speeding up the location and dispatch of critical materials. *Id.*, p. 27, ll. 580-583, 589-591, p. 28, ll. 592-593. Environmental and safety investments reduce spill risks and injuries at warehouses, protecting workers and the public and avoiding liabilities. *Id.*, p. 28, ll. 58-589.

PREB should approve the Procurement and Supply Chain's Optimal Budget. The requested O&M and NFC levels are grounded in legally binding procurement obligations, prudent operational practice, and concrete risk mitigation that benefits customers through improved reliability, safety, environmental compliance, and efficient execution of both federally and non-federally funded work.

F. Facilities

The Facilities Department ensures resilient, efficient and safe facilities for LUMA's employees and customers. Exhibit 17.0, p. 5, ll. 120-121. Facilities management is not merely "cleaning and fixing"; it is a strategic function essential to system reliability and resilience. *Id.,* p. 6, ll. 136-137. The Facilities Department provides suitable and clean workspaces for employees operating the T&D System and optimally located, well-maintained buildings for customers to conduct business safely and efficiently. *Id.*, p. 5, ll. 113-114; p. 6, ll. 115-117. To achieve this, the Department operates and maintains critical systems (e.g., air cooling and conditioning, roofs, electrical substations) while performing janitorial services, equipment repairs, and landscaping. *Id.*, p. 6, ll. 117-123. It also ensures facilities are strategically located to enable rapid response to unplanned outages and major events such as storms and earthquakes. *Id.*, p. 6, ll. 123-125. Its key functions include: O&M, Real Estate Planning and Working Spaces Improvement (REP/WSI) and Business and Support Management. *Id.*, p. 6, ll. 125-129. The functions of the Facilities Department are required by the T&DOMA, further Puerto Rico's energy public policy mandates and help LUMA meet regulatory requirements, like International Building Codes and Occupational Safety and Health Administration ("OSHA"). *Id.,* p. 12, ll. 267-311.

The O&M function is to manage 278 buildings and grounds across four Facility Operational Regions: Santurce, San Juan-Caguas, Bayamón-Arecibo, and Ponce-Mayagüez. *Id.*, p. 6, ll. 131-134. This encompasses preventive maintenance, repairs, safety protocols, janitorial and landscaping services, fire prevention programs, and formal inspections documented in annual Facility Status Reports, which guide prioritization of safety and infrastructure needs. *Id.*, p. 6, ll. 134-138, p. 7, ll. 139-140.

The REP/WSI function is dedicated to the acquisition, management, and disposal of real property to sustain, restore, and modernize facilities. *Id.*, p. 7, ll. 143-149. It also includes

managing leases and shared facilities, and negotiations with potential landlords, and overseeing office restoration and improvement. *Id.*, p. 7, ll. 150-154.

PREB should approve the Optimal Budget of $102.81 million ($38.60 million in O&M and $64.21 million in NFC) for FY2026, $48.76 million ($40.69 million in O&M and $8.07 million in NFC) for FY2027 and $50.07 million ($42.73 million in O&M and $7.34 million in NFC) for FY2028. *Id.*, p. 14, ll. 313-316, p. 15, ll. 317-321.

All the proposed costs included in the Optimal Budget are just and reasonable. *Id*., p. 31, ll. 610-611. The Optimal Budget was developed bottom-up and utilizing internal analyses and external validations. *Id.*, p. 15, ll. 323-325, p. 16, ll. 349-352. The necessary activities, including those to achieve SRP remediated state, were identified and estimated at the most detailed project level. *Id.*, p. 15, ll. 325-329. LUMA used a wide variety of data sources to identify and validate costs, including vendor quotes, bidding process results, external validation, historical materials and records, comparison against utility norms and standards and multi-level review processes. *Id.*, p. 17, ll. 359-378, p. 18, ll. 379-385. The budget also incorporated new responsibilities, such as substation maintenance, workforce expansion, and preventive maintenance programs, while reducing reliance on costly contractors through increased in-house staffing. *Id.*, p. 18, ll. 396-400; p. 19, ll. 401-402. Inflationary factors, regulatory compliance costs, and market benchmarks were included, supported by historical data, competitive procurement, and internal and external reviews to ensure reasonableness and alignment with operational needs and industry standards. *Id.*, p. 19, ll. 403-411. For NFC expenditures specifically, a risk-based methodology prioritized projects based on security, operational continuity, feasibility, and strategic alignment, giving precedence to safety and compliance needs. *Id.*, p. 18, ll. 391-395.

The O&M FY2025 budget allocated to Staffing is $7.9 million. *Id.*, p. 15, l. 321. LUMA is proposing to increase this budget allocation to $9.57 million for FY2026, $10.30 million for FY2027, and $10.82 million for FY2028. *Id.* The projected costs include overtime. *Id.*, p. 21, ll. 467-468. The Facilities Department is requesting additional 57 FTE for FY2026, and two more for the period of FY2027 and FY2028. *Id.*, p. 21, ll. 463-468; , Table 2, p. 21, l. 469 (breakdown of positions with scopes and reasons). The costs for these employees cannot be federally funded. Transcript 12/04, p. 286, ll. 17-21. The primary drivers for this adjustment are the necessary shift from reactive to proactive maintenance, the addition of substations under Facilities' responsibility, expansion of facilities to accommodate a growing workforce, and efforts to reduce reliance on higher-cost external contractors landscaping, generators, plumbing, electrical, and HVAC services. *Id.*, p. 286, ll. 23-25, p. 287, ll. 1-3; *see also* Exhibit 17.0 , p. 22, ll. 470-473, p. 23, ll. 474-478.

The FY2025 budget allocated to Materials and Supplies is $2 million. *Id.*, p. 15, l. 321. LUMA is proposing to increase this budget allocation to $2.57 million for FY2026, $2.70 million for FY2027, and $2.84 million for FY2028. *Id.* The increase is mainly due to acquire additional materials and supplies to maintain inventory levels and ensure that the department meets the ongoing needs identified. *Id*., p. 23, ll. 489-491.

The FY2025 budget allocated to technical and professional services is $5.1 million. *Id*., p. 15, l. 321. LUMA is proposing to increase this budget allocation to $10.72 million for FY2026, $11.18 million for FY2027, and $11.74 million for FY2028. *Id.* For FY2026, the services to be paid for from this budget line include janitorial; detection, alarms, suppression system repairs and operations of fire systems; elevator systems retrofit and modernization; preventative maintenance and repairs of major building systems (*e.g*., power generators); IT service agreements; and miscellaneous. *Id.,* pp. 23-24, l. 495. The main driver for the increase is a surge in janitorial

services to bring the facilities to acceptable standard and expand services to 28 critical substations facilities that were previously under the responsibility of the Operations department. *Id.*, p. 24, ll. 510-513.

The FY2025 budget allocated to Utilities and Rent is $5.9 million. *Id.* p. 15, l. 321. LUMA is proposing to increase this budget allocation to $13.48 million for FY2026, $14.14 million for FY2027, and $14.84 million for FY2028. *Id.* These budgeted costs include electric service and potable water across all facilities, including the newly assigned substations, whereas rent addresses leases for all LUMA facilities. *Id.*, p. 25, ll. 519-522. The budget also provides parking areas for LUMA employees. *Id.*, p. 25, ll. 535-537, p. 26, ll. 538-539. Regarding the rent costs allocation, the increase is due to new laydown yards, warehouses, and swing spaced for administrative offices for capital programs and call center. *Id.,* p. 25, ll. 532-534. These spaces are essential for completing capital projects that will modernize and transform the T&D System, support reliable grid operations, and ensure that materials are strategically located near service teams for efficient deployment. *Id*., p. 26, pp. 541-543; Transcript 12/04, p. 352, ll. 5-15. Having these warehouses and laydown yards allows LUMA employees to access the equipment in a reasonable timeframe to service the operation, thus reducing costs of travel, logistics and delivery charges. *Id.*, p. 350, ll. 13-25, p. 351, ll. 5-25, p. 352, ll. 8-22. To ensure cost efficiencies and savings, LUMA works with the Government of Puerto Rico to increase the amount of mutual agreements already in place, which provide LUMA space to be used free of charge. Exhibit 17.0 .0, p. 26, ll. 544-547. Parking costs are to cover the costs for space contracted in current leases. *Id.*, p. 25, ll. 535-537, p. 26, ll. 538-539.

LUMA is proposing a budget allocation for miscellaneous expenses of $2.26 million for FY2026, $2.37 million for FY2027, and $2.49 million for FY2028. *Id.* These costs include air and

land transportation, per diem, mileage and traveling expenses, equipment rental, training and miscellaneous expenses. *Id.*, Table 5, p. 27, l. 551, p. 15, l. 321,Note 3.

The Department is proposing an NFC budget allocation of $64.21 million for FY2026, $8.07 million for FY2027, and $7.34 million for FY2028, which totals a proposed investment of over $79 million. *Id.* pp. 27-29, ll. 561-567, Exhibit 122 (explaining need and reasonableness of the projects). The proposed NFC projects cannot be federally-funded. Transcript 12/04, p. 287, ll. 21-25, p. 288, l. 1. This budget will serve to implement the SRP Facilities Development and Implementation Program, which includes critical projects and essential activities such as replacing obsolete generators, water cisterns, and HVAC systems; performing essential building and safety repairs; rehabilitating warehouses; ensuring compliance with safety codes; relocating the 24/7 Customer Contact Center; consolidating operations from costly leased properties; accommodating workforce growth; and upgrading employee facilities and furniture to ensure reliability during emergencies, operational continuity, regulatory compliance, and a safe, productive work environment. Exhibit 17.0, p. 27, ll. 560-567; Exhibit 17.01; Transcript 12/04, p. 289, ll. 4-9; Exhibits 118, 118.1 (storm hardening considerations per project).

The NFC budgeted expenditures were developed based on a prioritized list of capital repairs, replacements, and additions, as further detailed below. Exhibit 17.0, p. 29, ll. 569-570; *see also* Exhibit 121 (explaining cost estimations). The primary inputs for this development included feedback from Occupational Safety assessments and job site inspections. Exhibit 17.0, p. 29, ll. 570-574; *see also* Exhibit 121. A weighted ranking methodology was applied, incorporating factors such as risk, facility focus, procurement viability, and strategic alignment. Exhibit 17.0 , p. 29, ll. 570-574. Cost reasonableness was validated not only through input from experienced personnel but also by referencing actual costs and data from multiple sources, including market searches,

supplier quotations, historical contract experience, field calls, site visits, and average inflation rates for comparable projects. *Id.* at pp. 29-30, ll. 573-579; *see also* Exhibit 121.

LUMA determined that no reasonable alternatives existed other than the proposed NFC cost projects, which are essential to meet environmental, safety, and economic objectives. Exhibit 122. Benefits include environmental, health and safety, and cost-saving. *Id.* As explained in Exhibit 122, the generators identified for replacement are damaged beyond cost-effective repair, and deferring them would pose safety, environmental, and property loss risks. *Id.* If generators fail during critical events, it could compromise life-protection systems, emergency lighting, fire suppression equipment, and other infrastructure. *Id.* Older generators fail to meet emissions standards, increasing pollutants and fuel inefficiencies, while leaks or spills become more likely. *Id.* Inability to maintain backup power during outages could lead to shutdowns, equipment damage, and costly interruptions. *Id.* Furthermore, water cisterns have deteriorated beyond repair, and deferral would jeopardize potable water, sanitation, and fire protection, especially during emergencies. *Id.* Aging systems increase leaks, contamination, and noncompliance, creating health hazards and ecological damage. *Id.* HVAC systems are also beyond cost-effective repair, and deferral would compromise air quality, ventilation, and temperature control, increasing health risks and operational interruptions. *Id.* Critical building repairs, including structural assessments, elevator modernization, and roof waterproofing, are urgent to prevent hazardous failures and noncompliance. *Id.* Finally, deferring regional safety projects would exacerbate risks related to fire protection, stormwater management, and facility integrity. *Id.*

Failure to fund the NFC budget request will significantly impair personnel productivity, create safety hazards for employees and the public, and restrict LUMA's ability to enhance service restoration during unplanned outages. Exhibit 17.0, p. 30, ll. 581-585. If LUMA is forced to operate

in aged and deteriorated facilities over an extended replacement period, it will continue applying standard operating and maintenance practices to partially mitigate safety, productivity, and financial risks. *Id.*, p. 30, ll. 586-588. These interim measures will inevitably lose effectiveness as reactive maintenance and emergency repairs escalate. *Id.*, p. 30, ll. 589-590. Facility conditions and functionality will deteriorate, exposing users to safety hazards and causing measurable declines in productivity and efficiency. *Id.*, p. 30, ll. 590-592. These impacts will disrupt normal operations and exert a profoundly negative effect on the overall T&D System. *Id.*, p. 30, ll. 592-593.

If PREB approves less than the Optimal Budget, LUMA will be forced to defer hiring personnel needed to expand the department's footprint from four regions to six. *Id.*, p. 33, ll. 641-649. It will also have to reduce the scope of certain projects and postpone others to future years, including critical improvements. *Id.*, p. 33, 649-650; 34, l. 651. Additionally, the scope of severable services such as custodial and janitorial work, repair and restoration of waterproofing systems, and paving of parking lots will be curtailed. *Id.*, p. 33, ll. 644-650; p. 34, l. 651. Deferring these activities poses significant risks, including safety risks, diminished internal customer satisfaction, inability to meet work demand and service requests, fines, and postponement of critical infrastructure corrections. *Id.*, p. 33, 649-650; 34, l. 651; Transcript 12/04, p. 355, ll. 2-17. These deferrals will negatively impact overall program execution and delay key milestones. *Id.,* p. 34, ll. 651-654. Deferring these activities will also create significant obstacles for employees due to substandard facility conditions, including health-related damages. *Id.*, p. 34, ll. 655-670.

The Department's Optimal Budget is necessary, prudent, and just and reasonable. These expenditures are essential to provide safe, resilient, and compliant facilities under the T&DOMA and Puerto Rico's energy policy mandates. The budget was developed using a bottom-up

methodology supported by internal analyses, external validations, competitive procurement, and historical cost data. It reflects the minimum resources required to remediate deferred maintenance, address hurricane damage, and shift from a reactive model to proactive facilities management. Deferral would expose LUMA and the public to hazardous conditions, emergency repairs, and prolonged interruptions while increasing long-term costs.

G. Regulatory

As explained in the testimony of Mr. Alejandro Figueroa, Chief Regulatory Officer, ("Mr. Figueroa") LUMA's Regulatory Department is responsible for regulatory filings before PREB, drives the utility's transformation under the T&D OMA, and ensures compliance with laws, regulations, and contractual obligations. LUMA Exhibit 1.0, p. 52, ll. 943-946. It coordinates across five subdepartments, *id.*, p. 53, ll. 968-970, to serve as LUMA's interface with regulators and policymakers to align operations, rates, and policy with customer and system needs. *Id.,* p. 52, ll. 948-951, p. 53, ll. 954-975, p. 54, ll. 976-998, p. 55, ll. 999-1021, p. 56, ll. 1022-1041.

The record shows that the Regulatory Department faces both a quantitative and qualitative increase in workload, driven by PREB's adjudications and reporting requirements, as well as multiple external oversight and coordination demands, including FOMB, PREPA, P3A, COR3, and the Legislature. Exhibit 1.0 reflects 232 PREB-only filings in Q1-Q3 FY2025 versus 303 in all of FY2024, plus increases in technical conferences and RFIs on a year-over-year basis through Q3. *Id.*, Table 7; p. 58, l. 1065.

Mr. Figueroa testified that if the pace is maintained, total FY2025 filings would exceed FY2024. *Id.,* p. 58, ll. 1061-1064; Transcript, 12/3, p. 485, ll. 1-6. Beyond volume, the complexity of filings has escalated: filings contain large multi-tab spreadsheets with thousands of lines and require cross-functional data validation, narrative variance explanations, and performance-metrics calculations, often taking more than a month to prepare per filing. Transcript 12/3, p. 522, ll. 4-25,

523, ll. 1-6. Mr. Figueroa further explained that PREB filings are not uniform in complexity, some even may require one month to prepare, and that significant workloads also arise beyond PREB filings – i.e, government affairs, OMA compliance, multiple audits (financial, Controller, P3A), and federal funding reporting – each contributing materially to total departmental demand. Transcript, 12/3, p. 521, ll. 3-19, p. 522, ll. 4-24.

Exhibit 1.0 specifically outlines the FY2026 headcount plan and subdepartment-specific needs, including 33 new hires in FY2026 across six subdepartments, with rationale tied to docketed work, internal compliance responsibilities, and cross-agency obligations. Exhibit 1.0, Table 8; p. 59, ll. 1074-1075. The Regulatory Department seeks six (6) positions to create a senior management layer beneath the Chief Regulatory Officer. Mr. Figueroa testified that these roles ensure strategic alignment across PREB matters, support executive reporting and cross-functional coordination, and manage increased workload complexity, whilst ensuring daily operational efficiency. *Id.*, p. 60, ll. 1082-1097.

As for the Tariffs, Budgets, and Load Forecasting sub-department, six (6) hires are justified by the rate review's two phases, rate design and implementation, recurring quarterly and annual budget reporting and the increasingly complex permanent rate docket (Case No. NEPR-MI-2020-0001). Exhibit 1.0, p. 60, ll. 1100-1102, p. 61, ll. 1103-1108. Load Forecasting's specialized studies also require staffing depth to preserve knowledge and meet deadlines. *Id.,* p. 61, ll. 1108-1113.

For the Contracts Management sub-department, two (2) analysts are needed due to a significant increase in complex communications and interactions with PREPA, Genera and external agencies, ongoing external agency contract reviews, internal inquiries, and shared-services exit coordination; all managed under the T&D OMA. *Id.*, ll. p. 61, 1115-1124. In response

to questions from Mr. Guy Mazza, Mr. Figueroa confirmed that once shared services wind down, staff from this sub-department would be reassigned to other work streams. Transcript, 12/3, p. 312, ll. 10-25, p. 313, ll. 1-7, 9-12.

The Programs and Compliance sub-department requires twelve (12) hires in order to address multiple active regulatory proceedings, outage investigations, performance metrics, federal funding reporting, and broad cross-docket responsibilities. Exhibit 1.0, p. 52, ll. 986-993; Table 8, p. 59, l. 1074; p. 62, ll. 1125-1129; Transcript 12/3, p. 313, ll. 17-25; p. 314, ll. 1-8. The team has been thinly staffed and backstopped by external consultants. *Id.*, p. 62, ll. 1125-1129. The hiring plan seeks to internalize work presently outsourced, recognizing on-boarding overlap before external costs decline in later years. Exhibit 1.0, p. 62, ll. 1127-1129; Transcript, 12/3, p. 313, ll. 17-25; p. 314, ll. 1-21. Likewise, the Grid Modernization sub-department requested four (4) hires that stem from the needs arising from the IRP's expected adjudicative phase beginning FY2026, continuous work related to distributed energy resources, an anticipated interconnection regulation requiring cross-LUMA coordination; and absorption of new work, including renewable procurement tranche reporting, resource adequacy, ASAP, and RECs. Exhibit 1.0, p. 62, ll. 1132-1142.

Lastly, the Government Affairs and Public Policy sub-department's ask for three (3) new analysts, which are necessary to respond to legislative measures and requests for information, manage relationships across more than one hundred executive-branch entities plus legislative bodies. Exhibit 1.0, p. 62, ll. 1143-1147, p. 63, ll. 1148-1158, Transcript 12/13, p. 316, ll. 2-8. During the evidentiary hearing, Mr. Figueroa explained that that the workload is increasing because attendance at public hearings, requests for information, and policy processes have grown materially in intensity. Transcript, 12/3, p. 315, ll. 4-25, p. 316, ll. 1-8, p. 489, ll. 5-25, p. 490, ll.

1-8. The Department needs additional resources to respond to those requirements. *Id.*, *see also id.*, p. 490, ll. 2-4.

The Regulatory Department's proposed Optimal Budget increases technical and professional services from $5.35 million (FY2025) to $9.43 million (FY2026), $10.00 million (FY2027), and $10.60 million (FY2028), and reflects continued reliance on specialized external expertise for the rate review, IRP, load forecasting improvement, project management across Energy Bureau and T&DOMA initiatives, and staff augmentation for hard-to-fill roles. Exhibit 1.0, Table 6, p. 57, l. 1047, 1050-1054; p. 58, ll. 1055-1056. These costs are developed using prior spend and forward-looking activity assessments and indexed by 6% inflation in FY2027-FY2028. *Id.* ll. 1184-1189.

While the Regulatory Department's long-term strategy is to internalize work, near-term overlap is unavoidable as new staff are trained. *Id.*, p. 64, ll. 1192-1193; p. 65, l. 1194. Given Puerto Rico's limited local regulatory talent pool and the unique Energy Bureau regime, external support remains necessary for infrequent, highly technical matters, even with internal hiring. *Id.*, p. 64, ll. 1192-1193, p. 65, ll. 1194-1200. On cross-examination, Mr. Figueroa confirmed that despite internalization efforts, the Optimal Budget prudently assumes continued external support in the near term due to continued regulatory obligations. Transcript, 12/3, p. 492, ll. 16-25, p. 493, ll. 1-10, p. 494, ll. 7-13.

Regulatory's Optimal Budget also includes a necessary and prudent one-time Contract Administration Management System ("CAMS") implementation in FY2026 (approximately $150,000 in technical/professional services), with Customer Relationship Management ("CRM") licenses continuing in FY2026 and beyond. *Id.*, p. 67, 1240-1247. The CAMS licenses would then shift to the IT/OT Department after FY2026. *Id.* These systems aim to consolidate stakeholder

interactions and case management, enabling timely, accurate, and auditable responses to the Legislature and agencies. Exhibit 1.0, p. 65, ll. 1202-1211, p.66, ll. 1223-1237. Mr. Figueroa testified that CAMS is necessary to replace the current manual spreadsheet process with an internal, organization-wide self-service repository that centralizes T&DOMA provisions and the company's interpretations, enabling faster and more consistent compliance checks without issuing formal legal opinions. Transcript, 12/3, p. 317, ll.12-25, p. 318, ll. 1-15, p. 319, ll. 4-15. Mr. Figueroa also confirmed that ongoing licensing costs would appear in operating budgets. *Id.*, p. 319, ll. 20-22.

As to Legal Services, the Regulatory Department is requesting an increase from $3.20 million (FY2025) to $6.70 million (FY2026), $7.10 million (FY2027), and $7.53 million (FY2028) under the Optimal Budget. Exhibit 1.0, Table 6, p. 57, ll. 1047, 1050-1056. The Regulatory Department, due to specialization, maintains its own external legal counsel for PREB dockets, separate from LUMA Legal. Exhibit 1.0, p. 67, ll. 1249-1257. As the record shows, the Department determines the external legal support needed considering factors such as complexity and proceedings where historical knowledge that is difficult to replace from one year to another. Transcript, 12/3, p. 359, ll. 20-25, p. 360, l. 1.

Mr. Figueroa explained that the legal regulatory costs are costs incurred by LUMA as PREPA's agent and involve regulatory filings that PREPA would otherwise have to submit. Transcript, 12/3, p. 346, ll. 6-14. Furthermore, during the December 3rd hearing, LUMA explained the controls put in place to avoid duplicative billing across Legal, Regulatory, and Compliance, including separate referral platforms and invoice tracking by matter, with cross-department coordination. *Id.*, p. 337, ll. 7-15.

The Constrained Budget reduces staffing and professional services below the Optimal Budget to produce a "customer sensitive" budget, deferring eleven (11) positions and reducing professional services by $2.0 million (FY2026), $2.3 million (FY2027), and $2.5 million (FY2028). Exhibit 1.0, Table 9, p. 68, ll. 1268-1278; Transcript, 12/3, p. 308, ll. 4-13. During the hearing, Mr. Figueroa emphasized that the principal risk is not noncompliance as such, but heightened risk of errors, reduced quality, and missed deadlines when multiple complex proceedings coincide. Transcript, 12/3, p. 310, ll. 14-25, p. 311, l. 1-5.

Moreover, the record identifies specific consequences if budgets are not approved at Optimal levels. This includes, but is not limited to the following: i) a risk to quality and elevated error rates due to high volumes of complex filings, many of which require month-long, cross-functional preparation with extensive QA/QC and performance-metrics calculations, Transcript, 12/3, p. 522, ll. 4-25, p. 525, ll. 2-15; ii) heightened risk of missed deadlines where overlapping proceedings and RFIs compress resources; including Energy Bureau deadlines as well as T&D OMA and government-related responses, Exhibit 1.0, p. 69, ll. 1286-1290, Transcript, 12/3, p. 310, ll. 14-22, p. 311, ll. 11-25, p. 312, ll. 1-3; and iii) continued dependence on higher-cost external consultants if internalization hires are delayed or denied, foreclosing later-year avoided costs that depend on timely onboarding and knowledge transfer, Transcript, 12/3, p. 314, ll. 14-25, p. 315, ll. 1-2, p. 494, ll. 7-13.

During the December 3rd hearing, opposing counsel for the Bondholders inquired about a cost-benefit or quantitative study tying each incremental FTE to quantified workload metrics. *Id.* p. 476, ll. 1-25. Mr. Figueroa acknowledged no "cost-benefit analysis" in the narrow sense but explained that each member of the Department and leaders, who are best positioned to understand the needs, assess current and expected work. to inform their decision of needs. *Id.*, p. 477, ll. 2-11,

p. 527, ll. 13-19. Mr. Figueroa further testified that the increased headcount proposal is reasonable as it is based on the Department's experience and knowledge of what is needed to meet their obligations. *Id.,* p. 526, ll. 24-25, p. 527, ll. 1-20. Moreover, the record establishes a methodical, bottom-up budgeting process; a documented and increasing volume of PREB filings, conferences, and RFIs; escalating complexity of filings; and specific, docket-driven and regulatory requirement rationales for each sub-department's needs. Exhibit. 1.0, Table 7, p. 57, ll. 1048-1054, p. 58, ll. 1055-1073, p. 59, ll. 1074-1081, p. 60, ll. 1082-1102, p. 61, ll. 1103-1124; p. 62, ll. 1125-1147, p. 63, ll. 1148-1167.; ; *see also* Transcript, 12/3, p. 305, ll. 12-25, p. 306, ll. 1-25, p. 307, ll. 1-25, p. 308, ll. 1-25, p. 309, ll. 1-25, p. 310, ll. 1-25, p. 311, ll. 1-25, p. 312, ll. 1-3. On redirect, Mr. Figueroa explained that raw numbers of filings are not the sole driver; but rather that qualitative complexity, non-PREB demands, and multiple audits significantly influence staffing and outsourcing needs. Transcript, 12/3, p. 521, ll. 6-19, p. 522, 4-25.

Counsel for bondholders observed that LUMA is already managing multiple proceedings with current headcount. *Id.*, p. 480, ll. 18-25. Mr. Figueroa explained that LUMA is doing its best not to breach an obligation or an order, *id.,* p. 482, ll. 6-12, and that if the proposed funding for a headcount increase is not approved, the likelihood of errors would increase, LUMA could be at risk of not complying with requirements, and would need to shift staff from other obligations, all in circumstances whereby requests and filings are increasing or becoming more complExhibit *Id.*, p. 309, ll. 10-25, p. 310, ll. 14-25, p. 311, ll. 1-5; *see also id.,* p. 524, ll. 11-25, p. 525, ll. 1-14. With respect to professional and technical services, Mr. Figueroa explained that although there is an increase in costs meanwhile internal resources would also increase, there are avoided costs by having a higher number of internal resources performing more of the work currently done by external resources. *Id.*, p. 492, ll. 12-25, p. 493, ll. 1-4. Counsel questioned whether increased

legislative activity had been quantitatively projected. Mr. Figueroa explained that legislative and policy workload is not linear to the count of bills, as public hearings and requests impose substantial labor that does not scale one-for-one and that the Department's experience in the prior year demonstrates material growth in such activities. Transcript, 12/3, p. 489, ll. 5-25, p. 490, ll. 1-8.

In sum, the record demonstrates that LUMA's Regulatory Department faces an increased and increasingly complex workload across PREB proceedings, T&DOMA compliance, government oversight, audits, and related processes. Mr. Figueroa's prefiled testimony ties the Optimal Budget to subdepartment-specific responsibilities, identifies the staffing and outsourcing necessary to meet current and expected obligations, and explains the role of technical systems and specialized legal services. The Constrained Budget quantifies reductions and candidly sets forth the associated risks to quality, timeliness, and compliance. LUMA requests that PREB, approve Regulatory's Optimal Budget for FY2026–FY2028, which will ensure that the Department meets PREB's requirements effectively and reliably and protects the quality and integrity of filings.

H. Corporate Security

LUMA's Corporate Security Department ("Corporate Security") is responsible for protecting Puerto Rico's energy infrastructure, including the overall T&D System, control centers, substations, and other physical assets. Exhibit 13.0, ll. 75-79. As stated by the Hearing Examiner, [redacted]. Corporate Security requires access controls, security guards, perimeter protection, and other physical protection measures, all of which require funding. Exhibit 13.0. To avoid exposing Puerto Rico's energy infrastructure to theft, trespass, vandalism, malicious mischief, and cyber-attacks and to replace electronic access control and CCTV equipment that is past its lifecycle, risking failure during Puerto Rico's most critical moments and providing inadequate protection against individuals or entities that target Puerto Rico's energy

grid, Corporate Security seeks an increase of less than $2 million on its FY2025 budget for FY2026 and an increase of less than a million over the next two years (FY2027 and FY 2028). Exhibit 13.0, Table 1, QQ. 17, 29,31,32. Over a three-year period, HSEQ seeks only $12.78 million in FY2026, $13.18 million in FY2027, and $13.61 million in FY2028. *Id.,* Table 1.

Corporate Security is only asking for the funds completely necessary to protect Puerto Rico's energy infrastructure. Its narrow request is evident by comparing the Security Services category in the budget across the relevant years. Security Services is the largest aspect of the approved FY2025 budget at $7.98 million. While this category remains the largest in each of FY2026 through FY2028, the requested amount for each year is actually **lower** than what was approved for FY2025: $7.46 million in FY2026, $7.68 million in FY2027, and $7.92 million in FY2028. This is due in large part to Corporate Security's cost measures and use of competitive bidding. [redacted]

The second largest category in the Corporate Security budget is for staffing, where the increase in costs between FY2026 and FY2028 is due to salary increases across LUMA, following an increase in employees after LUMA terminated a 24/7 service contract. *Id.*, p. 73, ll. 7-25, p. 74, ll. 1-2; Exhibit 13, p. 9, ll. 156-171, p. 10, ll. 172-173.

The largest increase (relatively speaking) in costs between the approved FY2025 budget and the request FY2026 budget is for Technical and Professional Services, for which Corporate Security seeks $1.9 million in FY2026, to fund contracts for electronic surveillance and CCTV, and for substation fence maintenance and vegetation management at substations (herbicides and

cleanup at least 6 to 8 feet from the substation). Exhibit 13.0, Table 1, ll. 175-179; Transcript 12/03, p. 51, ll. 10-13 (vegetation management), p. 25, ll. 9-22 (O&M needed for fence maintenance). These costs were established using historical expenditures, informed by competitive procurements. Exhibit 13.0, ll. 184-188.

Furthermore, proposed NFC costs are to replace and add electronic access control and CCTV to ensure compliance with industry standards. *Id.,* ll. 223-230. These security measures are essential, and their effectiveness is already proven based on the limited equipment Corporate Security has in place. For example, as described in Ms. Fraley's written testimony, in February 2025, three cameras caught an individual attempting to steal materials from the Arecibo-Factor substation, which could have potentially caused a substation outage. *Id.*, ll. 251-255.

Proposed investments also save money in the long run, such as investments in cameras. As Ms. Fraley indicated in her live testimony:

[redacted]

Transcript 12/3, p. 21, ll. 7-14. She continued:

[redacted]

Id., p. 22, l. 25; p. 23, ll. 1-9.

Corporate Security seeks only a small increase in its budget from FY2025 and has found efficiencies to help minimize the costs, as described above. An investment in security measures

now will have long-term, positive applications, not just on Puerto Rico's energy infrastructure, but on the costs to protect that infrastructure in the future.

I. Emergency Preparedness

LUMA's Emergency Preparedness Department ("Emergency Preparedness") is responsible for planning and effectuating LUMA's responses to emergencies, including natural disasters. Exhibit 12.0, ll. 72-74. Emergency Preparedness has a comprehensive plan for restoring essential services that involves emergency personnel coming together to address imminent threats and hazards. *Id.*, ll. 75-95. The central hub for Emergency Preparedness during an emergency is LUMA's Emergency Operations Center (the "LEOC"). *Id.,* ll. 93-95. To comply with Puerto Rico law and provide the necessary emergency support, LUMA is in the process of establishing an alternate Emergency Operations Center (the "Alternate LEOC") that is essential for emergency response. *See* Transcript 12/5, p. 158, ll. 13-21, LUMA Exhibit 12.00, p. 4, ll. 71-82, p. 5, ll. 83-102; p. 6, ll. 103-122, p. 7, ll. 123-136. Emergency Preparedness is seeking an overall budget of $2.40 million in FY2026, which accounts for a one-time cost to complete the Alternate LEOC. Exhibit 12.0, Table 1; *id.* ll. 274-275. Thereafter, the budget requests drop to $1.19 million in FY2027 and $1.24 million in FY2028, nominal increases from the approved $1.09 million budget approved for FY2025. *Id.*, Table 1.

The increase in the budget from FY2025 to the requested amount for FY2026 is $1.31 million. This difference is largely due to the FY2026 budget including a one-time $1.35 million NFC request to complete the Alternate LEOC. *Id.,* Table 1, ll. 274-275; Transcript 12/5, p. 152, ll. 13-25, p. 153, ll. 1-2.

Completion of the Alternate LEOC is already in progress, awaiting the final funding for final execution. *Id.*, p. 176, ll. 2-6. The Alternate LEOC is essential to LUMA's ability to prepare Puerto Rico's energy grid for a crisis and is a requirement by law, of PREPA's enabling law, Act

83, that requires contingency plans. *Id.* p. 158, ll. 11-21; *see also* LUMA Exhibit 12.00, p. 14, ll. 282-283 ("Having an alternate LEOC is critical if the primary LEOC become inoperable due to power loss, or emergencies, including flooding and structural damage.") More than that, the risk that the current LEOC fails—thus necessitating the alternate LEOC—grows every day. Indeed, 95% of the equipment in the current EOC is beyond its life cycle, risking failure at the worst possible moment: when Puerto Rico is in the midst of a disaster. Transcript 12/5, p. 212, ll. 9-21. The FY2027 and FY2028 budgets include funding for necessary lifecycle replacement of this critical equipment.

Without the requested funding, LUMA will be unable to meet its various obligations and at serious risk of being unable to adequately respond in case of an emergency. *Id.*, p. 22, ll. 17-21 (Ms. Fraley: "For the constrained budget, we would not be, we would not have all the software applications that we need to be able to do this at the standard that it's being required by the PREB."); *Id.*, p. 90, ll. 3-11 (Ms. Fraley stating that "the constrained budget does not cover for activating the call center contract."). This risk is far too great to not approve the relatively small requested increases from the approved FY2025 budget.

J. Communications

The Corporate Communications Department is responsible for LUMA's internal and external communications. Exhibit 14.0, p. 3, ll. 51-52. Communications furthers LUMA's commitment to transparency and provides customers with as much information as possible. *Id.*, p. 3, ll. 52-54. It also furthers LUMA's commitment to social responsibility and community engagement by connecting, educating, and protecting communities. *Id.* p. 3, ll. 54-56; *see also* Transcript 12/03, p. 186, ll. 16-25, p. 187, ll. 1-25, 188, 1-18. The Communications role is required by the T&DOMA. Exhibit 14, pp. 7-8, ll. 145-155; Exhibit 489, sections 13.1(g) and IV of Annex I.

Communications develops content that is important to the customer, based on what has been gathered through the Voice of the Customer tool (a tool for gaining customer feedback) and JD Power surveys. Exhibit 14.0, p. 3, ll. 57-60. The information shared with customers includes rate changes (i.e., FCA and rate review); service requests and locations to pay electricity bills; real-time updates regarding the T&D System, including service interruptions and outages; and anticipated projects such as significant T&D System upgrades which, per survey results, are a topic of interest to customers. *Id.* at p. 3, ll. 60-67; Transcript 12/03, p. 184, ll. 17-25; *id.* at p. 185, ll. 1-9.

Communications is also responsible for developing organization-wide internal communications like internal employee dashboards. Exhibit 14.9, p. 4, ll. 69-72. Finally, Communications engages external stakeholders, including elected officials, local governments and communities (such as municipalities), private, professional and non-profit organizations, and other interest groups. *Id.*, p. 4, ll. 73-82.

The Communications Department shares information with customers using multiple platforms, including social media, traditional media, MiLUMA application, newsletters, and SMS messaging. *Id.*, p. 5, ll. 97-99; Transcript, 12/03, p. 185, ll. 14-25, p. 186, ll. 1-2. These include content regarding planned upgrades, outages, service interruptions, restoration times, billing matters, outage protocols, energy efficiency, safety campaigns, requests for services, and hurricane preparedness. Exhibit 14.0, pp. 5-6, ll. 99-119; Transcript, 12/03, p. 195, ll. 21-25; *id*., p. 196, ll. 1-3[10].

Effective customer communication tools support LUMA's ability to provide reliable electric service at the lowest reasonable cost. Exhibit 14.0, p. 6, ll. 127-128. For example, rather

[10] The rough transcript incorrectly identifies the speaker as Mr. Juan Báez.

than calling the call center, customers can use MiLUMA (LUMA's mobile application) to, for example, report outages and manage their accounts. *Id.*, p. 6, ll. 128-131. Communicating with more people provides benefits, including in matters of life or death for people who require power to operate equipment and machinery that they need. Transcript 12/03, p. 283 ll. 1-25, p. 284, ll. 18-25, p. 285, ll. 1-25, p. 286, ll. 1-8.

The records support the need and reasonableness of the requested Optimal Budget of $11.16 million for FY2026, $11.81 million for FY2027, and $12.49 million for FY2028. Exhibit 14.0, Table 1, p. 8, l. 163. The Communications Department budget is comprised only of O&M costs; it does not include NFC projects. *Id.*, Table 1, p. 8, l. 163.

The Optimal Budget was developed using a bottoms-up approach and to meet the requirements of the T&DOMA, Annex I, Section IV (D) and (E). *Id.*, p. 8, ll. 166-167, p. 15, ll. 309-319. The Communications Department first identified its existing costs that would allow it to maintain customer communications, including current staff and associated costs, such as IT applications and transportation. *Id.*, p. 8, ll. 167-168, p. 9, ll. 169-170. Then, the Communications Department assessed LUMA's upcoming communication needs, programs and projects, as well as customer input on the information that customers wanted to see and would find helpful. *Id.*, p. 9, ll. 170-173.

LUMA is proposing a budget allocation for staffing costs of $2.84 million for FY2026, $2.95 million for FY2027, and $3.07 million for FY2028. *Id.*, Table 1, p. 8, l. 163. The projected costs include base salaries, fringe benefits, and bonuses for 17 FTE positions and 5 planned hires in FY2026. *Id.*, p. 9, ll. 175-177. Based on research made by LUMA, some utilities on the East Coast of the US have 15 FTEs dedicated only to social media. *Id.*, p. 9, ll. 188-190, p. 10, ll. 191-192; Transcript 12/03, p. 206, ll. 20-25, p. 207, ll. 5-8.

The Communications Department needs to grow to proactively communicate with customers and develop communication materials regarding large-scale construction or replacement projects, including deploying transformers and circuit breakers, transmission pole replacements, and rebuilding transmission lines. Exhibit 14.0, p. 10, ll. 197-201; Transcript 12/03, p. 207, ll. 20-25, p. 208, ll. 1-22. Furthermore, increasing the staff will allow matters to be communicated in a bigger way and potentially reach more people more often and in the most effective way. Transcript 12/03, p. 216, ll. 19-25; *id.* at p. 217, ll. 1-16. Communications has requested budget to hire: (1) two Media Relations Manager, to cover the need to enhance its communication capabilities and ensure effective media engagement (*i.e.,* coordinating media interactions and establishing relationships with media outlets to ensure timely and accurate information dissemination, which ultimately benefits customers (Exhibit 14.0, p. 10, ll. 194-196; *id.*, p. 11, ll. 227-231); (2) a Media Relations Director to enhance communication strategies and manage media relationships, benefiting both the company and its customers. *Id.*, p. 10, ll. 194-196; *id.*, p. 12, ll. 238-240; (3) an Internal Communications Director to address a critical gap in ensuring consistent, effective communication across the organization. Exhibit 14.0, p. 10, ll. 194-196, 208-209; (4) an External Communications Manager to enhance its media interactions and ensure clear, timely communication across all organizational levels. *Id.*, p. 11, ll. 216-220. This proactive communication strategy keeps customers informed about system enhancements, major initiatives, and critical updates, helping build trust and strengthen engagement with the utility provider. *Id.* p. 11, ll. 222-225.

The Department is proposing a budget allocation for technical and professional services of $6.49 million for FY2026, $6.93 million for FY2027, and $7.40 million for FY2028. Exhibit 14.0,

p. 8, Table 1. These costs were projected considering historical costs and competitive processes. *Id.*, p. 13, ll. 262-264.

Technical and professional services cover costs for external consultants and IT service agreements. *Id.*, p. 12, ll. 250-258, p. 13, ll. 259-261. These include website design, paid media campaigns, and communication consultants who develop strategies to inform and educate customers and stakeholders about LUMA's tools, energy efficiency, safety, and hurricane preparedness. *Id.,* p. 12, ll. 250-254; Transcript 12/03, p. 185, ll. 11-18. The proposed costs will ensure that all customer sectors receive timely and relevant information. Exhibit 14.0, p. 14, ll. 279-281.

The FY2025 budget allocated to materials and supplies is $0.22 million. *Id.*, Table 1, p. 8, l. 163. LUMA proposes to reduce this budget allocation to $0.20 million for FY2026, $0.21 million for FY2027, and return it to $0.22 million for FY2028. *Id.* This budget section includes the costs for generic office supplies and equipment. *Id.*, p. 14, ll. 291-294.

LUMA proposes a budget allocation for miscellaneous expense of $1.53 million for FY2026, $1.61 million for FY2027, and $1.69 million for FY2028. *Id.*, Table 1, p. 8, l. 163. This budget covers the costs for specialized materials required for distinct projects, events, or initiatives that do not fall under other budget categories but are essential for the Communications Department's continued service delivery. *Id.,* p. 14, ll. 296-298. Examples document ongoing work to inform customers and stakeholders of improvements to the T&D System, which is particularly critical for customers with limited internet access. *Id.*, p. 14, ll. 28-301, p. 15, l. 302.

LUMA proposes a budget allocation for transportation, per diem, and mileage of $0.10 million for FY2026, $0.11 million for FY2027 and FY2028. *Id.*, Table 1, p. 8, l. 163. This budget

supports, among other things, social responsibility and community engagement programs. Transcript 12/03, p. 172, ll. 8-25, p. 173, ll. 1-5. [11]

LUMA's costs included in the proposed budget do not include advertising and marketing activities that promote LUMA's reputation. Transcript 12/03, p. 164, ll. 1-25, p. 165, ll. 1-14. These activities to communicate more than is required by the T&DOMA, are funded with private funds (non-rate payer funds) from the parent companies. *Id*. There is a protocol followed to make decisions whether a project is paid from rate payer funds or not. *Id*., p. 165, 15-23, p. 265, ll. 12-18. These efforts also include delivering relevant content to customers on how they interact with LUMA and how customer experience could be better. *Id.*, p. 266, ll. 3-8. One example of these projects is the documentary A La Luz de la Verdad, which was not paid from rate payers funds. *Id.*, p. 266, ll. 23-25, p. 267, ll. 1-8.

If the Optimal Budget is not approved, the Communications Department will be forced to reduce traditional media campaigns, communications and community events, and thus, customers will be less informed of programs and projects. Exhibit 14.0, p. 17, ll. 341-343, 350-353, 357-360. This includes the reduction of information on energy efficiency programs that help customers save money and reduce the system load. *Id.*, p. 17, ll. 360-363, p. 181, l. 364. Printed bills and communications, which are commonly used industry tools to allow customers that do not engage through the internet to benefit from these programs, would also be underfunded. *Id.*, p. 17, ll. 357-363, p. 18, ll. 364-366. Furthermore, events and materials that help spread information on, for example, financial assistance through the Low-Income Home Energy Assistance Program and other support programs promoted by LUMA would be reduced. *Id.*, p. 18, ll. 366-369. A reduction

[11] *Id.*

would also hinder LUMA's ability to perform obligations under the T&D OMA, including educating customers on emergency preparedness and safety. *Id.*, p. 18, ll. 369-372.

The requested Optimal Budget for the Communications Department is necessary, just, and reasonable. These expenditures are essential to meet obligations under the T&DOMA, ensure transparency, and deliver accurate, timely information to customers and stakeholders. The proposed budget reflects a prudent, bottoms-up approach based on operational needs, anticipated projects, and customer expectations, supported by Voice of the Customer data and industry standards. Without this funding, LUMA cannot maintain critical communication functions, jeopardizing customer education, emergency preparedness, and regulatory compliance.

K. Legal and Land and Permits

1. Legal Department

In observance of the T&DOMA,[12] LUMA's Legal Department acts on behalf of LUMA, as PREPA's agent, in administrative proceedings before PREB and in judicial forums, most commonly handling customer grievances and bill objections. Exhibit 10.0, p. 4, ll. 76-85. It also provides day-to-day legal advice across LUMA's operations and represents LUMA in legal and adjudicative matters in Puerto Rico courts, federal courts, and federal and local administrative bodies. *Id.*, ll. 82-85; *see also id.,* p. 5, ll. 111-119.

The Legal Department's staff currently totals thirteen positions, including the CLO, VP/General Counsel, in-house counsel, litigation counsel, and support roles. *Id*., p. 4, ll. 87-90 Four attorney positions added in FY2024-FY2025 enabled the Department to take over customer complaint/bill objection matters formerly outsourced at higher cost. *Id*., ll. 90-93. Notwithstanding, the Department does not have sufficient staff to take on the volume of legal assignments that come

[12] Specifically, Section 5.12 and Annex I(H) of the T&DOMA. *See* Exhibit 10.0, pp. 6-7, ll. 143-153.

its way, as the workload is already "extremely high". *Id*., p. 6, ll. 131-132. This includes 266 active cases before the Energy Bureau as of June 2025, an additional 5-10 court cases per litigation counsel, and roughly 25 varied and concurrent in-house requests/consultations per month. *Id*., p. 4, ll. 97-98, p. 5, ll. 104-109.[13] Litigation counsel average roughly 80 cases each (up from ~70 in FY2024), while in-house counsel consultations are projected to rise from ~25 to 35-40 matters per attorney. *Id*., p. 6, ll. 133-137.[14] Mr. Rotger testified that he makes determination on caseloads using his professional experience. *Id.*, p. 327, ll. 7-25, p. 328, ll. 1-2.

It's within this context that the Legal Department is requesting an Optimal O&M budget of approximately $9.81 million for FY2026 (rising to $10.82 million in FY2028). The primary O&M components are Staffing and Technical & Professional Services. Exhibit 10.0, pp. 7-8, ll. 156-162, 171-172. On staffing, costs comprise compensation for the Department's thirteen current employees and six planned hires across FY2026-FY2028, plus projected salary increases based on HR compensation analyses and internal research from the case-management/e-billing systems. *Id*., pp. 8-9, ll. 174-178. The six hires aim to address the documented workload growth, driven by rising customer complaints/billing objections, as well as increasing in-house legal consultations parallel to overall company growth and use of the Legal Services Request portal. *Id*., pp. 9-10, ll. 181-195. Hearing testimony is consistent, as Mr. Rotger explained that bolstering in-house staff reduces reliance on external counsel and has already produced savings (~ $1.5 million). Transcript 12/3, p. 330, ll. 19-25, p. 331, ll. 1-14. Conversely, without adequate funding for staff and resources, the Legal Department will be unable to provide effective counsel across LUMA, and as

[13] *See* LUMA Ex. 10.01, for quantification of caseload for FY2025.

[14] *See also* Transcript 12/3, pp. 328-329, ll. 1-25; p. 330, ll. 1-18.

workloads rise it will be forced to outsource more work than forecasted and that could result in additional costs. Exhibit 10.0, p. 10, ll. 201-205.

Technical & Professional Services costs include (a) external counsel for matters requiring specialized expertise (such as complex labor/employment, bankruptcy/Title III, class actions, complex litigation, and federal compliance) and (b) legal technology for internal consultations, research, e-billing, case/matter management, document handling, and portal operations. *Id*., pp. 10-11, ll. 207-218. The FY2026 increase from FY2025 within this category is driven primarily by necessary legal technology programs. *Id*., p. 11, ll. 221-227.

Testimony provided during the December 3rd evidentiary hearing expounded on the scope of these costs and established controls. First, external legal services support a broad array of needs beyond courtroom representation, including preparing and commenting on legal documents, engaging with FOMB/PREPA on Title III related matters, and representing LUMA personnel in depositions. Transcript, 12/3, p. 367, ll. 24-25, p. 368, ll. 1-25, p. 369, ll. 1-6. Second, LUMA explained the controls put in place to avoid duplicative billing across Legal, Regulatory, and Compliance, including separate referral platforms and invoice tracking by matter, with cross-department coordination. *Id*., p. 335, l. 25, p. 336, ll. 1-25, p. 337, ll. 7-15,

LUMA's witnesses lo also testified that the highest rates cited during cross-examination are outliers, and that for new matters not requiring unique historical knowledge, LUMA seeks comparable quality at lower rates and has switched service providers where appropriate. Transcript, 12/3, p. 359, ll. 6-13, p. 360, ll. 21-25, p. 361, ll. 6-7. Mr. Rotger explained that the determination of which legal firm to engage depends on the matter, citing as an example consultations on FEMA funding that is a niche service. *Id.*, p. 355, ll. 8-11.

On the remaining O&M components (each estimated using current and historical cost information), Materials and Supplies cover general office supplies; Transportation, Per Diem, and Mileage cover in-island travel for investigations and court appearances; and Miscellaneous Expenses include continuing legal education and bar licenses. *Id*., p. 12, ll. 254-263.

In sum, the Energy Bureau should approve the Legal Department's Optimal Budget, finding it consistent with just and reasonable performance by a prudent operator. *Id*., p. 13, ll. 267-275. The evidence of record shows that the requested budget is grounded in LUMA's contractual/legal obligations, current staffing and workloads, and cost-effective investments in people and technology that reduce external spend where appropriate while ensuring access to specialized expertise when necessary. Strengthening LUMA's internal legal capabilities will allow LUMA to rely less on more costly external counsel. *Id*., p. 10, ll. 198-199. Under the Constrained scenario, the total Legal Department budget would be reduced by about $1.98 million in FY2026 (with similar reductions in FY2027-FY2028). Exhibit 10.0, pp. 13-14, ll. 283-288. The Department evaluated the worst-case scenario and determined that the Department could not cut staffing costs that are critical to its functioning, and thus the Constrained scenario cuts the Department's budget for external counsel. *Id*., p. 14, ll. 290-292, 296. The record identifies specific adverse impacts under this approach. To wit, a reduced budget for external counsel increases already high caseloads per attorney, causing delays, increased error risk, and potential turnover. It also limits access to needed specialized expertise, impairing LUMA's ability to handle complex matters effectively. *Id*., p. 14, ll. 298-302. Even if contractual duties could be met "with difficulty," efficiencies would decrease as each attorney manages more matters. Moreover, further cuts below the constrained level would exacerbate these risks and reduce the Department's ability to represent and counsel LUMA efficiently. *Id*., p. 15, ll. 303-320.

2. Land and Permits

As required by the provisions of the T&DOMA,[15] LUMA's Land and Permits ("L&P") division is responsible for obtaining operational permits required by federal and Puerto Rico agencies, managing land rights and cadaster administration, and certifying all PREPA easements for aboveground and underground T&D assets, including responding to public, banking, real estate, and engineering requests for easement certifications. Exhibit 10.0, pp. 15-16, ll. 324-335, p. 17, ll. 351-361. Moreover, L&P is responsible for implementing two SRP Programs: the Land & Permits Processes and Management Program (PBRE1) to deploy systems for operational-permit compliance and federal funding support, and the Land Record Management Program (PBRE5) to establish a new land records system to fix disorganized records that hindered identification of PREPA property rights and caused landowner disputes.[16] *Id*., pp. 16-17, ll. 338-349.

As outlined in the prefiled testimony of Mr. Rotger and expounded upon at the December 4th evidentiary hearing, for FY2026, under the optimal scenario, L&P is requesting O&M of $5.25 million, increasing to $6.94 million by FY2028, reflecting a ramp from the FY2025 base ($3.38 million) driven primarily by staffing needs and technical services. *Id*., pp. 17-18, ll. 364-370. Staffing costs cover compensation for 42 current employees, seven vacant positions to be backfilled, and four planned FY2026 hires. *Id*., pp. 18-19, ll. 378-392; Transcript 12/4, p. 266, ll. 22-25; p. 267, l. 1-18. The need for additional hires is driven by the volume and timing of remediation, restoration, and transformation projects that cannot proceed without L&P reviewing and obtaining land rights. Exhibit 10, p. 19, ll. 394-396. L&P currently lacks capacity to meet this demand. *Id*., ll. 396-397.[17] Moreover, the addition of a new surveyor is a critical continuity measure

[15] LUMA Ex. 10.02.
[16] LUMA Ex. 10.03 and 10.04, respectively.
[17] During the December 4th hearing, Mr. Rotger further testified regarding how permitting process management is intertwined with federal funding requirements, so budget outcomes can affect the timeliness

because LUMA currently has only one licensed surveyor who must certify up to 1,187 easements per fiscal year and update the cadaster. *Id*., p. 19, ll. 397-400. L&P's lone surveyor plans to retire in three years, and replacement onboarding can take up to two years due to the specialized nature of the work. *Id*., p. 19, ll. 403-405.

As for technical an professional services costs, these include appraisal and summons services, IT service agreements, third-party attachment administration, and implementation of the PREPA Easement Cadaster management program, aimed at georeferencing and digitizing transmission line drawings.[18] *Id*., p. 20, ll. 407-415. The increase in this category is tied to development and implementation of these systems, including necessary servers and licenses. *Id*., p. 20, ll. 417-419. Materials and supplies (e.g., tablets and office supplies) and transportation, per diem and mileage (fieldwork, court appearances, vehicle costs) are estimated from historicals and anticipated headcount, and represent costs without which L&P personnel cannot perform their duties. *Id*., p. 20, ll. 422-429.

Under the Constrained Budget scenario, which prioritizes unavoidable staffing, total L&P funding would be reduced by approximately $370,000 (FY2026), $910,000 (FY2027), and $1.57 million (FY2028), accomplished by phasing out costs related to implementation of the Land and Permits Processes and Land Record Management system, thereby reducing scanning/georeferencing pace. Exhibit 10.0, p. 22, ll. 456-474; Transcript 12/4, p. 266, ll. 12-14. The record shows that defunding these systems introduces risks of delays to cadaster updates, with

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of project readiness and reimbursement requests. Notwithstanding, L&P is presently providing the necessary services for federally funded projects. Transcript 12/4, p. 268, ll. 10-21.

[18] Mr. Rotger's prefiled testimony also includes technical and professional services costs for the Land and Permits Quality Management System (software to manage land rights and permits for operational and capital projects). However, at the December 4th evidentiary hearing, Mr. Rotger explained that the Land and Permits Quality Management software solution was internally enhanced after the July 3rd rate review petition filing date, leading to the termination of the related contract. Transcript 12/4, p. 264, ll. 18-22; p. 265, ll. 1-7.

knock-on effects on the speed and accuracy of easement certifications and land rights administration. Exhibit 10.0, p. 23, ll. 476-487. Separately, if requested funding is not approved, L&P would have insufficient resources to manage public/customer easement certification requests and to efficiently process operational permits (air emissions, emergency generators, telecommunications, and oil), causing delays to customer projects and operational activities. *Id*., p. 21, ll. 435-441.

LUMA requests approval of the Optimal Budget for the L&P Division for FY2026-FY2028, because the record shows the proposed costs address identified operational and compliance needs whose deferral would impede permitting, land rights administration, and federal funding processes. The Optimal Budget costs and activities are consistent with just and reasonable performance and a prudently performing operator, because they fund standard utility functions-permitting and land management-necessary to meet T&DOMA obligations. *Id*., p. 21, ll. 445-448. If PREB were to adopt the Constrained scenario, the evidence shows L&P can meet its core legal and contractual duties, but with delays, reduced efficiencies, and potential impacts on project schedules and federal reimbursement timelines.

L. Fleet

Fleet recommends that PREB approve its proposed Optimal Budget for FY2026-2028. Its three-year budget is $279.65 million, comprising $141.65 million in O&M and $138.00 million in NFC, with FY2026 at $88.80 million ($42.80 million in O&M and $46.00 million in NFC). Exhibit 18.0, p. 16, ll. 322-325. The FY2027 and FY2028 totals are $93.53 million and $97.33 million, respectively. *Id.*, Table 1. The increase relative to FY2025 primarily reflects capital needs to re-establish a sustainable 10-year fleet replacement plan and support anticipated workforce growth. *Id*., ll. 323-328, p. 19, ll. 354-357. The requested budgets are prudent, aligned with contractual and

statutory mandates, and necessary to maintain compliance, reliability, and safety, while advancing customer service and system resiliency.

LUMA's obligations under the T&DOMA require it to manage, operate, maintain, repair, and replace the T&D System consistent with Contract Standards, including lifecycle management of fleet assets and compliance with safety and regulatory requirements. Exhibit 18.0, p. 6, ll. 115-123. These duties include fleet management, vehicle replacement scheduling, maintenance, compliance with environmental and alternative fuel standards, and recordkeeping. *Id*., p. 7, ll. 127-143 and p. 8, ll. 144-148. Fleet's requested funding advances Puerto Rico's public policies by ensuring adequate, reliable, safe, and efficient service; the continuity and reliability of the system; and a robust, resilient, and modernized infrastructure at just and reasonable costs. *Id*., p. 8, ll. 157-163 and p. 9, ll. 164-176.

Mr. Kevin Burgemeister presented a pre-filed direct testimony sponsoring Fleet's budgets. Exhibit 18.0. He also testified on December 4, 2025, during the evidentiary hearing. Transcript, 12/4, pp. 216-223, 225-251, 302-305, 307-320, 325, and 329-337.

First, the Optimal Budget is prudent and necessary to maintain safety, compliance, and reliability. The record establishes that, despite severe age-related constraints (50% to 57% of fleet assets beyond service life), Fleet has maintained availability at approximately 94%–96% through diligent maintenance and targeted replacements; however, absent the requested funding, availability will likely decline as aging advances and maintenance burdens escalate. Exhibit 18.0, p. 3, ll. 56-61, p. 4, ll. 66-70; *id.,* note 1; Transcript, 12/4, p. 228, ll. 7-17. The record also demonstrates that Fleet's activities indirectly support customer-facing metrics, especially SAIDI, where improved vehicle availability and proper equipment materially affect response and restoration times. Transcript, 12/4, p. 311, ll. 9-20. LUMA has demonstrated that approval of the

proposed Optimal Budget can improve the SAIDI metric relative to the Constrained Budget. *Id.*, p. 311, ll. 21-25, p. 312, ll. 2-6, p. 313, ll. 3-19.

Even though Bondholders' counsel questioned the absence of formal, itemized financial cost-benefit studies for certain outsourcing and fleet initiatives, the record shows that LUMA conducted focused analyses and relied on standard utility practice and extensive management experience to determine which services should be contracted out rather than internalized. Transcript, 12/4, p. 316, ll. 3-25, p. 317, ll. 1-25, p. 318, ll. 1-25, p. 319, ll. 1-25, and p. 320, ll. 1-4; Exhibit 18.0, p. 23, ll. 441-448, p. 24, ll. 449-452. This approach is consistent with prudent operations, particularly given the immediacy of compliance and restoration needs and the multi-year horizon required to build specialized internal capabilities.

Second, the evidence shows LUMA's analysis and sourcing approach is commercially reasonable and cost-conscious. For example, for heavy-duty equipment, LUMA budgets using manufacturer's suggested retail price ("MSRP") references but procures through competitive processes, obtaining market pricing and potential discounts, and does not pay MSRP as a rule. Transcript, 12/4, p. 245, ll. 4-25, p. 334, ll. 3-14. This addresses concerns about inflated estimates while ensuring realistic budgetary planning for volatile heavy equipment costs. For lighter and specialty categories, LUMA uses historical acquisition prices from competitive bid processes and applies modest inflation, again anchoring estimates in actual bid experience rather than untested assumptions. Exhibit 18.0, p. 25, ll. 472-476. LUMA also employs the Rental Purchase Option ("RPO") to bridge near-term capital constraints, crediting a substantial portion of rental payments toward purchase within defined windows and thereby accelerating availability of critical units while preserving optionality. *Id*., p. 23, ll. 430-436.

Third, refurbishment of legacy out-of-service units is neither cost-effective nor feasible at scale. The record shows that LUMA evaluates significant repair decisions against asset value and operational need and has, in some cases, executed repairs that would normally be uneconomic due to acute vehicle scarcity. Transcript, 12/4, p. 246, ll. 6-23, p. 247, ll. 1-25, p. 248, ll. 1-11. For safety-critical heavy equipment, compliance failures on required inspections preclude return to service unless extensive work is performed; in many cases, such work is neither safe nor cost-justified given age, condition, and the absence of modern safety features. *Id.,* p. 234, ll. 13-25 and p. 235, ll. 1-24.

Fourth, the need for additional bucket trucks and digger derricks is supported by operational experience, increasing maintenance workloads, and staffing growth tied to work plans. *Id.*, p. 217, ll. 10-25, p. 218, ll. 13-25, p. 219, ll. 1-25, p. 220, l. 1. While there is no single metric for "shortage," LUMA's planning experience indicates an excess of operational demand over available equipment during scheduling, leading to work deferrals and reassignments. *Id.,* p. 217, ll. 10-25, p. 218, ll. 5-12. LUMA currently employs approximately 900 qualified personnel across roughly 447 bucket truck units, and optimal operations typically require at least one qualified operator per unit (often two crew members), further underscoring the linkage between headcount, scope expansion, and the requested fleet augmentation. *Id.,* p. 220, ll. 2-22.

The constrained fleet budget prioritizes bucket trucks and digger derricks, deferring many other replacements to balance resource limitations while preserving restoration readiness. Exhibit 18.0, p. 31, ll. 593-599. This triage reduces annual NFC by roughly $31–$35 million below optimal levels, but at the cost of delaying the remediated state by approximately three (3) years. *Id*., p. 31, l. 599, p. 32, ll. 600-604; Exhibit 18.02. The record shows that LUMA has maintained high availability under challenging conditions and has closed multiple gaps; however, adopting a

constrained scenario increases risk exposure as assets age beyond their life expectancy, affecting reliability and safety outcomes for customers and workers. Transcript, 12/4, p. 230, ll. 18-25, p. 231, ll. 1-10; Exhibit 18.0, p. 32, ll. 605-613. Mr. Burgemeister further testified that LUMA can meet legal and contractual obligations on a constrained budget by applying mitigation methods and standard practices, though effectiveness will wane over time as assets age, increasing downtime and safety risks, and negatively affecting restoration performance. Exhibit 18.0, p. 32, ll. 614-623, p. 33, ll. 624-627.

The evidentiary record supports approval of the requested Optimal Budget and program proposals. The Optimal Budget reflects a prudent balance of necessary safety, compliance, reliability, and customer service objectives. PREB should approve Fleet's Optimal Budget, including the plan to re-establish a 10-year fleet replacement cycle. This will ensure continued compliance with safety and regulatory requirements, support improved reliability and customer satisfaction, and advance the System's safe, efficient, and resilient operation at just and reasonable cost.

M. Compliance

As explained in the prefiled testimony of Mr. Rotger-Sabat, LUMA's Compliance and Ethics Department's role is to implement LUMA's Compliance Program (based on the U.S. Sentencing Guidelines and guidance from the U.S. Department of Justice),[19] to promote an

[19] Mr. Rotger's prefiled testimony explains that U.S. Sentencing Guidelines define the hallmarks of an effective compliance and ethics program and expressly require that the program have adequate resources, appropriate authority, and direct access to governing authorities. He further explains that DOJ's Evaluation of Corporate Compliance Programs guides prosecutors in assessing program effectiveness at the time of offense and charging. A well-designed compliance program conducts periodic risk assessments; implements tailored policies and procedures; delivers appropriate training and communications; provides confidential reporting for anonymous complaints; conducts adequate investigations; and applies risk-based third-party due diligence. An adequately resourced and empowered program has sufficient staffing to perform auditing, documentation, and analysis; personnel with sufficient qualifications, seniority, and stature; sufficient autonomy from management; demonstrable high-level commitment; and incentives for compliance with disincentives for non-compliance. Exhibit 16.0, pp. 4-6, ll. 94-127.

organizational culture of ethical conduct and to exercise due diligence to prevent, detect, and mitigate compliance risks, non-compliance, and misconduct. Exhibit 16.0, p. 3, ll. 62-66, p. 4, ll. 89-93. It monitors, supports, and promotes compliance with Commonwealth and federal anticorruption laws and the T&DOMA,[20] and manages and enforces LUMA's Code of Ethics and related compliance policies, including conflicts of interest. *Id*., pp. 3-4, ll. 70-78. The Department manages compliance and ethical risks; designs and implements policies, procedures, and controls; provides training; investigates potential or actual misconduct; manages a confidential and anonymous reporting mechanism for employees and third parties; and advises other departments on compliance and remedial actions. *Id*., p. 4, ll. 81-87.

The record reflects that, after evaluating the existing and anticipated workload considering the current projections of company growth, LUMA's Compliance Department is seeking an Optimal O&M Budget of $2.80 million (FY2026), $2.94 million (FY2027), and $3.49 million (FY2028), approximately $0.9 million above FY2025 for FY2026. *Id*., pp. 6-7, ll. 135-137, Table 1, ll. 140-141 (for budget breakdown by activity). The two primary cost components are Staffing and Technical and Professional Services. *Id*., p. 7, ll. 148-149. Staffing includes compensation for current four employees, three vacancies, and four planned specialists, including filling a Chief Compliance Officer vacancy and adding capacity to match growing workload and accompanying risk. The rationale for staffing growth is LUMA's organization-wide expansion, the increasing complexity and volume of work to remediate and stabilize the T&D system, and the need to avoid a finding of an ineffective compliance program if resourcing lags enterprise risk. *Id*., pp. 7-8, ll. 151-165.

[20] *See* Exhibit 489, T&DOMA, Art. 9.2.

Technical and Professional Services costs cover IT service agreements and specialized legal/consulting support for complex or sensitive investigations and periodic risk assessments, supported by agreements and historical data. *Id*., p. 8, ll. 167-171. The increase from FY2025 to FY2026 is driven by rising workload and IT costs associated with company growth. *Id*., p. 8, ll. 173-175. Similar to the historical costs for materials and office supplies, the Compliance Department's miscellaneous expenses – training, communications, office and facilities costs – scale with headcount and serve DOJ-recognized hallmarks of effective training and communications. *Id*., pp. 8-9, ll. 177-188.

The December 3rd evidentiary hearing record corroborates that the Compliance Department is maturing, with Mr. Rotger emphasizing alignment with U.S. Sentencing Guidelines and DOJ guidance requiring "adequately resourced" and effective programs given LUMA's complexity and stewardship of public and federal funds across operations and capital projects. Transcript 12/3, p. 321, ll. 17-25, p. 322, ll. 1-11. Moreover, Mr. Rotger confirmed the Department's current structure and staffing trajectory. *Id*., p. 323, ll. 1-7. He also outlined additional activities overseen by the department: a Compliance Charter, a Board-level Compliance, Risk, and Audit Committee, a confidential hotline, expanded programs and procedures aligned with the LUMA Code of Ethics, monthly town hall trainings, ongoing investigations and consultations, a company-wide conflict-of-interest policy,[21] and Compliance's role as appellate reviewer on RFP reconsiderations. *Id*., p. 323, ll. 20-25, p. 324, ll. 1-16. The hearing record also corroborates controls over external legal/consulting spend and functional differentiation of services, distinguishing applicability to the Compliance Department's needs. *Id*., p. 334, ll. 9-25, p. 335, ll. 1-25, p. 336, ll. 11-15.

[21] *See* LUMA Ex. 1078.

The evidence of record confirms the Department's essential functions and emerging workload, reinforcing the need to resource the program commensurately. LUMA requests that PREB approve the Compliance Department's O&M budget as proposed in LUMA's Optimal scenario for FY2026-FY2028. Proposed costs are just and reasonable and consistent with prudent performance because they provide sufficient staffing and technical capacity to implement an effective compliance program aligned with LUMA's growth and responsibilities. Exhibit 16.0, p. 9, ll. 192-195.

A Constrained Budget scenario reduces the Department's total funding by ~$0.01 million (FY2026), ~$0.01 million (FY2027), and ~$0.02 million (FY2028), primarily by lowering the salary increase factor to 3% instead of 4%. *Id*., p. 11, ll. 233-242. These reductions risk higher turnover, increased recruitment and training costs, operational disruptions, and loss of institutional knowledge and productivity. *Id*., p. 12, ll. 249-252. Further reductions below the Constrained Budget would leave the Compliance Department unable to keep pace with organizational growth and risk, contrary to U.S. Sentencing Guidelines/DOJ expectations that compliance programs be adequately resourced relative to the company's size, structure, and risk profile. *Id*., pp. 12-13, ll. 255-268.

N. Human Resources

A company is nothing more than the people who power it. This philosophy supports development of the Optimal Budget for the Human Resources Department ("HR Department"), of $8.87 million for FY2026, $8.66 million for FY2027, and $9.15 million for FY2028. Exhibit 9.00, p. 8, Table 1, ll. 164-170. The Optimal Budget's principal costs categories are staffing, and technical and professional services, which are essential to finance the tools and recruit the personnel required to meet T&D OMA's requisite of performing all HR functions, including hiring

and training, and ensuring compliance with applicable law. *Id.*, p. 7, ll. 141-149, p. 9, ll. 180-181. s*ee also*, p. 14, ll. 302-305, p. 15, ll. 306-307.

Staffing costs include salaries, benefits, and bonuses for current and prospective employees. *Id.*, p. 9, ll. 182-185. Headcount rises from 45 to 52 under the Optimal Budget (including seven new employees in FY2026), with three interns. *Id.*, ll. 182-186. Technical and professional services covers licensing and implementation of HR tools needed to automate processes, increase recruitment efficiency, fill critical roles, and expand training programs. *Id.*, p. 10, 195-199, p. 11, ll. 226-236, p. 12, ll. 237-238.

"The Department developed its Optimal Budget using a bottom-up methodology based on strategic planning and alignment with organizational goals and needs." *Id.*, p. 8, ll. 172-174. The activities to be funded directly support LUMA's obligation under the T&D OMA to perform all human resources functions, including hiring and training, and to ensure compliance with applicable law. *Id*., p.7, ll. 142-161.

The Optimal Budget's objectives include hiring seven (7) additional employees to match the growth of the company; increasing the integration of technology through licensing and implementation of software to streamline the recruitment process and develop key personnel to fill necessary leadership and other critical roles; and expanding training and recognition programs to support the Supervisory Academy and Career Ladders programs. *Id*., p. 9, ll. 188-189, p. 11, ll. 226-236, p. 12, ll. 237-238. These training investments include internally designed modules, industry-recognized certifications, and continuing education to strengthen leadership and technical capabilities. *Id.*, p. 12, ll. 238-242.

LUMA's expansion as an organization drives the need for additional employees. The Talent and Acquisition & Workforce Planning subdepartment needs one (1) additional employee to

support the full spectrum of recruitment and onboarding activities. *Id.*, p. 6, ll. 123-127, p. 9, ll. 188-189. Further, the Organizational Development & Effectiveness subdepartment requires six (6) additional employees to support the management of HR Services. *Id.*, p. 10, ll. 191-193.

Additionally, LUMA's subscription to additional tools to effectively attract, retain, and develop personnel grows and maintains a capable workforce. *Id.*, p. 11, ll. 226-227, p. 13, ll. 281-283. Efficiency will be significantly increased by the implementation of Robotic Process Automation ("RPA") software that automates repetitive, rule-based tasks, reducing outdated administrative practices and decreasing costs. *Id.*, p. 10, ll. 197-198, p. 14, ll. 291-293. Other subscriptions include HiredScore, which screens resumes for minimum requirements based on the position, advancing operational efficiency. *Id.*, p. 11, ll. 228-230. The Department is also planning to subscribe to the Workday module "Succession Plan" to support planning and develop potential future leaders and key personnel to fill critical roles. *Id.*, p. 11, ll. 230-233.

To align the company's practices with industry standards, the miscellaneous expense portion of the Optimal Budget, includes costs for employee recognition program, which is designed to enhance employee experience while aligning with the organization's values and to enhance LUMA's competitiveness in attracting and retaining high-caliber employees and candidates. *Id.*, p. 12, ll. 245-249, 256-258, p. 14, ll. 287-289. The estimate assumes four ceremonies per fiscal year, recognizing five employees from each department. *Id.*, p. 12, ll. 258-259, p. 13, l. 260.

The investments requested in the Optimal Budget are calibrated to LUMA's near-term mission: rebuilding a reliable and affordable T&D system, *id.,* p. 1, ll. 281-283, anchoring a three-year plan for cultural and operational transformation, *id.*, p. 4, ll. 71-76, and ensuring the right talent is in the right roles to execute critical work. *Id.*, p. 13, 281-283. However, without the

proposed investment, LUMA's ability to achieve that mission is diminished. *Id.*, p. 13, l. 283, p. 14, ll. 284-298. Risks include reduced leadership bench strength, demotivation, persistence of manual processes with higher error rates, and constrained scaling of HR services. *Id.*

The Constrained Budget reduces essential staffing and defunds critical positions despite documented company growth.[22] *Id.*, p. 16, ll. 333-334. Within the Staffing category, the Department defunds three intern hourly positions, one manager salaried position, one director salaried position, and one specialist salaried position. *Id.*, p. 16, l. 334, p. 17, ll. 335-336. Within the technical and professional services category, the Constrained Budget eliminates funding for key automation, onboarding, process improvement, leadership development, and case management initiatives.[23] *Id.*, p. 17, ll. 336-340. It also reduces budgets for compensation market study, Indeed platform, Leadership Development Program, and Pre-Hire Check Process. *Id.*, p. 17, ll. 340-342. Within miscellaneous expense, the Constrained Budget reduces funding for employee recognition and related internal communications and eliminates training for positions that are defunded. *Id.*, p. 17, ll. 342-345. Although the HR Department would be able to meet its contractual and legal duties under the Constrained Budget, it would limit its ability to support LUMA's dynamic needs and to surmount challenges in its path to becoming a world class utility. *Id*. p. 17, ll. 356-358, p. 18, ll. 358-359. Lack of funding would reduce the impact HR initiatives can have on LUMA's ability to fully execute on the restoration and transformation of the grid and the reliability the people of Puerto Rico expect. *Id.*, p. 17, ll. 347-349.

[22] Staffing is impacted by the defunding of three (3) intern hourly positions, one (1) manager salaried position, one (1) director salaried position, and one (1) specialist salaried position.

[23] The Constrained Budget defunds the RPA software, Onboarding Optimization, Process Improvement, Supervisory Academy initiatives, and the Case Management tool.

The proposed Optimal Budget is significantly the most prudent course. It aligns resources with demonstrated organizational growth and mission-critical priorities, preserves momentum on automation and talent development, and sustains the capacity required to support LUMA's evolving operational needs. Approving the Optimal Budget will materially reduce execution risk, enhance efficiency, and better position the organization to achieve durable cultural and operational transformation. Optimal Budget costs are consistent with just and reasonable performance for a prudently performing operator and support compliance with the T&DOMA's day-to-day HR functions and training obligations. *Id*., p. 9, ll. 141-149, p. 14, ll. 303-305. Approving the Optimal Budget is an investment in the people and processes required to deliver a resilient and sustainable electric system.

O. Customer Experience

Customer Experience recommends that PREB approve its proposed Optimal Budget for FY2026-2028 to deliver prudent, customer-centric, and reliable service. The Optimal Budget is approximately $191.3 million in FY2026, $226.5 million in FY2027, and $248.2 million in FY2028. Exhibit 7.0, p. 20, ll. 415-419. The Optimal Budget incorporates funding for Energy Efficiency ("EE") and Demand Response ("DR") programs that are recovered through the EE and ("PPCA") riders, not the base rate, reducing the FY2026 base-rate need to approximately $114.7 million. *Id*., p. 21, ll. 421-428; Transcript 12/1, p. 417, ll. 9-25, p. 418, ll. 1-25. LUMA's proposals for Customer Experience are grounded in (i) LUMA's contractual duties under the T&D OMA to perform customer service functions at high standards; (ii) statutory objectives under Puerto Rico's energy policy; and (iii) record evidence of measurable performance improvements, prudent budgeting, and targeted remediation of inherited systems and data constraints. Exhibit 7.0, p. 14, ll. 296-314, p. 15, ll. 315-326, p. 17, 354-373, p. 18, ll. 374-378.

Customer Experience functions are explicitly mandated by Annex I of the T&D OMA, which requires LUMA to provide customer service, maintain call centers and digital channels, conduct education, manage loyalty and satisfaction programs, and develop a plan to enhance outage management interfaces for real-time customer updates. Exhibit 7.0, p. 14, ll. 299-314 and p. 15, l. 315. These functions directly advance Puerto Rico's public policy goals by ensuring safe, reliable, and efficient service and by improving customer satisfaction and engagement. *Id*., p. 15, ll. 316-326. The Energy Bureau has also established performance metrics shaping expectations for contact center service levels, complaint rates, and revenue-related metrics, which Customer Experience must staff and fund adequately to meet. *Id.*, p. 37, ll. 738-756; Exhibit 78.0, p. 5, 115-118 and p. 6, l. 119.

In support of Customer Experience's revenue requirement for FY2026-2028, Ms. Sarah Hanley, Interim Senior Vice President of Customer Experience for LUMA ("Ms. Hanley"), presented a pre-filed direct testimony sponsoring Customer Experience's optimal and constrained O&M and NFC budgets, together with program briefs for Loss Recovery, Billing Accuracy and Back Office, Modernized Customer Service Technology, Voice of the Customer, and Electric Vehicle ("EV") Implementation Support. Exhibit 7.0. She also submitted a pre-filed surrebuttal testimony in response to critiques by OIPC and the Energy Bureau consultants, detailing improvements achieved and the constraints and risks associated with the legacy CC&B billing environment. Exhibit 78.0. Moreover, Ms. Hanley testified at the evidentiary hearing on November 17 and December 1, 2025. She was cross-examined by multiple intervenors counsel and Energy Bureau consultants, addressing budget composition, staffing justifications, performance metrics, and revenue protection initiatives. Transcripts 11/17, 12/1.

First, the record of this proceeding demonstrates that the Customer Experience Optimal Budget is prudent, tied to mandated functions, and structured to minimize base-rate impacts. The Optimal Budget was built bottom-up by cost-causing teams, reviewed across departments, and aligned to execution capacity, reflecting staffing needs, inflation in business services, and realistic increases in payment processing costs. Exhibit 7.0, p. 22, ll. 441-450. Ms. Hanley documented that the Department's O&M budget includes EE and DR program costs outside base rates through EE and PPCA riders, thereby reducing the FY2026 base-rate requirement to approximately $114.7 million. *Id*., p. 21, ll. 421-428; Transcript 12/1, p. 417, ll. 9-25 and p. 418, ll. 1-8, Exhibit 109. DR budgets for FY2027–FY2028 will be addressed in the EE/DR Transition Period Plan docket, confirming that longer-range DR forecasts here are illustrative and not base-rate drivers. Exhibit 7.0, p. 43, ll. 887-891.

Ms. Hanley clarified that significant increases in the FY2026-2027 "technical and professional outsource services" line are principally attributable to customer programs funded through EE and PPCA, not base rates, squarely addressing concerns raised on cross-examination by the PREPA bondholders. Transcript 12/1, p. 68, ll. 1-14, p. 124, ll. 7-25, p. 125, ll. 1-15; Exhibit 7.0, p. 21, ll. 421-432, Exhibit 110. On redirect, Ms. Hanley reinforced the non-base-rate funding sources for EE and DR. *Id.*, p. 417, ll. 9-25 and p. 418, ll. 1-8. The record, therefore, demonstrates prudence in cost development and transparency in funding sources, minimizing base-rate pressure while maintaining mandate-compliant service.

Ms. Hanley explained that the vendors LUMA largely deals with in the Customer Experience Department are specifically to support the Billing Accuracy and Back Office (CC&B) program brief. Any additional FTEs requested by Customer Experience are unrelated to those tasks; therefore, it is necessary to fund the technical and professional services related to the Billing

Accuracy and Back Office (CC&B) program. *Id.*, p. 30, ll. 3-19, p. 67, ll. 15-24. Other technical and professional outsourced services include payment processing, bill rendering, and printing, which will never be absorbed in-house. *Id*., p. 67, ll. 10-15.

Ms. Hanley described workload-based analyses and service-level agreements-driven volumes for key accounts, as well as process governance needs, reflecting a structured justification for incremental FTEs to document cross-functional processes that reduce error risk and backlog. *Id.*, p. 16, ll. 16-25, p. 17, ll. 1-15, p. 18, ll. 8-25, p. 19, ll. 1-4, p. 23, ll. 8-15, p. 24, ll. 14-25, p. 25, ll. 1-6, 13-23. Similarly, she explained that the O&M requirement was driven by the increase in payments LUMA expects from customers over the next 12 months and by the need for incremental FTEs to support higher call volumes and customer complaints. *Id*., p. 14, ll. 22-25 and p. 15, ll. 1-7. Also, LUMA expects an increase in customer calls and customer complaints due to the Advanced Metering Infrastructure ("AMI") rollout, which is why additional FTEs are needed. *Id*., p. 16, ll. 4-15, p. 53, ll. 16-25, p. 54, ll. 1-25, p. 55, ll. 1-2.

Second, the evidence in the record shows material, measurable improvements in Customer Service performance that justify the optimal budget. Since commencement, LUMA has implemented a cloud-based contact center, removed call caps, enabled call recording and callback features during high wait times, launched SMS notifications, and built a robust quality assurance ("QA") program—actions that have substantially improved metrics. Exhibit 7.0, p. 17, ll. 358-368. Average Speed of Answer reduced to about 2 minutes, with abandonment below 10%, while handling nearly double the prior call volume; walk-in center waits averaged under 8 minutes; and direct social media messaging achieved same-day responses. *Id*., p. 17, ll. 369-373, p. 18, ll. 374-378. Ms. Hanley's hearing testimony further support targeted overtime to manage seasonal peaks tied to generation shortfalls and storm season, or emergencies, without proposing structural

increases in spending beyond overtime to "shave the peaks." Transcript 12/1, p. 57, ll. 18-24, p. 97, ll. 13-25, p. 98, ll. 1-18, p. 329, ll. 15-22.

The Voice of the Customer program added J.D. Power surveys, QA scorecards, and speech/text analytics to capture first-contact resolution, with additional listening posts and behavioral analysis planned during the rate period—each designed to sustain and extend performance improvements. Exhibit 7.04, p. 1. These proven improvements and ongoing enhancements require stable, mandate-aligned funding; deferral under a constrained budget would degrade first-contact resolution timelines and reduce the quality of customer insights, as the record explains. *Id*., p. 2; Transcript 12/1, p. 109, ll. 18-25, p. 110, ll. 1-16, p. 158, ll. 13-25, p. 159, ll. 1-20.

Third, the collections and revenue protection proposals are industry-standard, already producing results, and will further reduce the cost of service. Contrary to what the OIPC expert witness Mr. Jaime Sanabria suggested, LUMA has implemented and plans to expand best-practice collection methods, following a two-year statutory disconnection moratorium that materially constrained collections. Exhibit 78.0, p. 3, ll. 62-69, p. 4, ll. 72-91; Transcript 12/1, p. 249, ll. 7-25 and p. 250, ll. 1-6. Documented results to date include over 4.69 million outbound calls, more than 120,000 payment plans, approximately $1.642 billion in collections, and over 27,000 disconnections, supported by improved dunning and automated severance processes embedded in CC&B. Exhibit 78.0, p. 6, ll. 124-130; Exhibit 78.01, p. 3. The record also evidences a measurable reduction in Days Sales Outstanding ("DSO") for active accounts and an increase in payment compliance following the implementation of standard severance communications and escalation logic. Exhibit 78.01, p. 3.

For the rate period, LUMA proposes to lower the residential severance threshold, outsource terminated accounts to a contingency-fee collection agency, and implement skip tracing and data modernization in coordination with government agencies, all consistent with utility practice and calibrated to Puerto Rico's data realities. Transcript 12/1, p. 259, ll. 2-16; Exhibit 78.01, pp. 2-3. Ms. Hanley explained that while precise forecasting of incremental financial impacts from new initiatives (e.g., skip tracing, outsourcing collections) is not yet feasible pre-implementation, realized benefits will be incorporated in future revenue requirements, ensuring ratepayers capture efficiency gains while avoiding speculative adjustments now. Transcript 12/1, p. 259, ll. 17-25, p. 260, ll. 1-25, p. 261, ll. 1-4. The OIPC questioned, and Ms. Hanley confirmed, that improving collections reduces the cost of service and ultimately lowers revenue requirement, aligning incentives for prudent execution over the test period. *Id*., p. 237, ll. 8-20. However, Ms. Hanley clarified that while collection improvements lower the cost of service, it is premature to embed speculative reductions until initiatives such as skip tracing and outsourcing collections are implemented and baselines developed, after which benefits will be reflected in future proceedings. *Id*., p. 231, ll. 23-25, p. 232, ll. 1-6, p. 260, ll. 13-25, p. 261, ll. 1-4.

The record also clarifies government arrears. Ms. Hanley provided current figures and explained unprecedented measures to collect—including disconnections of municipal facilities and structured engagements to reconcile facility status—demonstrating diligent effort and transparency. Transcript 12/1, p. 274, ll. 20-25, p. 275, ll. 1-25, p. 276, ll. 1-21, p. 341, ll. 4-12; Exhibit 78.0, p. 21, ll. 470-478. LUMA has, for the first time, disconnected municipal facilities for nonpayment and conducted structured engagement with agencies to reconcile facility status and metering issues—efforts beyond typical utility practice that are necessary in Puerto Rico's context. *Id., see also, id.,* p. 263, ll. 23-25; p. 432, ll. 12-25; p. 433, ll. 1-25. These actions, coupled with a

request for administrative regularity in agencies' budgeting and payment processes, support the prudence and reasonableness of the collection's portfolio. Exhibit 78.0, p. 25, ll. 562-578, p. 26, ll. 579-585.

Fourth, the Billing Accuracy and Back Office program and data remediation are essential prerequisites to further rate modernization and risk reduction. Ms. Hanley's testimony details that PREPA's legacy CC&B environment is highly customized, near-end-of-life, lacks native reporting, and contains large volumes of degraded billing and customer records that impair agility and accuracy. Exhibit 78.0, p. 29, ll. 663-670, p. 30, ll. 671-677. As she explained, overstated subledger receivable balances reflect poor legacy data quality and absence of timely write-offs—not merely collection inefficiency—and require cross-functional remediation spanning systems integration, accounting, and regulatory compliance. *Id*., p. 4, ll. 72-91. The Billing Accuracy and Back Office program aims to standardize CC&B programming, complete data clean-up, automate service order closure, and establish robust reporting, each a risk-control measure for billing and a prerequisite for reliable rate structure changes. Exhibit 7.02, p. 1. Delaying the program for one year would push back timelines for data accuracy, upgrading to a new cloud-based CC&B system, and utilizing all the benefits that AMI has to offer. Transcript 12/1, p. 188, ll. 1-25.

Ms. Hanley cautioned that incremental changes to the current rate engine (e.g., collapsing blocks or introducing multiple riders) heighten the risk of billing errors and necessitate costly redevelopment of off-system reporting via the data lake, favoring a prudent strategy: stabilize now, then modernize during the CC&B upgrade and AMI/Meter Data Management System ("MDMS") integration. Exhibit 78.0, p. 5, ll. 97-103, p. 35, ll. 778-790. The record outlines development timelines and costs for potential riders, showing that such work must proceed sequentially and would not deliver cash receipts until well into FY2027, given the DSO cycle, underscoring the

need to prioritize essential, low-risk enhancements and the data remediation roadmap in this rate period. *Id*., p. 33, ll. 748-756, p. 34, ll. 757-777. Specifically, Ms. Hanley explained how the version of CC&B inherited by LUMA has over 2,800 customizations. Every time LUMA has had to implement a new rider, it has cost about half a million dollars. Transcript 12/1, p. 12, ll. 8-19. She anticipates the Energy Bureau will order LUMA to adopt two or three riders after this instant proceeding. *Id*., p. ll. 20-25.

Fifth, the Modernized Customer Service Technology program is targeted, cost-effective, and largely does not burden the base-rate. The technology roadmap enhances interactive voice response (IVR), web/app self-service, and transaction-based SMS to reduce adviser touches and improve first-call resolution tracking, thereby measurably lowering O&M run costs per interaction over time. Exhibit 7.03, p. 1; Transcript 12/1, p. 141, ll. 5-25, p. 142, ll. 10-18; Exhibit 111. These targeted upgrades build on a platform already deployed and "achieved" for fundamental contact-center modernization, maximizing the return on prior investments with limited incremental spend.

Sixth, the EV Implementation Support program budget is necessary and appropriately scoped. Ms. Hanley and PREB Consultant, Courtney Lane, align on approving the optimal annual budget for the EV Implementation Support program to continue customer education, infrastructure planning, and pilot time-of-use ("TOU") activities, consistent with Act No. 33-2019 and prudent grid management during adoption. Exhibit 78.0, p. 36, ll. 801-814. Given operational and technical barriers that limit LUMA's ability to integrate modernized rate concepts, LUMA cannot responsibly commit to broader EV rate offerings before the following rate case but stands ready to engage stakeholders on rate design concepts in advance. *Id*., p. 36, ll. 815-823. If the Constrained Budget were adopted, the interim EV TOU pilot would be eliminated, further validating the Optimal Budget as the prudent course to preserve program continuity. Exhibit 78.02, p. 2.

Based on the record, LUMA requests that PREB approve the Optimal Customer Experience Budget for FY2026–FY2028. The Customer Experience proposals are prudent, evidence-based, and mission-critical to meeting LUMA's contractual obligations and Puerto Rico's energy policy objectives while improving service quality, reducing losses, and protecting ratepayers through appropriate funding sources and risk mitigation. Approval of the Optimal Budget ensures continued progress toward a modern, reliable, and customer-centric electric service in Puerto Rico.

P. Third Party Attachments costs and revenues

The T&DOMA assigns LUMA responsibility for "real estate management, Easements, leases and agreements, pole attachments (including billing and collection for pole attachment fees, as well as maintaining a complete inventory of type and location of each attachment and plans for revenue optimization), joint use agreements and telecommunications for the provision of electric service". Exhibit 489, Annex I, Section II(A).

The Optimal Budget includes funds to update and standardize procedures for third-party use of the utility's poles and rights of way, developing agreement templates, improving billing and tracking, ensuring safety and legal compliance, and instituting annual billing for each attacher.

The Energy Bureau should determine that: LUMA's Third Party Attachments ("TPAs") program activities (to wit: engineering studies, field inspections, load analyses, inventory remediation, contracting, and billing system improvements) are necessary, reasonable, and prudently incurred to meet legal, safety, and system-planning obligations; and the associated operating costs should be recovered through the revenue requirement with appropriate reconciliation against TPA collections, consistent with LUMA's testimony that third-party payments will reduce net cost to customers.

Mr. Meléndez sponsors TPA costs of approximately $8.0 million and up to $8.7 million. Exhibit 5.0, p. 40, ll. 870-874, p. 41, ll. 875-879, Exhibit 2.05, tab 5.4, PBRE2; Exhibit 149. As

shown in Exhibit 684, costs include those to fund FTEs responsible for managing and addressing TPA work and related issues. Mr. Rotger-Sabat testified that LUMA's Legal and Land & Permits Department's technical and professional services costs also cover "administration of third-party attachments to T&D poles, such as telecommunications." Exhibit 10, p. 20, ll. 407-415. Lack of funding would entail that the Land & Permits Department would have insufficient resources to efficiently process permits associated with operational activities, including telecommunications. *Id.*, p. 21, ll. 438-441.

As for the Customer Experience Department's relationship with TPAs, Ms. Sarah Hanley, Interim Senior Vice President of LUMA's Customer Experience Department, testified that TPAs are a recurring, largely manual billing activity and cited as a key example of "non-standard" or "sundry" billing that drives the request for incremental headcount and process enhancements in the FY2026-FY2028 budgets. Exhibit 7, p. 24, ll. 482-488, p. 26, 526-529.The Customer Experience Department proposes additional FTEs specifically to handle annual TPA billings, among other non-tariff activities, to prevent delays in revenue realization and avoid backlogs that would otherwise slow billing resolution and working capital conversion. *Id.* If Customer Experience is forced to operate under constrained resources, the Department anticipates fewer staff available for TPA and other non-energy billings, resulting in backlogs and delayed collection of non-energy revenues. *Id.*

At the November 17th hearing, Mr. Meléndez explained that the TPA funding request is an "engineering outsourcing" to process third-party attachment requests, conduct field visits, perform and report on studies, and improve the inventory of third-party attachments. Transcript 11/17, p. 22, ll. 19-25, p. 23, ll. 1-4; Exhibits 688, 689, 692. He confirmed there are standardized procedures for auditing, billing, and coordination across engineering, customer experience, and legal, and that

those procedures align with federal requirements for cost allocation and right-of-way management. Transcript 11/17, p. 23, ll. 12-25. Mr. Meléndez also explained that TPA costs cover: engineering studies, site inspections for each request, pole load analyses, reporting and reconciliation work, and internal labor to build the GIS and systems-based inventory "because we do not have a clear inventory of everything." *Id.*, p. 50, ll. 1-18, Exhibit 105.

Questioning from Bondholder counsel revealed the practical need to improve the inventory because records are incomplete, which has allowed some attachers to be connected without paying. Mr. Meléndez confirmed the need for better records, acknowledged "some" nonpaying attachers, and linked billing difficulties to historical record gaps. Transcript 11/17, p. 40, ll. 7-24, p. 41, ll. 1-7.

On compulsion and cost recovery, the November 17, 2025 Evidentiary Hearing explored whether LUMA, as PREPA's agent, must provide pole access to third parties. Mr. Rotger-Sabat, explained that Puerto Rico law and Regulation 9090 (2019) require application of the Federal Communications Commission (FCC) pole attachment rate formula to government-run utilities, referencing Act 80-2017 as incorporated into the Puerto Rico Telecom law. *Id.*, p. 61, ll. 7-23, p. 68, ll. 2-6. Consistent with his prefiled testimony at Q.62, Mr. Meléndez testified that although some TPA costs are initially recovered through rates, those costs will be reconciled against third-party payments so that to the extent attachers pay, costs are not borne by customers. *Id.*, p. 45, ll. 4-25.

The record shows LUMA inherited fragmented contracts and inconsistent rate structures (per-pole vs. per-attachment), complicating collections and cost recovery, and is now standardizing templates, renewing or replacing contracts, reconciling inventories with carriers, and moving to a formula-based rate consistent with Regulation 9090/FCC methodology. *Id.*, p. 68, ll. 2-25, p. 69,

ll. 1-14, Exhibits 690, 692, 741 Mr. Rotger testified that LUMA can renegotiate to cover costs and, potentially, achieve rates above cost where appropriate under the applicable formula and negotiations. *Id.*, p. 70, ll. 6-10, p. 71, ll. 4-10.

Ms. Hanley, explained that prior to LUMA's commencement, PREPA did not regularly bill TPAs; LUMA issued "batched invoices" for multiple fiscal years in late 2024/early 2025, has collected $2.4 million as of the end of the month prior to the evidentiary hearing, and is engaged in standardized collections as contracts are finalized; disputes have been settled with at least one carrier covering FY22-FY25, and negotiations with other major carriers are "very advanced." Transcript 11/17, p. 583, ll. 5-25, p. 584, ll. 1-22. There was discussion of an early revenue projection (as reflected in LUMA's Schedule B-7) that reflected a conservative assumption (about $0.4 million), but Mr. Rotger-Sabat, informed a materially higher annual run-rate is expected, representing a conservative estimate of roughly $3.5 million per year once the new formula-based rates are in place. Transcript 11/17, p. 586, l. 25, p. 587, ll. 1-25, p. 588, ll. 12-13; Exhibit 105.

For the OIPC, Mr. Jaime Sanabria submitted pre-filed testimony suggesting that LUMA has under-collected this revenue. Exhibit 53, p. 16, ll. 280-281, p. 17, ll. 282-303, p. 18, ll. 304-312. PREB should decline to give probative weight to his testimony, as Mr. Sanabria admitted in cross-examination that his prior professional experience at Ecoeléctrica did not include management of TPAs. Transcript 12/09, p. 318, ll. 16-24, p. 319, ll. 1-10.[24] Moreover, as he

[24] The rough transcript does not reflect an accurate account of the testimony provided. *See* Evidentiary Hearing Live Transmission, 12/9, 1:02:21 – 1:02:35:
"MS. YAHAIRA DE LA ROSA ALGARÍN: And you already testified to having served various roles at Ecoeléctica, LP, right?
MR. JAIME SANABRIA-HERNÁNDEZ: Yes.
MS. YAHAIRA DE LA ROSA ALGARÍN: During your tenure at Ecoeléctrica, you did not manage a distribution pole network, right?
MR. JAIME SANABRIA-HERNÁNDEZ: Correct.
MS. YAHAIRA DE LA ROSA ALGARÍN: And you did not collect pole attachment fees, correct?
MR. JAIME SANABRIA-HERNÁNDEZ: We didn't have any, correct."

admitted on the witness stand, Mr. Sanabria did not produce a calculation showing under-collection or missed revenues, *Id.*, p. 319, l. 25, p. 320, ll. 1-3, p. 321, ll. 16-25, p. 322, ll. 1, nor did he perform an attachment count, a variance analysis among attachers, a reconciliation of rates, nor an assessments of rates charged by PREPA historically, *id.*, p. 322, ll. 3-23. Nor did Mr. Sanabria produce a proposal to reach a particular recovery rate applicable to TPAs. *Id.*, p. 323, ll. 20-25, p. 324, ll. 1-10.

Mr. Meléndez testified that approximately 8,000 completed pole replacements remain affected by third-party equipment reattachment/transfer issues tied to attacher actions, with the monetary impact in the "millions," corroborating the need for systematic TPA management to avoid jeopardizing federal recovery schedules and reimbursements. Transcript 11/17, p. 63, ll. 2-22. Mr. Meléndez also confirmed there are about 1,200 unauthorized attachments, with LUMA pursuing enforcement, back-billing for time in service, and adding contractual tools (including potential penalties) to deter unauthorized use and ensure timely removal or payment. *Id.,* p. 79, ll. 22-25; p. 80, 1-25, p. 81, l. 1. As PREB itself recognized by way of its Chair, there are public-interest constraints around telecommunications, as a basic service, which necessitate a measured approach to removals while still enforcing legal and contractual obligations. *Id.*, p. 599, ll. 24-25, p. 600, ll. 1-10.

During the November 17th hearing, counsel for the ICPO suggested that LUMA's work with TPAs are a "side business" *vis-à-vis* its T&D system operation services. During cross examination, Mr. Meléndez acknowledged that TPAs are not part of Capital Programs' core reliability work, but he affirmed that related expenses are included in LUMA's proposal. *Id*., p. 43, ll. 9–25, p. 44, ll. 1-3. Pole attachments, related inventory, and billing/collections are part of LUMA's operational mandate for the T&D System, together with plans for revenue optimization.

See id., ll. 4-15; T&DOMA, Annex I, Section II(A). The operative tradeoff is not whether to perform TPA work, but whether to resource it sufficiently to convert inherited backlogs and incomplete records into steady, auditable billing and collections that reduce net costs borne by customers, as LUMA's plan is designed to do. Transcript 11/17, p. 48, ll. 4-17; p. 50, ll. 5-23, p. 51, ll. 14-20, p. 52, ll. 21-25, p. 53, ll. 1-12; Exhibits 689, 690, 692.

Quantified invoicing/collections evidence corroborates the scale and need. Exhibit 681 provides invoice and collection detail by telecommunications counterparty, illustrating current performance and the work remaining to normalize collections. For example, FY2025 invoicing and collection data for the Puerto Rico Telephone Company reflect settlement-driven collection of $588,329.40, and multi-year tables for other providers show invoiced and collected amounts for FY2022-FY2024. This demonstrates that while collections are occurring, sustained effort is required to achieve full recovery across third parties, validating a FY2026 audit/billing focus. Accordingly, the record reflects that collections improve because the systems and staffing are put in place, not vice versa. Ms. Hanley's testimony regarding historic gaps and the newness of TPA billing, together with Exhibit 681's mixed collections status, demonstrate that audit, contracting, and billing work must be resourced now to drive revenue optimization later. The record shows LUMA's commitment to reduce cost recovery from ratepayers, commensurate with collections squarely addresses customer impact and aligns with prudent utility practice.

Proposed investments are directly tied to improving TPA revenue recovery and reducing net costs to customers as collections are recognized. PREB should approve LUMA's FY2026 revenue requirement for TPA-related O&M within Capital Programs, as well as the associated Legal and Land & Permits O&M and Customer Experience process and system enhancements

necessary to administer TPAs, with the understanding that collections from third parties will reduce the net amount recovered from customers on a going-forward basis.

Q. ITOT

The IT, OT, and Cybersecurity Department (the "IT/OT Department" or "IT/OT") forms the backbone of LUMA's operations, enabling grid management, business processes, and customer service while safeguarding assets and sensitive data from cyber threats. Exhibit 11, p. 5, ll. 93-98. Information Technology (IT) oversees applications and end-user technology, ensuring employees have the tools they need (*i.e*., field satellite phones) while managing critical systems like billing, asset management, and workforce platforms, along with technical service contracts. *Id.,* p. 5, ll. 99-109. Operational Technology (OT) focuses on the physical infrastructure of the T&D System, operating a distributed environment with 552 network devices across six regions. *Id.,* p. 5, ll. 110-112, p. 6, ll. 113-114. Cybersecurity protects both IT and OT systems, securing public utility assets and private customer information to maintain confidentiality, integrity, and availability. *Id.,* p. 6, ll. 115-120. Together, these functions ensure safe, reliable, and secure energy delivery for Puerto Rico's 1.5 million customers. *Id.*

IT/OT is comprised of four functions: (1) grid control and operation, (2) enabling customer services, (3) supporting business operations, and (4) cybersecurity. *Id.,* p. 6, ll. 121-127. The functions of the Department are required by multiple provisions of the T&DOMA, including Sections 4.2(h)(ii) and 13.3, Sections I(B), II(E), and VIII(C) of Annex I (Exhibit 489), and sections 1.5, 1.6, 1.10 of Act 17-2019. Exhibit 11.0*,* p. 9, ll. 185-200, p. 10, ll. 201-217, p. 11, 218-219. The IT/OT Department faces two major challenges over the next three fiscal years: [redacted]. Exhibit 11.0*,* p. 14, ll. 286-

302. Meeting these challenges requires modern security frameworks, advanced tools, and sufficient workforce capacity to manage over 200 technology initiatives while safeguarding critical utility assets and sensitive customer data. *Id.,* p. 14, ll. 302-304.

The IT/OT Department is requesting that PREB approve the requested Optimal Budget of $105.03 million for FY2026, $120.87 million for FY2027, and $128.68 million for FY2028. *Id.,* p. 17, Table 2. The proposed costs are just and reasonable. *Id.,* p. 43, ll. 907-909. The IT/OT Department developed its FY2026-FY2028 Optimal Budget through a disciplined, bottom-up process at the cost center, expense type, and project level, ensuring all requests were based on operational need and prioritized to address reliability risks, system deficiencies, emergency readiness, and legacy underinvestment while aligning with the LTIP and staffing considerations. *Id.,* p. 17, ll. 335-346.

The FY2025 O&M Budget was $39 million. Exhibit 11.0*,* Table 2, p. 17. LUMA is proposing to increase this budget to $69.90 million in FY2026, $88.90 million in FY2027, and $103.04 million in FY2028. *Id*., p. 18, ll. 355-356. Technical and Professional Services and Staffing are the primary components of IT/OT O&M Costs. *Id.,* p. 18, ll. 356-357.

IT/OT is proposing a Professional and Technical Services Budget of $53.55 million for FY2026, $71.56 million for FY2027 and $84.47 million for FY2028. *Id.,* Table 2 as revised with Exhibit 1066[25]. These costs include long-term service agreements (*i.e.*, system licenses, software maintenance, hardware support) and short-term specialized contracts (*i.e*., system integration, data migration, architecture design) that ensure the continuity, reliability, security, and efficiency of LUMA's technology systems supporting customer service, grid operations, and regulatory

[25] Exhibit 1066 updates the budget request for IT/OT Professional and Technical Services Budget. This update is further reflected in the updated revenue requirement presented by LUMA. *See* Exhibit 1106, tab LUMA's Updates to RR, row 58 and 59.

compliance. *Id.,* p. 18, ll. 359-365, p. 19, ll. 366-382, p. 20, ll. 383-393. These costs are increasing because LUMA is adding essential applications and systems needed to maintain core business operations and grid reliability, such as outage management, grid control, real-time restoration updates, emergency response, and AMI deployments, all of which require service agreements for licensing, maintenance, and vendor support; additionally, costs are rising as LUMA negotiates multi-year contracts to replace costly annual renewals with a more stable renewal model. *Id.,* p. 20, ll. 406-407, p. 21, 408-415. The risks of not funding these existing and planned projects include jeopardizing core operations such as outage management, billing, cybersecurity protection, customer communication, and renewable energy integration, which could lead to longer outages, delayed restoration, degraded cybersecurity, and increased vulnerability to cyberattacks and data breaches as systems become obsolete and lose critical security updates. *Id.,* p. 21, ll. 424-430, p. 22, 431-432.

IT/OT is proposing staffing costs of $15.71 million for FY2026, $16.71 million for FY2027 and $17.93 million for FY2028. *Id.,* Table 2, p. 17. This budget includes 119 existing budgeted roles. *Id.,* p. 22, ll. 434-437. The IT/OT Department plans to hire 166 employees over three fiscal years, with 158 added in FY2026 (including 112 for Enterprise Delivery Teams, [redacted] for IT and OT functions, and [redacted] for IT/OT and Cybersecurity), followed by [redacted] hires in FY2027 and [redacted] in FY2028 to support IT and OT functions. *Id.,* p. 22, ll. 449-451, p. 23, ll. 452-456. These hires are critical to reduce reliance on external consultants, address historical underfunding, and build internal capacity to deliver critical technology initiatives that support grid modernization, operational efficiency, cybersecurity readiness, and improved customer service for Puerto Rico. *Id.,* p. 23, ll. 456-460. Over time, these hires will reduce costly dependence on professional services

contracts, resulting in significant savings and efficiency gains for LUMA and long-term financial benefits for the people of Puerto Rico. *Id.*, p. 26, ll. 533-537.

The FY2025 NFC Budget was $6.9 million. *Id.,* Table 6, p. 28. LUMA is proposing to increase this budget to $35.13 million in FY2026, $31.97 million in FY2027, and $25.64 million in FY2028. *Id.* Through the NFC budget, IT/OT implements the IT OT Cybersecurity, IT OT Enablement, IT OT Asset Management, and IT OT Collaboration and Analytics programs. *Id.,* p. 11, ll. 220-223.

[redacted]. Exhibit 11.0*,* p. 11, ll. 225-239, p. 12, ll. 240-250. The IT/OT Enablement Program (LUMA Exhibit 11.03) enhances LUMA's technology service delivery by implementing industry-standard processes and tools to improve device management, service and project management, enterprise architecture, and data governance. Exhibit 11.0*,* p. 12, ll. 252-257. The IT/OT Asset Management Program (LUMA Exhibit 11.04) ensures LUMA's mission-critical systems remain secure, vendor-supported, and resilient by replacing end-of-life hardware, software, and databases, introducing cloud technologies, and implementing formal asset management practices aligned with industry standards to reduce operational, cybersecurity, and safety risks. Exhibit 11.0*,* p. 12, ll. 259-263, p. 13, ll. 264-266. Lastly, the IT/OT Collaboration and Analytics Program (LUMA Exhibit 11.05) enhances LUMA's enterprise data management and cross-functional collaboration by upgrading outdated systems, implementing centralized repositories and analytics tools, expanding the Data Lake, and standardizing workflows—creating an integrated environment for

real-time information, regulatory reporting, and operational excellence to support safe, efficient utility services and improved customer satisfaction. Exhibit 11.0, p. 13, ll. 268-283.

The breakdown of the budget requested for each of these programs is the following:

Table 6. Summary of IT OT and Cybersecurity Department NFC Funding Request for FY2026 to FY2028

ID	Program Name	Proposed NFC Budget			FY2025 NFC Budget
		FY2026	FY2027	FY2028	
PBIT2	IT OT Cybersecurity	[redacted]	[redacted]	[redacted]	[redacted]
PBIT3	IT OT Enablement	[redacted]	[redacted]	[redacted]	[redacted]
PBIT4	IT OT Asset Management	[redacted]			[redacted]
PBIT5	IT OT Collaboration and Analytics	[redacted]	[redacted]	[redacted]	[redacted]
TOTAL		$35.13	$31.97	$25.64	$6.9

Id., Table 6, p. 28.

In 2026, LUMA [redacted]. Exhibit 11.0, p. 29, ll. 580-587. [redacted].

Id. p. 30, ll. 624-627, p. 31, ll. 628-629.

The IT OT Enablement Program NFC budget will be dedicated to funding the End User Device Management project, which is a critical investment in the tools LUMA's workforces relies on to perform outage response, customer service, grid monitoring and daily operations. *Id*., p. 31, ll. 639-642.

The IT OT Asset Management Program NFC funding will be dedicated to replacing aging infrastructure, scaling systems to meet growing operational demands, and enabling modernization efforts that directly impact LUMA's ability to deliver safe, reliable, and efficient service to customers. *Id*., p. 33, ll. 687-689.

Lastly, the IT OT Collaboration and Analytics Program NFC budget will be dedicated to improving how LUMA manages enterprise data, automates processes, and enables decision-making across the organization. *Id.*, p. 39, ll. 817-819. This includes correcting gaps of underinvestment across the organization. *Id.*, p. 39, ll. 819-821.

The cost estimation for the service contracts included in the NFC funding request is made in alignment with industry guidance, which suggests that annual software and IT support costs typically range between 15% to 25% of the original implementation or license cost, covering updates, maintenance, and technical support needs. Transcript 12/19, p. 48, ll. 8-22, p. 49, ll. 1-25, p. 63, ll. 16-25, p. 64, ll. 1-12. That is, out of the implementation costs, the industry standard is that 15% of the initial project cost is carried over to the next years as the ongoing support and maintenance cost. *Id.,* p. 50, ll. 4-12. Ms. Allen testified that LUMA applied a conservative industry standard and decided not to apply 30% that is the upper echelon of the industry standard. *Id.*, p. 56, ll. 5-17.

Nonetheless, suggesting that the 15% allocation for IT services agreements should appear as a simple mechanical calculation applied uniformly across all items within the IT service agreements list, incorrectly assumes that all costs originate within the IT/OT budget. *Id.,* p. 54, ll. 13-25. The activities that require IT support are funded through the budgets of other departments. *Id*., p. 51, ll. 14-19. The amounts reflected in the service agreements budget therefore represent the level of ongoing IT support actually required by those business units rather than a flat percentage

applied to a single IT cost pool. *Id*., p. 50, ll. 1-12. It is important to highlight that these agreements, per requirements established in procurement manuals and internal requirements, are competitively procured. Transcript 12/02, p. 72, ll. 10-21, p. 73, ll. 4-9, p. 77, ll. 5-12; *see also* Exhibit 307.1.

Reducing the Optimal Budget increases operational risk by delaying incident resolution, extending system downtime, weakening cybersecurity posture (including [redacted] Exhibit 11.0*,* p. 46, ll. 986-989, p. 47, ll. 990-992. Although the IT OT Department would select cuts intended to minimize customer impact, a reduction would ultimately create risks to performance, reliability, and long-term operational resilience. *Id.*, p. 47, ll. 995-997. A reduction in the NFC Optimal Budget would significantly scale back IT/OT initiatives by deferring or reducing key programs such as Enterprise Document Management, IoT platform deployment, [redacted], and critical cybersecurity measures, while limiting investments in process automation and data integration. *Id*., p. 47, ll. 1000-1013, p. 48, ll. 1014-1016. These adjustments postpone advanced features, stagger infrastructure expansion, and delay projects aimed at improving operational resilience and real-time monitoring. *Id*.

Reducing the Collaboration and Analytics Program will require deferring upgrades and tools, which slightly increases cybersecurity exposure and risks gradual performance degradation. *Id.,* p. 48, ll. 1017-1020. This could lead to slower data processing, reporting inaccuracies, and operational inefficiencies if delays extend beyond FY2028. *Id.*, ll. 1024-1026. In turn, reducing the IT OT Asset Management Program will require postponing real-time monitoring capabilities for substations and sites, which undermines outage response (impacting reliability that will be

reflected in the SAIDI and CAIDI metrics), prolongs restoration efforts (including during storms), heightens safety risks for field crews, and delays modernization of grid visibility by up to 18 months. *Id.,* p. 48, ll. 1034-1038, p. 49, ll. 1039-1047; *see also* Transcript, 12/02, p. 137-138, ll. 23-25, p. 138, ll. 1-18. [redacted] Transcript 12/02 (confidential session), p. 180, ll. 6-24, p. 181, ll. 18-23. [redacted]. *Id.* (confidential session), p. 288, ll. 13-22. A clear example that this is a real threat is that LUMA already suffered a denial-of-service attack, impeding the collection of payments. *Id.* (confidential session), p. 289, ll. 7-20. Reducing [redacted] Exhibit 11.0, p. 49, ll. 1050-1062; Transcript 12/02 (confidential session), p. 297, ll. 8-24. If LUMA does not harden and strengthen the system from a cybersecurity perspective, it will be unable to keep pace with the rate of cybersecurity threats to the island and the T&D System. Transcript 12/02, p. 116, ll. 11-23. Further, if the Enablement program is not funded, LUMA won't be able to execute different projects within each of the program briefs and the ability to provide reliable service will be at risk. *Id.*, p. 171, ll. 11-19.

III. PREB should approve LUMA's Outage Event Reserve Account ("OERA") funding to ensure readily available funding for outage event restoration.

In accordance with the T&DOMA, LUMA administers multiple accounts, which are denominated Service Accounts. Exhibit 489, Art. 1, "Service Accounts." To wit, the Operating Account, the Capital Account–Federally Funded, the Capital Account–Non-Federally Funded, the OERA, the Generation Expenditures Account, and the Contingency Reserve Account. *Id.* The OERA is an account that was established by Service Commencement Date in which PREPA deposited $30 million. *Id.,* Sec. 7.5(d)(ii); *see also* Exhibit 77.0, p. 6, ll. 118-120. LUMA shall draw funds from the OERA to pay costs associated with Outage Event,[26] which expenses are defined as Outage Event Costs.[27] Exhibit 489, Sec. 7.5(d)(i). Promptly after LUMA withdraws funds from the OERA to cover Outage Event Costs, PREPA is obligated under the T&DOMA to replenish the account so as to maintain $30 million. *Id.,* Sec. 7.5(d)(ii).

Following the T&DOMA, LUMA has used funds from the OERA to fund Outage Event Costs. Exhibit 2, p. 19, ll. 358-360. The OERA had been funded in the past. *Id.*, p. 18, ll. 353-355. However, PREPA has not replenished it since November 2023. *Id*., p. 19, ll. 356-358, *see also* Transcript 12/05, p. 340, ll. 6-14; *id.,* p. 341, ll. 2-7. Although there is a contractual requirement clearly established in Section 7.5(d) of the T&DOMA, PREPA has failed to replenish the OERA by a total amount of $239 million. Exhibit 1.0, p. 77, ll. 1409-1410. The $239 million is the sum of $30 million to replenish the OERA to the required T&D OMA-funding level (*i.e*., $30 million) and $209 million to reimburse the Outage Event Costs LUMA has had to pay from the Operating Account rather than from the OERA due to lack of available funds. *Id.,* p. 75, ll. 1410-1417; *see also* Exhibit 1.05; *see also* Exhibit 2.0, p. 19, ll. 360-367.

[26]Exhibit 489, Art. 1, "Outage Event."

[27] *Id.*, "Outage Event Costs."

The OERA is the only dedicated source of immediately accessible funds available to LUMA for responding to emergency situations, which are inherently unpredictable. Exhibit 1.0, p. 79, ll. 1450-1456. Maintaining the required level of OERA funding is essential to ensure that LUMA can mobilize resources without delay when emergencies occur, like major system interruptions caused by storms. *Id.,* p. 79, ll. 1459-1461; *see also id.,* p. 83, ll. 1524-1526. This lack of funds places the customer and the T&D System at risk. *Id.,* p. 83, l. 1545, p. 84 ll. 1546-1547.

Currently, there is no rate mechanism in place to replenish the OERA. Exhibit 77.0, p. 9, ll. 187-189.[28] The revenue requirement has to be sufficient so that PREPA has the cash on hand to keep the OERA fully funded. Transcript 12/05, p. 328, ll. 7-16. Although it is not LUMA's responsibility to identify sources of funds to replenish the OERA, LUMA has proposed a rider to recover outage restoration costs and to maintain the $30 million minimum balance for the OERA. *Id.,* p. 456, ll. 17-25, p. 457, ll. 1-2; *see also* Exhibit 77.0, p. 5, ll. 106-108. In plain words, the rider is the vehicle by which money would flow from customers to the OERA. Transcript 12/05, p. 458, ll. 18-25, p. 459, ll. 1-19. Eligible costs to be recovered through this rider must include those allowed in Section 7.5(d) of the T&D OMA and the LGA OMA. Exhibit 77.0, p. 9, ll. 184-187; *see also* Transcript 12/05, p. 456, ll. 17-25, p. 457, ll. 1-2.

The persistent shortfall of the OERA has placed undue strain on LUMA's liquidity and operational stability. Exhibit 1.0, p. 86, ll. 1597-1598. Diverting funds from the Operating Account, which hosts funds specifically budgeted and approved by PREB for the operation of the T&D System, including improving reliability and resilience, to cover Outage Event Costs, compromises immediate response capabilities and long-term system improvements. *Id.* at p. 83, ll. 1527-1537,

[28] This will be further addressed in the rate design brief discussion of LUMA's proposed Storm Cost Rider.

p. 87, l. 1614; *see also* Exhibit 2.0, p. 19, ll. 339-342. Further, not all emergency events qualify for FEMA or other external emergency funding. Exhibit 1.0, p. 83, ll. 1538-1545. But, assuming that an event does qualify, the operator must first incur the expense, and then seek reimbursement. *Id.*, p. 83, ll. 1542-1544. Furthermore, the option of seeking emergency rates when an emergency occurs is not practical nor feasible. *Id.,* p. 84, ll. 1561-1563. It creates an unnecessary burden during critical moments and does not address the immediate cash needs associated with responding to emergencies, including a major storm. *Id.*

Through this rate case, LUMA seeks to recover approximately $239 million to replenish the OERA and recover past Outage Event Costs not funded from the OERA because said account did not have sufficient funds to pay for these costs. *Id.,* p. 77, ll. 1409-1417; Transcript 12/05, p. 459, ll. 22-25, p. 460 ll. 1-12. This amount is to be recovered over the period of two years. Exhibit 77, p. 7, ll. 135-149. Of this amount, $30 million is to replenish the OERA to the level required by the T&DOMA and $209 million is to reimburse the Outage Event Costs (actual costs) that LUMA has had to cover (*i.e*., restoration after hurricanes Fiona and Ernesto) with funds from the Operating Account, rather than from the OERA. *Id*.; *see also* Exhibit 1.0, p. 85, ll. 1567-1586; *see also* Transcript 12/05, p. 459, ll. 22-25, p. 460, ll. 1-12, p. 467, ll. 2-9. Collecting the accumulated balance will help stabilize the financial condition of the T&D System, restore liquidity, protect the execution of critical projects, and ensure that LUMA can continue to meet its obligations to the people of Puerto Rico. Exhibit 1.0, p. 87, ll. 1624-1626. For these reasons, the payment of the accumulated balance is not only a matter of contractual compliance. *Id.*, p. 87, ll. 1627-1628.

LUMA does not have accountability concerns regarding reporting of the Outage Event Reserve Account use. Transcript 12/05, p. 501, ll. 3-13. The T&DOMA establishes clear mechanisms to ensure transparency and regulatory compliance. *Id.,* p. 501, ll. 17-25, p. 502, ll. 1-

7. Specifically, LUMA is contractually obligated to provide notice to the P3A whenever a withdrawal from the OERA occurs. Exhibit 489, Sec. 7.5(d)(iii). In addition, LUMA submits a separate monthly report to P3A not later than ten (10) business days following each month end during which funds were withdrawn from the OERA detailing account activity. *Id.* For each Outage Event, the T&DOMA imposes further requirements: LUMA must notify both P3A and PREB, identifying the event's commencement, its cause, the number of customers impacted, the time of restoration, and other information mandated under the agreement. Transcript 12/05, p. 501, ll. 17-25, p. 502, ll. 1-7. These layered reporting obligations collectively ensure that all stakeholders receive timely and accurate information, eliminating any basis for accountability concerns. Furthermore, if pursuant to the mechanisms established in the T&DOMA, it is determined that funds from the OERA were incurred as a result of LUMA's negligence or willful misconduct, they are deemed Disallowed Costs[29] and cannot be recovered as T&D Pass-through Expenditures,[30] meaning that they would not be paid from base rates. Exhibit 489, Sec. 7.6(a).

On July 3, 2025, LUMA requested that PREB approve a provisional rate that included $120 million to address part of PREPA's past and current underfunding of the OERA ($30 million to restore the OERA required funding level and $90 million for restoration of prior underfunding). July 31 Order, p. 23[31]. On July 31, 2025, the Energy Bureau denied this request. *Id.* On that same date and order, the Energy Bureau established the Emergency Reserve Account, a system-wide restricted account funded at $15 million, to provide liquidity for extraordinary, high-impact reliability events that exceed the normal operating budgets of LUMA and Genera. *Id.* The

[29] Exhibit 489, Art. 1, "Disallowed Costs."

[30] *Id.*, Art. 1, "T&D Pass-through Expenditures."

[31] https://energia.pr.gov/wp-content/uploads/sites/7/2025/07/20250731-AP20230003-Resolution-and-Order.pdf

account was formally established in the July 31st Order, which approved provisional rates and the Fiscal Year 2026 Temporary Default Budget. *Id.*, 36-38. LUMA agrees that this mechanism is, and must remain, temporary because it does not provide for replenishment and, thus, the mechanism available for replenishment would only be the Temporary Rate Adjustment provided in Section 6.25(d) of Act 57-2014. Exhibit 77, p. 10, ll. 208-212. As stated by PREB, the "[Emergency Reserve Account created by the Energy Bureau] is not a replenishment or permanent substitute for reserve accounts contemplated by the OMAs (e.g., LUMA's [OERA] or Genera's Reserve Account" LGA OMA, Sec. 7.6(d), p. 93. Replenishing OMA based reserves will be addressed in the permanent rate phase of this proceeding." September 10 Order, p. 2[32]. PREB has further determined that policies and procedures related to the PREB-Emergency Reserve Account apply only during the provisional-rate period and that issues of replenishment of operator-level reserves and longer-term emergency-funding mechanisms will be decided in the permanent rate phase. *Id.*, p. 4.

The evidence in this proceeding demonstrates that the recovery of $239 million to replenish the OERA and reimburse past Outage Event Costs is necessary, just and reasonable. This amount is not discretionary; it is required to comply with the T&DOMA and to restore the financial stability of the T&D System. The OERA is the only dedicated source of immediately accessible funds for emergency response, and its depletion has forced LUMA to divert resources from the Operating Account, compromising reliability projects and long-term system improvements. The requested recovery will replenish the OERA to its mandated $30 million balance for all of the periods it was not funded and reimburse $209 million in actual outage restoration costs incurred during major events such as Hurricanes Fiona and Ernesto. These costs were prudently incurred to

[32] https://energia.pr.gov/wp-content/uploads/sites/7/2025/09/20250910-AP20230003-Resolution-and-Order.pdf

protect public safety and restore service under extraordinary conditions, and they cannot be deferred or absorbed without jeopardizing operational continuity. Further, the absence of a permanent replenishment mechanism creates systemic risk, leaving customers and the grid vulnerable to future emergencies. Approving this recovery will stabilize liquidity, safeguard critical infrastructure, and ensure that LUMA can meet its contractual obligations and respond promptly to unpredictable events. For these reasons, PREB should authorize the full recovery of $239 million as part of permanent rates.

Further, contrary to the claims of some of the parties, allowing the utility to recover these costs through rate increases that were duly noticed and become effective on a prospective basis does not constitute retroactive ratemaking. Courts have held that the statutory provisions of the Federal Power Act ("FPA") that require open and transparent filing of rates[33] and broadly proscribing their retroactive adjustment are known collectively as the "filed rate doctrine." *Old Dominion Elec. Coop. v. FERC*, 892 F.3d 1223, 1226–27 (D.C. Cir. 2018); *see also Borough of Ellwood City v. FERC,* 583 F.2d 642, 648 (3rd Cir. 1978) ("The filed rate doctrine is ... an application of explicit statutory language."). The filed rate doctrine "bind[s] regulated entities to charge only the rates filed with FERC and to change their rates only prospectively." *Okla. Gas & Elec.Co. v. FERC*, 11 F.4th 821, 829 (D.C. Cir. 2021); *see also Ark. La. Gas Co. v. Hall*, 453 U.S. 571, 577–78 (1981) (holding that a utility is prohibited from charging a rate other than the one filed with the relevant government agency and that even the agency cannot itself "impos[e] a rate increase for [power] already sold.") Under the FPA, the Federal Energy Regulatory Commission

[33] Section 205 of the FPA requires that all rates related to the transmission or sale of electric energy, and all related rules and regulations, are "just and reasonable" and not "undu[ly] preferen[tial]." 16 U.S.C. §§ 824d(a)–(b). The rates a utility charges must first be filed with FERC and be made publicly available. *Id.* § 824d(c). Once filed, "no change shall be made ... in any such rate, charge, classification, or service, or in any rule, regulation, or contract relating thereto, except after sixty days' notice to the Commission and to the public" through another filing with the agency. *Id.* § 824d(d).

("FERC") "itself lacks authority to alter filed rates retroactively." *City of Osceola v. Entergy Arkansas, Inc*., 791 F.3d 904, 908 (8th Cir. 2015). If the FERC "finds a filed rate to be unreasonable, it only has statutory authority to impose a new rate prospectively." *Id.* (*citing Ak. La. Gas Co. v. Hall*, 453 U.S. at 578). The prohibition on retroactive rate modifications has been attributed to the filed rate doctrine's "corollary"; the rule against retroactive ratemaking. *OXY USA, Inc. v. FERC*, 64 F.3d 679, 699 (D.C. Cir. 1995).

Recently, the Third Circuit in *PJM Power Provider Grp. v. FERC*, 96 F.4th 390, 398 (2024),[34] found the FERC definition of retroactivity taken from the D. C. Circuit opinion in the *Weld County* case to be helpful, specifically "retroactive rules alter the past legal consequences of past action."[35] The Third Circuit noted that the court in *Weld County* drew this definition from the Supreme Court's seminal opinion on retroactivity in *Landgraf v. USI Film Prods*., 511 US. 244, 247 (1994) where the Court asked whether a new provision "attaches new legal consequences to events completed before its enactment." *Id.* at 269-270. The Court explained that a provision would be retroactive if, for example, it "would impair rights a party possessed when he acted, increase a party's liability for past conduct, or impose new duties with respect to transactions already completed." *Id.,* 280. The Third Circuit noted that in deciding on retroactivity, the *Landgraf* Court encouraged courts to rely on "familiar considerations of fair notice, reasonable reliance, and settled expectations [for] sound guidance." *Id.* at 270. The Third Circuit further noted that courts routinely apply *Langraf's* well-known retroactivity principles to regulatory actions. *PJM Power Provider Grp.*, 96 F.4th at 398.

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[34] *Affirmed in relevant part, Maryland Office of People's Counsel, et. al. v. FERC*, 2026 LX 76574, at 3 (D.C. Cir. 2026) (ruling that the Third Circuit in *PJM Power Provider* refused to answer a different question on how it would resolve a section 206 challenge).

[35] *PJM Power Provider Grp.*, 96 F.4th at 398, citing *Bd. Of Cnty. Comm's of Weld Cnty. V. U.S. EPA*, 72 F.4th 284, 293-94 (D.C. Cir 2023) (hereinafter "*Weld County*").

In this case, PREPA is not altering the rates for energy sold or past consumption. The instant rate increase is not being applied retroactively to bills for past consumption that occurred prior to the notice of the rate increase; thus, the application of the new rates does not alter the legal consequences for past conduct (*i.e.* consumption) and is only applicable to the period of time after the notice was provided to ratepayer of a rate increase. PREPA is not going back and rebilling consumers a different rate than the rate that was authorized for any past period of time. The fact that costs were incurred in the past does not prohibit the utility from filing a rate increase to recover its costs prospectively. If that were the case, then any new rates to recover the legacy debt costs would be retroactive ratemaking.

Other jurisdictions have also recognized that there is a "plethora of cases from other jurisdictions permitting a utility to recover the extraordinary costs associated with an unusually severe storm indicate that the rule against retroactive ratemaking does not come into play in such instances."[36] Those jurisdictions have explained that if the filed rate doctrine and rule against retroactive ratemaking came into play there would be perverse incentives contrary to public safety and reliability.[37] For example, it has been held that "[t]he next time a storm of this magnitude

[36] *Narragansett Elec. Co. v. Burke*, 415 A.2d 177, 179-180 (RI 1980) (citing the plethora of cases and noting the "rule [against retroactive ratemaking] serves to protect present customers from paying for a utility's past operating deficits. This aspect of the rule must be weighed against the interest of providing immediate service to customers when a destructive, unexpected storm occurs. On such an occasion the public interest in quickly restoring heat and electricity to the homes of customers must prevail."); *see also State ex rel. Pittman v. Miss. Pub. Ser. Comm'n*., 520 So. 2d 1355, 1361 (Miss. 1987) ("The exception to the rule against retroactive ratemaking applies where an extraordinary event such as a severe storm causes damage to a utility resulting in great expense on repair and restoration of service to its customers."); *Phila. Elec. Co. v. Pa. Publ. Util. Comm'n*, 502 A.2d 722, 728 (Pa. 1985) ("An exception to this rule in the case of retroactive recovery of unanticipated expenses has been recognized where the expenses are extraordinary and nonrecurring") (citing *Blue Mountain Consol. Water Co. v. Pa. Pub. Util. Comm'n*, 426 A.2d 724 (1981); *UGI, Corp. v. Pa. Pub. Util. Comm'n*, 410 A.2d 923 (1980)); *Re United Illuminating Co*., 7 P.U.R. 4th 417 (Conn. P.U.C. 1974).

[37] *Narragansett Elec. Co.,* 415 A.2d, at 179 (RI 1980) (stating the "application of the rule [against retroactive ratemaking] to expenses related to such an emergency situation so inextricably related to the public health and safety would serve to thwart the goal of effective customer service.").

occurs, the [utility] would have no incentive to . . . to restore service efficiently and swiftly to customers if no reimbursement for extraordinary expenses would be forthcoming."[38] Finally, it is notable that as part of the settlement of the rate case in Florida, the Public Service Commission approved a settlement that included $300 million for replenishment of storm reserves. Specifically, the settlement provides that "additional costs would be eligible for recovery pursuant to Commission order as set forth in the Settlement Agreement, including the *replenishment* of FPL's storm reserve up to $300 million."[39]

IV. Recordkeeping

Regarding alignment accounting remediation and transition to Uniform System of Accounts (USoA) established by the Federal Energy Regulatory Commission (FERC), Mr. Smith explains that while income statements post-LUMA commencement are materially correct, PREPA's balance sheet remediation remains incomplete, leaving opening balances unclear and impairing asset valuations and inventory certainty. Exhibit 2.0, p. 55, ll. 1124-1135. LUMA's ability to implement the USoA depends on completion of PREPA's balance sheet remediation, unbundling/reformatting of LUMA financial information, and FERC USoA training, with possible readiness by the next rate case timeline, subject to available funding. *Id.,* ll. 1135-1144. Questions by PREB's consultants and opposing counsel regarding timing to be able to use the Uniform System of Accounts ("USOA") prescribed by the Federal Energy Regulatory Commission ("FERC") for regulatory accounting, were addressed by record evidence showing that the

[38] *Id.*

[39] "Joint Motion for Approval of Settlement Agreement" In re: Petition by Florida Power & Light Company for Base Rate Increase," Docket No. 20250011-EI, Dated August 20, 2025, Document No. 08075-2025 at 5, paragraph g. (emphasis supplied). *See also* Attachment I to "Joint Motion for Approval of Settlement Agreement", *Id.*, at 14, paragraph (c). This settlement was approved by the PSC on November 20, 2025. See "Vote Sheet", *Id.*, Dated November 20, 2025, Document No. 15178-2025 at 3, "Issue 6".

incomplete balance sheet remediation and end-of-life ERP make immediate FERC embedding both imprudent and inefficient, with critical financial systems funding intended to build capabilities (time tracking/reporting) that enable a future transition. For example, at the November 24th evidentiary hearing, Mr. Smith reinforced that the Oracle system is end-of-life in 2032 and not supported in its current configuration, making it inefficient to embed a FERC chart of accounts now and re-implement during an impending ERP transition. Transcript, 11/24, p. 38, ll. 22-25; p. 39, ll. 1-24, p. 49, ll. 9-12. He explained that the lack of balance sheet information also impedes FERC transition work at this time. *Id.*, p. 39, ll. 4-9. Funding for "critical financial systems" has been flagged in the Finance Department's budget to improve time tracking and reporting, key needs for federal projects-consistent with the Critical Financial Systems program. Transcript, 11/24, p. 50, ll. 10-25, p. 51, ll. 1-21.

The record also rebuts generalized assertions about LUMA's documentation and reconciliations and confirms the appropriateness of funding to complete remediation. Addressing a claim that LUMA does not consistently perform or document account reconciliations, Mr. Smith testified the statement is "factually incorrect." Transcript, 12/10, p. 61, l. 7. He likewise refuted that LUMA's topside entries are "frequently unsupported," clarifying that LUMA does not make topside entries in its own books, and that PREPA-directed topside postings occur only in PREPA's books, which can create ledger misalignments that remediation efforts are designed to eliminate. *Id.*, p. 62, ll. 15-25, p. 63, ll. 1-9. On policies, while acknowledging there may be discrete areas without a written policy, he rejected the broad claim that LUMA lacks policies "for most transactional accounts," and stated any gaps are not material to the accuracy of LUMA's financial statements, given that accuracy is safeguarded by LUMA's existing control environment and

review processes. *Id.*, p. 66, ll. 13-20, p. 67, ll. 4-11, p. 143, ll. 13-24, p. 144, ll. 1-25, p. 145, ll. 1-5.

Furthermore, the record lays out a coordinated plan to end the Shared Services Agreement and complete the FERC USoA transition on a defined schedule. Mr. Smith testified that, following coordination among the utilities' CFOs, two workstreams have been established: (1) accounting policy alignment across entities and (2) the "nuts and bolts" technical/IT implementation, with PREPA's CFO leading and LUMA fully supporting. *Id.,* p. 115, ll. 15-25, p. 116, ll. 1-10; *see also* Exhibit 1075. The vision discussed is to end the Shared Services Agreement in the first quarter or early second quarter of calendar year 2026, followed by the FERC accounting transition targeting full implementation by the beginning of Fiscal Year 2027. *Id.*, p. 116, ll. 16-25, p. 117, ll. 1-2.

Mr. Smith stated his understanding that the FOMB has set aside/authorized $25 million for balance sheet remediation and related transitions under AAFAF's purview, outside LUMA's Finance O&M budget. *Id.*, p. 93, 1-25, p. 94, ll. 1-3; *see also id.,* p. 94, ll. 8-20 (Mr. Adrover for PREPA confirming). In addition, Mr. Smith testified that oversight is already extensive, as P3A regularly requests comprehensive financial and operational information, indicating that the Finance Department's remediation and alignment efforts will occur under sustained scrutiny and will deliver measurable improvements efficiently. *Id.*, 12/10, p. 77, ll. 15-25, p. 78, ll. 1-11.

V. Budget Amendments and Reporting

A. Request to align PREB's budget oversight with the T&D OMA: retain annual adjudication but replace line-item preapprovals with 5% Budget-Level Flexibility

Under the existing framework, rooted in Sections 7.3 and 7.4 of the T&DOMA, and implemented through PREB's orders, LUMA submits an annual budget for PREB's approval. After approval, LUMA must seek prior PREB authorization for in-year reallocations when a budget line-item is expected to exceed its allocation by more than five percent, even if total spending remains

within the approved budgets, with a 45-days-after-Q3 cutoff for said amendments. Exhibit 1.0, p. 88, ll. 1653-1656; Exhibit 2.0, p. 84, 1758-1759, p. 85, ll. 1760-1766.

The 5% threshold originates in the T&DOMA and applies at the level of the three T&D OMA-defined budgets (Operating, Non-Federally Funded Capital, and Federally Funded Capital) while PREB subsequently applied the 5% at the line-item granular level through resolutions in Case No. NEPR-MI-2021-0004, *In Re: Review of LUMA's Initial Budgets* ("Budgets Docket"). Transcript 11/24, p. 95, ll. 17-25, p. 96, ll. 1-25; *see also* Exhibit 489, T&DOMA, Section 7.3 (c). LUMA understands that this regime is an artifact of years in which spending was capped at outdated rates and differs from standard U.S. regulatory practice in which the regulator sets a revenue requirement and relies on informational reporting and after-the-fact tools, rather than pre-approving intra-year reallocations. Exhibit 3.0, p. 10, ll. 228-248 (revised December 2025); Exhibit 2.0, p. 86, ll. 1772-1786.

The evidentiary record establishes that LUMA seeks limited adjustments to the current framework: retain PREB's annual budget adjudication while replacing line-item preapprovals for in-year reallocations with a 5% flexibility at the budget-category level in alignment with the T&DOMA's provision granting LUMA flexibility to reallocate, accelerate or postpone expenditures. Exhibit 1.0, p. 89, ll. 1659-1668; Exhibit 2.0, p. 86, ll. 1172-1786; Exhibit 3.0, p.10. ll. 228-236; *see also* Exhibit 489, T&DOMA, Section 7.3(c).

LUMA requests that the PREB align its process to the T&DOMA. Mr. Figueroa explained that the PREB has overlaid a line-item constraint on the 5% flexibility, and LUMA's petition is to remove the line-item overlay and maintain the 5% at the overall budget level. Transcript 11/24, p. 96, ll. 19-25, p. 97, ll. 1-25. Mr. Smith's prefiled testimony further explains that standard regulatory practice is for the regulator to set the revenue requirement while management allocates

within that constraint to meet changing system needs. Exhibit 2.0, p. 86, ll. 1772-1794, p. 87, ll. 1795-1797. Mr. Balbis concurs that in typical U.S. regulation, after rates are set, utilities do not seek prior approvals for reallocations, reporting is informational and after-the-fact oversight remains available; a view he maintained at hearing when asked whether the presence of post-spend enforcement in other jurisdictions changed his opinion about line-item oversight. Exhibit 3.0, p. 1-, l. 237, p. 11, ll. 238-248; Transcript 11/24, p. 151, l. 25, p. 152, ll. 3-7.

The evidence demonstrates why flexibility is necessary. Exhibit 1.0, p. 89, ll. 1659-1668; Exhibit 2.0, p. 87, ll, 1807-1817, p. 88, ll. 1818-1824. Mr. Smith testified that the current preapproval and amendment process "materially hinders" managerial decisions and, on average, took thirty-six days for Energy Bureau responses in FY2024, delaying needed work on a fragile system. Exhibit 2.0, p.88, ll. 1830-1840, p. 89, ll. 1841-1849. On cross-examination, Mr. Smith explained that delaying work pending amendment approval commonly means 30-45 days of lost time. Transcript 11/24, p. 248, ll 11-19, p. 251, ll. 2-12. However, in circumstances of immediate customer need, LUMA has proceeded to execute work and then seek after-the-fact alignment, which is an administratively inefficient posture created by the standing rule. *Id.,* p. 248, ll. 1-25, p. 249, ll. 1-2. LUMA's proposal is aimed at "emergent" needs (i.e. variances from the assumptions underlying the approved budget) and not emergencies already addressed through reserve accounts. Both Mr. Figueroa and Mr. Smith made this distinction. Transcript 11/24, p. 142, ll. 19-25, p. 143, ll. 1-23, p. 79, ll. 12-25, p. 80, ll. 1-11. The record shows that the requested flexibility is also responsive to sequencing realities in an interrelated T&D System, where changes in one project can require adjustments in others without altering PREB's priorities. Transcript 11/24, p. 77, ll. 7-21. As Mr. Figueroa clarified on the witness stand, LUMA is not seeking to disregard established budget priorities; it seeks flexibility from an administrative and process standpoint. *Id.*, p. 79, ll.

2-9, p. 80, ll. 1-11. (highlighting broad alignment between PREB and LUMA on priorities). Finally, performance history supports granting flexibility: Mr. Smith affirmatively testified that LUMA has "always" hit its annual budgets within roughly a 1% variance. Transcript 11/24, p. 224, ll. 2-4.

For these reasons, LUMA respectfully requests that PREB adopt LUMA's annual budget proposal, reverting to the T&D OMA's 5% category-level flexibility for in-year reallocations within Operating, Non-Federally Funded Capital, and Federally Funded Capital budgets. If PREB maintains the current process, the consequences identified in the record include continued 30-45 day lags for necessary reallocations, deferring reliability work and degrading customer service on an already fragile system will materialize. Exhibit 2.0, p. 89, ll. 1845-1849; Transcript 11/24, p. 248, ll. 11-25, p. 249, ll. 1-2. Moreover, PREB will remain burdened with numerous after-the-fact amendments in the budgets Docket that add administrative cost without delivering incremental oversight benefits .

B. Maintaining oversight, reducing burden: eliminating the Q4 report and recognizing Sufficiency of current efficiencies reporting.

Relatedly, the T&D OMA requires a reporting cadence that entails annual budget reports within 120 days of fiscal year end and quarterly reports within 45 days. *See* Exhibit 489, T&DOMA Annex I, Section VI(B); Exhibit 3.0,p. 11, ll. 253-255. Expert witness for LUMA, Mr. Balbis, established a sound record basis for modest, targeted refinement of PREB's reporting framework that preserves robust oversight while reducing duplicative administrative burden. Mr. Balbis supports two principal determinations: first, to eliminate the fourth quarterly financial report in favor of three quarterly reports plus the annual report due 120 days after fiscal year-end; and second, to deem the existing performance and efficiency reporting regime – comprising quarterly reports with hundreds of metrics and annual reports with dedicated efficiency sections – sufficient to meet PREB's efficiency reporting directives at this time, with any further refinements

implemented through the ongoing metrics processes rather than through new, duplicative filings. Exhibit 3.0, p. 7, ll. 148-159; *see also* Exhibit 2.0, p. 84, ll. 1754-1757.

First, the record supports eliminating the fourth-quarter report as duplicative of the 120-day annual report, while maintaining quarterly reporting for the first three quarters and the annual report. Mr. Balbis explained that the fourth-quarter report duplicates content superseded by the comprehensive 120-day annual report, which aligns with U.S. industry practice and obviates the need for a fourth-quarter filing that would otherwise be revised upon year-end close. Exhibit 3.0, p. 12, ll. 273-279, p. 13, ll. 280-289. He recommended retaining three quarterly reports on a 45-day cadence and the 120-day annual report, which together provide timely financial oversight without redundant filings. *Id*., p. 13, ll. 283-289.

During the evidentiary hearing, Mr. Balbis confirmed that LUMA's proposal does not relax fiscal discipline or diminish the requirement to "closely adhere" to budgets during the fourth quarter; rather, it avoids preparing a standalone fourth quarter filing that replicates materials contained in the forthcoming annual report. Transcript, 11/24, p. 253, ll. 2-10. He further testified that LUMA would avoid incurring unnecessary costs and resource distractions associated with preparing the additional fourth-quarter report, allowing personnel to focus on execution and the comprehensive annual filing. *Id*., p. 254, ll. 9-12, p. 255, ll. 4-9. Mr. Smith likewise testified that, absent the Q4 requirement, LUMA could likely file the annual report within 60-90 days after fiscal year end, improving timeliness without sacrificing completeness. Transcript 11/24, p.70, ll. 24-25, p. 271, ll. 4-8.

Cross-examination from Commissioner Antonio Torres corroborated that PREB has rarely, if ever, issued discrete resolutions on fourth quarter reports – further evidence that the annual report, together with three quarterly reports, supplies adequate oversight value and that a separate

fourth quarter report yields limited incremental benefit relative to its administrative cost. Transcript, 11/24, p. 283, ll. 5-15. These facts support a narrow, practical adjustment: retain three quarterly updates for in-year oversight and rely on the 120-day annual report for final, auditable year-end results, eliminating duplication without compromising transparency. Exhibit 3.0, p. 12, ll. 275-279, p. 13, ll. 280-282.

Second, PREB should deem current efficiency reporting sufficient and avoid imposing duplicative new quantification mandates while programs are in early-stage maturation. The current reporting framework already provides extensive, concrete efficiency-related information. Contrary to ICPO's assertion of missing information, Mr. Balbis identified—and his pre-filed surrebuttal testimony documented—multiple PREB dockets in which LUMA reports granular, quantitative operational outcomes relevant to efficiencies and customer benefits. These include quarterly performance dashboards that track over 500 measures, annual reports with efficiency narratives and metrics, and program-specific filings on transition-period EE/DR and federal funding activities. Exhibit 76.0 (Balbis Surrebuttal), p. 3, ll. 142-162, p. 4, ll. 163-173. This is precisely the sort of directional, quantitative evidence that regulators rely on during program build-out periods, in line with PREB's directive for LUMA to report efficiencies and cost savings annually and through quarterly metrics. Exhibit 3.0, p. 17, ll. 373-379.

Moreover, translating early-phase operational gains into precise rate reductions is not yet feasible; the proper focus is on performance tracking until program maturity. Exhibit 76.0, p. 6, ll. 214-226. Mr. Balbis agreed in principle that quantifying efficiency benefits aids just and reasonable ratemaking; he also explained why several initiatives remain in pilot or early phases, precluding the responsible assignment of precise revenue requirement offsets at this time. *Id.,* p. 5, ll. 194-207, p. 6, ll. 208-226, He referenced the ongoing EE/DR pilots and the staged scale-up

of metering and theft-mitigation efforts as examples where benefits are being measured and reported, but where stable, steady-state savings suitable for rate conversion require additional maturation and data stability. *Id.*, ll. 218-226.

Mr. Balbis demonstrated how specific operational improvements – such as replacing malfunctioning meters – produce tangible financial effects (e.g., a single meter remediation can yield over $1,100 in additional annual billed revenue), thereby reducing the revenue shortfall that would otherwise be passed through to rates. Exhibit 76.0, p. 7, ll. 240-250, p. 8, ll. 251-252. Those benefits are already tracked and reported, even if precise program-level rate offsets are premature.

Lastly, the record does not show an increased revenue requirement due to the alleged "failure to quantify." Mr. Balbis expressly rejected the suggestion that LUMA's efficiency reporting gaps have increased revenue requirement borne by customers, pointing instead to the tangible, tracked benefits – collections improvements, theft mitigation, and meter remediation – that reduce unrecovered costs and mitigate upward pressure on rates as those gains accrue. Exhibit 76.0, p. 7, ll. 230-250, p. 8, ll. 251-252. Indeed, when pressed at the evidentiary hearing, ICPO's expert witness, Mr. Jaime Sanabria, acknowledged he did not propose any calculation to reduce the revenue requirement based on the arrears data he referenced, underscoring the prudence of maintaining the current reporting pathway until program maturity permits reliable conversion of operational outcomes into rate adjustments. Transcript, 11/24, p. 371, ll. 10-19.

Third, the evidentiary hearing record resolved collateral issues raised about Mr. Balbis' remaining testimony and confirms the conservative scope of relief requested. Counsel for PREPA's bondholders sought clarification whether Mr. Balbis' remaining opinions assumed the Energy Bureau's authority requires annual budget filings for approval; Mr. Balbis confirmed his remaining opinions proceed with that assumption and noted that, in any event, any gap could be addressed

via regulatory or legislative action – an observation that underscores the narrowness of LUMA's present requests. Transcript, 11/24, p. 150, ll. 3-12.

The Hearing Examiner also explored whether additional specificity was required on accountability tools for imprudent performance. That exchange focused on legal alignment between statutory powers and the T&DOMA, not on the fourth quarter or efficiency-reporting questions presented here. Transcript, 11/24, p. 104, ll. 22-25, p. 105, ll. 1-25, and p. 106, ll. 1-2. LUMA's witnesses acknowledged the Energy Bureau's show-cause and penalty powers, the ability to run evidentiary processes, and the non-recoverability of disallowed costs – further reassurance that eliminating the fourth quarter report and recognizing current efficiency reporting do not diminish accountability. *Id*., p. 186, ll. 1-25.

Finally, to the extent the record addressed Mr. Balbis' 50-state surveys, he corrected immaterial items in Exhibit 3.02 during cross-examination, which testimony reinforces that Puerto Rico's annual 120-day reporting cadence is consistent with common practice. Transcript, 11/24, p. 150, ll. 13-25, and p. 151, ll. 1-8.

The evidence shows that eliminating the fourth-quarter report will streamline administration without sacrificing oversight, and that PREB can prudently continue to rely on LUMA's robust quarterly metrics and annual efficiency reporting while major operational programs mature. The Hearing Examiner's admonition to "quantify rather than claim," Transcript, 11/24, p. 285, ll. 1-13, is satisfied by the current reporting frameworks and can be further advanced through those vehicles over time, avoiding the counterproductive creation of duplicative filings during a period of intense execution.

In light of the above, PREB's final order should adopt the following findings: (1) the fourth quarter financial report is duplicative of the 120-day annual report and provides limited

incremental regulatory value relative to its administrative burden; maintaining three quarterly reports and the annual report preserves necessary oversight; (2) LUMA's existing efficiency-related reporting – quarterly performance metrics and annual efficiency reports, supplemented by program filings – provides sufficient quantified, directional information on operational efficiencies during early program phases; (3) several efficiency initiatives remain in pilot or early maturation; while tangible benefits are tracked and reported, converting those outcomes into precise revenue requirement adjustments requires sufficient scale, maturity, and data stability; and (4) eliminating the fourth quarter report and relying on existing efficiency reporting does not reduce statutory accountability; the Energy Bureau retains authority to investigate, order show-cause, impose penalties, and disallow imprudent costs, and those mechanisms remain intact.

VI. System Revenue Requirement

A. PREPA's Annual Revenue Requirement is required for the utility to provide service based on prudently incurred costs.

PREPA's Annual Revenue Requirement ("ARR") includes the base rate revenue requirements for Operating and Non-Federally-Funded Capital Expenditures of Genco (Genera), HydroCo (PREPA), and GridCo (LUMA), as well as the Operating Expenses of Holdco (PREPA). Nearly half of the total ARR reflects the costs of fuel and purchased power (FCA & PPCA riders). The ARR also includes costs that are funded by the riders, specifically as they relate to Energy Efficiency and Demand Response programs (funded by the EE and PPCA riders), as well as Pensions, Fuel Costs, and Outage Event Reserves for Gridco and Genco (Storm Rider). The base rate revenue requirement also reflects amounts for Operator Fees, Bad Debt Expenses, and Federal Funding Cost Share (Commonwealth Match Obligation). The total ARR is adjusted upward to include the costs of subsidies in the form of Contributions In Lieu of Taxes (CILT) and Subsidies, Public Lighting (Municipal) and other Subventions (SUBA) (CILT and SUBA riders).

1. Optimal Revenue Requirement

PREPA's Optimal ARR for Test Year 2026, Adjusted to Match Pass-Through Revenue and Expenses, is $5,688,270,100 (Exhibit 1106 at Schedule B-1-Optimal, Column J "Adjusted Test Year FY2026", line 15). When the CILT and SUBA subsidy costs of $279,076,694 (Exhibit 1106 at Schedule B-1-Optimal, Column J "Adjusted Test Year FY2026", line 17) are added, the total ARR is $5,967,346,794. (Exhibit 1106 at Schedule B -1 Optimal, Column J "Adjusted Test Year FY2026", line 19). The total base rate revenue requirement is $2,896,493,133. (Exhibit1106 at Schedule B-1-Optimal, Column J "Adjusted Test Year FY2026", line 20).

The major components of the ARR for FY2026 include the base rate revenue requirement of approximately $2.896 billion (Exhibit 1106 at Schedule B-1-Optimal, Column J "Adjusted Test Year FY2026", line 20) and the Fuel and Purchased Power costs of approximately $2.437 billion. (Exhibit 1106 at Schedule B-1-Optimal, Column J "Adjusted Test Year FY2026", line 2). The ARR also includes other costs proposed to be funded through riders, including the Energy Efficiency and Demand Response program costs of approximately $75.3 million (Exhibit 1106 at Schedule B-1-Optimal, Column J "Adjusted Test Year FY2026", line 4), the Outage Event Reserve costs of $120 million and $30 million (Exhibit 1106 at Schedule B-1-Optimal, Column J "Adjusted Test Year FY2026", lines 5 and 6) and the Pension costs of approximately $307.5 million (Exhibit 1106 at Schedule B-1-Optimal, Column J "Adjusted Test Year FY2026", line 7).

PREPA's Optimal ARR for Test Year 2027, Adjusted to Match Pass-Through Revenue and Expenses, is $5,923,098,266 (Exhibit 1106 at Schedule B-1-Optimal, Column P "Adjusted Test Year FY2027", line 15). When the CILT and SUBA subsidy costs of $279,076,694 (Exhibit 1106 at Schedule B-1-Optimal, Column P "Adjusted Test Year FY2027", line 17) are added, the total ARR is $6,202,174,960 (Exhibit 1106 at Schedule B-1-Optimal, Column P "Adjusted Test Year

FY2027", line 19). The total base rate revenue requirement is $3,181,848,236. (Exhibit 1106 at Schedule B-1-Optimal, Column P "Adjusted Test Year FY2027", line 20).

The major components of the ARR for FY2027 include the base rate revenue requirement of approximately $3.182 billion (Exhibit 1106 at Schedule B-1-Optimal, Column P "Adjusted Test Year FY2027", line 20) and the Fuel and Purchased Power costs of approximately $2.364 billion (Exhibit 1106 at Schedule B-1-Optimal, Column P "Adjusted Test Year FY2027", line 2). The ARR also includes other costs proposed to be funded through riders, including, including the Energy Efficiency and Demand Response program costs of approximately $103.3 million (Exhibit 1106 at Schedule B-1-Optimal, Column P "Adjusted Test Year FY2027", line 4), the Outage Event Reserve costs of $120 million and $30 million (Exhibit 1106 at Schedule B-1-Optimal, Column P "Adjusted Test Year FY2027", lines 5 and 6) and the Pension costs of approximately $298.7 million (Exhibit 1106 at Schedule B-1-Optimal, Column P "Adjusted Test Year FY2027", line 7).

PREPA's Optimal ARR for Test Year 2028, Adjusted to Match Pass-Through Revenue and Expenses, is $6,040,847,592 (Exhibit 1106 at Schedule B-1-Optimal, Column V "Adjusted Test Year FY2028", line 15). When the CILT and SUBA subsidy costs of $279,076,694 (Exhibit 1106 at Schedule B-1-Optimal, Column V "Adjusted Test Year FY2028", line 17) are added, the total ARR is $6,319,924,286 (Exhibit 1106 at Schedule B-1-Optimal, Column V "Adjusted Test Year FY2028", line 19). The total base rate revenue requirement is $3,447,619,593 (Exhibit 1106 at Schedule B-1-Optimal, Column V "Adjusted Test Year FY2028", line 20)

The major components of the ARR for FY2028 include the base rate revenue requirement of approximately $3.448 billion (Exhibit 1106 at Schedule B-1-Optimal, Column V "Adjusted Test Year FY2028", line 20) and the Fuel and Purchased Power costs of approximately $2.313 billion (Exhibit 1106 at Schedule B-1-Optimal, Column V "Adjusted Test Year FY2028", line 2). The

ARR also includes other costs proposed to be funded through riders, including, including the Energy Efficiency and Demand Response program costs of approximately $116.6 million (Exhibit 1106 at Schedule B-1-Optimal, Column V "Adjusted Test Year FY2028", line 4), the Outage Event Reserve costs of $120 million and $30 million (Exhibit 1106 at Schedule B-1-Optimal, Column V "Adjusted Test Year FY2028", lines 5 and 6) and the Pension costs of approximately $298.4 million (Exhibit 1106 at Schedule B-1-Optimal, Column V "Adjusted Test Year FY2028", line 7).

2. Constrained Revenue Requirement

PREPA's Constrained ARR for Test Year 2026, Adjusted to Match Pass-Through Revenue and Expenses, is $5,107,210,121 (Exhibit 1106 at Schedule B-1-Constrainted, Column J "Adjusted Test Year FY2026", line 15). When the CILT and SUBA subsidy costs of $279,076,694 (Exhibit 1106 at Schedule B-1-Constrained, Column J "Adjusted Test Year FY2026", line 17) are added, the total ARR is $5,386,286,815 (Exhibit 1106 at Schedule B-1-Constrained, Column J "Adjusted Test Year FY2026", line 19). The total base rate revenue requirement is $2,315,432,655 (Exhibit 1106 at Schedule B-1-Constrained, Column J "Adjusted Test Year FY2026", line 20).

The major components of the ARR for FY2026 include the base rate revenue requirement of approximately $2.315 billion (Exhibit 1106 at Schedule B-1-Constrained, Column J "Adjusted Test Year FY2026", line 20) and the Fuel and Purchased Power costs of approximately $2.437 billion (Exhibit 1106 at Schedule B-1-Constrained, Column J "Adjusted Test Year FY2026", line 2). The ARR also includes other costs proposed to be funded through riders, including, including the Energy Efficiency and Demand Response program costs of approximately $75.3 million (Exhibit 1106 at Schedule B-1-Constrained, Column J "Adjusted Test Year FY2026", line 4), the Outage Event Reserve costs of $120 million and $30 million (Exhibit 1106 at Schedule B-1-Constrained, Column J, lines 5 and 6) and the Pension costs of approximately $307.5 million (Exhibit 1106 at Schedule B-1-Optimal, Column J "Adjusted Test Year FY2026", line 7).

PREPA's Constrained ARR for Test Year 2027, Adjusted to Match Pass-Through Revenue and Expenses, is $5,265,247,503 (Exhibit 1106 at Schedule B-1-Constrained, Column P "Adjusted Test Year FY2027", line 15). When the CILT and SUBA subsidy costs of $279,076,694 (Exhibit 1106 at Schedule B-1-Constrained, Column P "Adjusted Test Year FY2027", line 17) are added, the total ARR is $5,415,275,563 (Exhibit 1106 at Schedule B-1-Constrained, Column P "Adjusted Test Year FY2027", line 19). The total base rate revenue requirement is $2,523,997,473 (Exhibit 1106 at Schedule B-1-Constrained, Column P "Adjusted Test Year FY2027", line 20).

The major components of the ARR for FY2027 include the base rate revenue requirement of approximately $2.524 billion (Exhibit 1106 at Schedule B-1-Constrained, Column J "Adjusted Test Year FY2027", line 20) and the Fuel and Purchased Power costs of approximately $2.364 billion (Exhibit 1106 at Schedule B-1-Constrained, Column P "Adjusted Test Year FY2027", line 2). The ARR also includes other costs proposed to be funded through riders, including, including the Energy Efficiency and Demand Response program costs of approximately $103.3 million (Exhibit 1106 at Schedule B-1-Constrained, Column P "Adjusted Test Year FY2027", line 4), the Outage Event Reserve costs of $120 million and $30 million (Exhibit 1106 at Schedule B-1-Constrained, Column P "Adjusted Test Year FY2027", lines 5 and 6) and the Pension costs of approximately $298.4 million (Exhibit 1106 at Schedule B-1-Constrained, Column P "Adjusted Test Year FY2027", line 7).

PREPA's Constrained ARR for Test Year 2028, Adjusted to Match Pass-Through Revenue and Expenses, is $5,302,817,073 (Exhibit 1106 at Schedule B-1-Constrained, Column V "Adjusted Test Year FY2028", line 15). When the CILT and SUBA subsidy costs of $279,076,694 (Exhibit 1106 at Schedule B-1-Constrained, Column V "Adjusted Test Year FY2028", line 17) are added, the total ARR is $5,415,275,563 (Exhibit 1106 at Schedule B-1-Constrained, Column V "Adjusted

Test Year FY2028", line 19). The total base rate revenue requirement is $2,606,089,690 (Exhibit 1106 at Schedule B-1-Constrained, Column V "Adjusted Test Year FY2028", line 20).

The major components of the ARR for FY2028 include the base rate revenue requirement of approximately $2.606 billion (Exhibit 1106 at Schedule B-1-Constrained, Column V "Adjusted Test Year FY2028", line 20) and the Fuel and Purchased Power costs of approximately $2.313 billion (Exhibit 1106 at Schedule B-1-Constrained, Column V "Adjusted Test Year FY2028", line 2). The ARR also includes other costs proposed to be funded through riders, including, including the Energy Efficiency and Demand Response program costs of approximately $220.1 million (Exhibit 1106 at Schedule B-1-Constrained, Column V "Adjusted Test Year FY2028", line 4), the Outage Event Reserve costs of $30 million (Exhibit 1106 at Schedule B-1-Constrained, Column V "Adjusted Test Year FY2028", line 5) and the Pension costs of approximately $298.4 million (Exhibit 1106 at Schedule B-1-Constrained, Column V "Adjusted Test Year FY2028", line 7).

Genera has also set forth a hybrid approach. The impacts of Genera's hybrid approach are set forth in Exhibit1106, Annex 3, Updated Final Revenue Requirement.xlsx.

LUMA notes that it plans to update the revenue requirement to add additional revenue to cover expenses to respond to class action lawsuits and other lawsuits that have been filed in wake of the recent court decision finding that LUMA's liability waiver is not constitutional. Exhibit 1062 (estimating one-time costs of $400,000 process claim intake development and implementation costs and estimated annual costs of $1,159,475, and explaining that LUMA cannot currently quantify insurance costs and potential compensation payouts).

VII. LUMA's 2.97% bad-debt factor is based on audited financial statements and is the same percentage that the PREB previously approved, whereas the 1.5% bad-debt factor has no empirical support and risks jeopardizing the accuracy of the revenue projections.

LUMA requests that PREB adopt its proposal to maintain a bad-debt factor of 2.97% in the revenue requirement. LUMA's proposal adheres to the established regulatory framework by proposing a 2.97% factor identical to the percentage previously approved by the PREB and by supporting that factor with audited historical experience, normalized to exclude extraordinary legacy write-offs undertaken to correct PREPA's books. Exhibit 80.0, pp. 5-6, ll. 107-119. The record demonstrates that the proposed factor is grounded in audited data, is consistent with PREB'S established precedent in the 2017 PREPA Rate Order, and appropriately distinguishes one-time legacy accounting clean-ups from the forward-looking allowance for uncollectibles that should apply prospectively to receivables generated under LUMA's management. *Id*., p. 6, ll. 120-130. The OIPC and Energy Bureau consultants' recommendations to cap the factor at 1.5% are not supported by empirical analysis, disregard extraordinary legacy conditions, and would risk understating expected credit losses in Puerto Rico's current operating environment. Exhibit 79.0, p. 12, ll. 251-266;p. 13, ll. 279-288.

As a starting point, the record reflects that LUMA inherited substantial deficiencies in PREPA's customer information, billing, and receivables, including inactive, duplicative, or time-barred accounts and a lack of reconciliation between the billing system and the financial system, which demanded an extensive multiyear data clean-up to establish an accurate starting point. *See* Exhibit 78.0, pp. 12-16, ll. 265-358. As part of this corrective effort, LUMA executed one-time accounting write-offs of legacy PREPA balances—approximately $77 million in FY2024 and $339 million in FY2025—to purge time-barred or inactive receivables that PREPA had failed to address, actions that were accounted for against the allowance for doubtful accounts and did not represent

current-period operating losses. Exhibit 79.0, p. 8, ll. 157-179. These write-offs were necessary to remove historic, non-collectible amounts from PREPA's books and were transparently disclosed, including the presentation of a 9% figure solely to show the total accounting impact of those legacy adjustments, not as an operative bad-debt factor for prospective periods. *Id*., p. 11, ll. 231-243.

At the same time, LUMA has implemented industry-standard collections and revenue protection practices, achieving more than $1.6 billion in collections since 2021, over 120,000 payment plans, and measurable reductions in DSO for both general and government customers, while also progressing policy and operational enhancements to further improve recoveries. Exhibit 78.0, pp. 6-7, ll. 120-154. The hearing record confirms the legacy nature of many uncollectible balances and the need for ongoing clean-up and remediation before a more granular, data-driven estimate can be refined beyond the PREB-approved 2.97% benchmark, which functions as a prudent proxy in the interim. Transcript 12/9, p. 176, ll. 12-24, p. 177, ll. 1-23.

First, the 2.97% bad-debt factor is supported by audited data and precedent from the PREB and it applies prospectively to receivables generated under LUMA's management. LUMA's proposed 2.97% factor is the same rate approved by PREB in the 2017 PREPA Rate Order and is supported by audited financial data that, after normalizing extraordinary legacy write-offs, show actual bad debt ratios of 1.95% in FY2021, 3.52% in FY2022, and a multi-year average of approximately 2.86%. Exhibit 79.0, pp. 6-7, ll. 124-138. As explained by LUMA's witness Andrew Smith, this percentage is not arbitrary; rather, it reflects an established regulatory standard grounded in observed experience and is applied prospectively to new receivables generated under LUMA's management. *Id*. LUMA expert witness Ángel Marzán further confirms that the 2.97% factor results from a sound, consistent methodology aligned with GAAP and utility accounting

practice, using verified historical data and normalized adjustments to ensure the factor reflects ongoing performance rather than inherited deficiencies. Exhibit 80.0, p. 7, ll. 140-156.

Second, the extraordinary FY2024–FY2025 write-offs were one-time legacy accounting corrections and cannot be conflated with the forward-looking bad debt factor. OIPC's testimony improperly conflates two distinct accounting concepts: (a) extraordinary write-offs to purge legacy PREPA balances that were time-barred or otherwise uncollectible and (b) the ongoing bad debt expense recognized as a prospective allowance for uncollectibles on current receivables under LUMA's operations. Exhibit 79.0, p. 8, ll. 157-179, p. 9, ll. 187-197. The extraordinary write-offs—approximately $77 million in FY2024 and $339 million in FY2025—reflected long-overdue reconciliation of PREPA-era accounts and were disclosed transparently, including a 9% presentation to illuminate the total accounting impact; that 9% figure was never proposed as an operative bad debt percentage rate and has no bearing on the prospective factor. *Id*., p. 8, ll. 169-173, p. 11, ll. 231-243. The evidentiary hearing record corroborates this distinction, with LUMA witness testimony clarifying that bad debt for rate purposes is a forward-looking estimate and that accounts later sent to collections may be a subset of that allowance but are not the same as the legacy clean-up entries recorded by LUMA. Transcript 12/9, p. 183, ll. 2-25.

Third, the proposed 1.5% cap is unsupported, inconsistent with conditions in Puerto Rico, and risks understating expected credit losses. Proposals to cap the bad debt factor at 1.5% lack an empirical foundation in audited data or PREB-approved orders and do not reflect the realities of Puerto Rico's operating environment, which includes a significant low-to-moderate-income customer base, legacy data limitations, and periods of government-imposed disconnection moratoria that materially affect collectability. Exhibit 79.0, p. 12, ll. 251-266, p. 14, ll. 295-305. LUMA's witness, Mr. Smith, explained that achieving and sustaining a 1.5% ratio would assume

conditions akin to a fully modernized utility with accurate, reconciled data and uninterrupted enforcement tools—conditions that do not presently exist in Puerto Rico—so adopting such a cap could create liquidity shortfalls by overstating expected cash inflows necessary to fund approved operations and maintenance. *Id*. The record further shows that the OIPC expert testimony provided no quantitative models, spreadsheets, or recognized expert methodologies to substantiate the 1.5% recommendation, underscoring the absence of analytical support for that cap. Exhibit 80.0, pp. 9-10, ll. 193-217.

Fourth, LUMA has demonstrated diligent, effective revenue protection efforts that improve collections and data integrity, supporting the use of the established 2.97% factor while modernization continues. Since 2021, LUMA has implemented industry-standard collections practices, including automated severance processes, targeted outreach, expanded payment arrangements, third-party collections preparation, and an automated write-off process designed to prevent uncollectible amounts from lingering in accounts receivable, yielding more than $1.6 billion in recoveries and significant progress on DSO metrics. Exhibit 78.01. LUMA has also undertaken a comprehensive clean-up of legacy PREPA receivables, addressing approximately $400 million in historical accounts across more than 400,000 service agreements deemed uncollectible, primarily time-barred or otherwise beyond recovery due to legacy system limitations. Exhibit 78.0, p. 6, ll. 131-139. The record documents continued modernization initiatives, including account legalization projects and system improvements to resolve inherited data gaps and to enable more precise estimation of future uncollectibles as reliable data matures. Exhibit 80.0, pp. 10-11, ll. 218-248. Maintaining the PREB-approved 2.97% factor prudently balances regulatory continuity with the pragmatic need to reflect expected credit losses during the transition period.

Fifth, OIPC's conflation of legacy clean-up with current bad debt and suggestion that higher allowances undermine collection incentives are contradicted by the record. OIPC's testimony suggests that LUMA "artificially increased" the bad debt factor by including legacy write-offs, and that any factor above 1.5% would reduce incentives to collect. The record refutes both points. LUMA's proposal explicitly separates the one-time clean-up of legacy balances from the prospective bad-debt factor and applies the 2.97% solely to receivables generated under LUMA's management; moreover, the 9% disclosure was for transparency into the historical accounting impact, not a proposed allowance. Exhibit 79.0, p. 8, ll. 157-179, pp. 10-11, ll. 210-230. The OIPC expert witness, Mr. Sanabria, provided no analysis demonstrating that moving from 2.97% to 1.5% would improve collection performance and admitted there is no regulatory guidance prohibiting the use of legacy write-off information for transparency when distinguishing prospective allowances from clean-up entries. Transcript 12/9, p. 258, l. 25, p. 259, ll. 1-23. LUMA's demonstrated collection performance, investments in modernization, and continued DSO improvement show that its operational incentives remain strong and that an empirically supported allowance does not diminish, but rather complements, effective revenue protection. Exhibit 78.0, pp. 6-7, ll. 120-154.

In sum, the record establishes that LUMA's proposed 2.97% bad debt factor is the only figure grounded in audited experience, consistent with the Energy Bureau's 2017 Rate Order, and appropriately tailored to Puerto Rico's current operating realities, while transparently separating one-time legacy clean-ups from forward-looking uncollectible allowances. The competing 1.5% cap lacks analytical support, ignores inherited data limitations and external constraints, and risks understating expected credit losses, thereby jeopardizing the accuracy of revenue forecasts and the system's financial stability. PREB should approve LUMA's proposed 2.97% bad-debt factor and

continue to require periodic reporting so that future proceedings can refine the allowance as modernization and data-quality improvements progress. Exhibit 80.0, p. 6, ll. 125-139.

VIII. PREB should approve PREPA's systemwide margin, not only to enable future bond financings but also to provide cash working capital, consistent with good utility practice, and for the benefit of ratepayers.

LUMA's filing includes the proposed margin of $178 million in Schedule B-4. Exhibit 1106, Annex 1, Schedule B-4. As explained in the direct testimony of LUMA witness Andrew Smith, the margin in Schedule B-4 is expressed as a Debt Service Coverage Ratio multiplied by the debt service payments in Schedule B-4 to calculate Net Income. Exhibit 2.0, p. 46, ll. 934-35. Net income is an amount of revenue in excess of PREPA's spending for each test year. *Id.*, p. 46, ll. 935-36. As indicated by Mr. Smith, the authorized margin is an important lender satisfying criteria. *Id.*, p. 46, ll. 936-37. As he summarized the margin, or net income, it is "a function of the debt service coverage ratio and is necessary for PREPA to have a positive cash flow to satisfy future lenders when PREPA emerges from bankruptcy." *Id.*, p. 46-47, ll. 939-41.

In response to arguments that PREPA's margin should be eliminated because PREPA is not currently making debt payments and does not have access to the capital markets currently, Mr. Smith explained that regardless of whether debt service is currently being paid a utility must forecast a positive operating cash flow because "a financially sound utility must demonstrate that its operations can generate sufficient cash to cover operating expenses, maintain system assets and fund essential capital improvements." Exhibit 79.0, p. 15, ll. 321-326. He points out that this requirement is even more critical under PREPA's current conditions because it lacks access to capital markets, and, without the ability to borrow, the system's financial health is entirely dependent on its capacity to generate cash from operations so it can meet financial obligations which vary over the course of the year based on the timing of purchases of materials, timing of projects and other expenses. *Id.* p. 15, ll. 327-336. LUMA's proposed revenue requirement for

PREPA, therefore, includes a margin which allows the System to produce enough income above system costs to satisfy debt-service tests, maintain creditworthiness, and provide working capital to fund unforeseen requirements during the rate year.

Including a margin for a municipally owned utility is a reasonable strategy for providing working capital, not only for future debt service coverage, but for handing unanticipated expenses above the actual costs included in the revenue requirement. *Id*., p. 22, ll. 478-80. Mr. Smith also points out in his testimony that other municipal utilities maintain a number of different reserve funds, including reserves to smooth rate increase shocks, to provide for future bond payments, and to provide a cushion for unexpected expenses. *Id.*, p. 22, ll. 480-488. Furthermore, even investor-owned utilities maintain cash balance or working capital facilities that provide the utility with access to cash it can use meet its financial obligations that vary over the course of the year.[40] As discussed in Mr. Smith's surrebuttal testimony, an alternative methodology suggested by the PREB involves taking a simple percentage of the revenue requirement (exclusive of any margin amount), to determine the margin. For example, on a $5 billion revenue requirement, a 2% margin, would

[40] Cash Working Capital commonly refers to the average amount of capital provided by investors, over and above the investment in plant and other specific rate base components, to bridge the gap or lag between the time expenditures are required to provide services and the time payment is received for such services. *See e.g.*, https://pubs.naruc.org/pub.cfm?id=53768A01-2354-D714-517A-DC3B4EC72920#:~:text=Page%2013,13 at 13. *See also*, https://pubs.naruc.org/pub.cfm?id=53739F56-2354-D714-519C-4F8320738A03#:~:text=clean%2Dup%20costs.-,19,mailed%20out%20the%20next%20month at 21 ("Working capital represents the utility's investment of funds in short-term assets that are necessary for the day-to-day operation of the business. Examples of working capital are inventories, prepayments, and a working capital allowance. Working capital represents the amount of money a company needs to hold it over between point in time bills are paid and cash actually received from customers for service. The cash working capital element represents the lag in funds associated with the timing difference between when you must pay bills for your company and when the revenues actually come in. Most invoices are due and paid by the utility within two weeks of receipt. Customer bills for service are based on meter reads made at the end of the month and bills are mailed out the next month. Customers then have 30 days to pay their bills. This creates a lag and that must be financed by the utility. The FERC formula is used in New York for calculating the working capital allowance. Under this method, electric and water companies are allowed 45 days of operating expenses, exclusive of fuel, purchased power/water, and taxes.").

be $100 million. Exhibit 79.0, p. 22, ll. 488-93. Mr. Smith testified that regardless of the approach to determining the margin, LUMA supports having a margin in PREPA's revenue requirement to support PREPA's liquidity. *Id.,* p. 22, ll. 491-98.[41] Finally, as Mr. Smith testified, the margin would not increase the budget of the operators, rather, it would remain in PREPA's bank accounts but would reduce PREPA's difficulties in meeting its contractual obligations. Exhibit 79.0, p. 16, ll. 353-55.

LUMA notes that FERC and most utilities calculate working capital requirements based upon a 45-day assumed time lag between when a utility invoices customers and when it receive revenue from customers, which results in a margin of approximately 12.5% of operating expenses for working capital.[42] Moreover, the working capital targets for municipal governments that is a recommended best practice by the Government Finance Officers Association ("GFOA") is closer to 17-20% of operating expenses.[43] Therefore, on a $2.6 billion optimal base rate (not including

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[41] *See also* NASUCA Committee on Accounting and Finance at 27 ("The Federal Energy Regulatory Commission method estimates cash working capital as one-eighth of a utility's annual operating expenses to provide a simplified approach to calculating cash working capital. 1/8th Rule: Assumes that one-eighth of annual operating expenses represents the average cash working capital needed. [Think ~45 days] Simplicity: Easier to apply compared to detailed lead lag studies. Regulatory Acceptance: Many regulatory bodies accept this method for its simplicity and practicality. Example: If a utility's annual operating expenses are $80 million, the cash working capital requirement using the FERC method would be $80 million / 8 = $10 million.") https://www.nasuca.org/wp-content/uploads/2025/02/Rate-Base-Overview-Slide-Deck-NASUCA-Feb-2025-2025.02.24-v2.0.pdf#:~:text=The%20Federal%20Energy%20Regulatory%20Commission,to%20calculating%20cash%20working%20capital.

[42] *See supra* n. 41.

[43] "The Government Finance Officers Association recommends that 'at a minimum, those general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.' This minimum equates to a fund balance of at least 17% to 20% of the general fund, before taking into consideration any unusual local factors that may require higher or lower fund balance levels. … In the long run, a municipality will be well served by maintaining a reasonable fund balance, which helps to bridge cash flow, avoid interest costs from short-term borrowing, preserve a credit rating, and provide a buffer against revenue shortfalls or expenditure overruns." *See* https://www.masc.sc/uptown/12-2020/setting-right-fund-

fuel) operating expense budget (Exhibit 1106, Annex 1, Schedule B-4), the recommended practice would result in a margin of over $525 million for utility with a 45-day lag.[44] As noted in the record of this proceeding, PREPA experiences a lag of in excess of 90 days, or more than double the usual lag, which would support much higher margin under the recommended guidance. Transcript 12/9, p. 288, ll. 17-25, p. 289, ll. 1-5.

Bondholder's witness Susan Tierney stated in testimony at the hearing that "[her] margin position includes a number reserve accounts" and that "incremental money above those reserve accounts" is not necessary today. *Id.,* p. 22, ll. 16-20. She refers to the "storm account, the 2% reserve account, and a federal funded reserve account. *Id.,* p. 28, ll. 7-11. She argues that unless there were emergency expenditures above those reserve amounts, funding the reserve amounts would show a positive cash flow, eliminating the need for the margin. Ms. Tierney takes the position that reserve accounts listed above provide sufficient working capital. *Id.,* p. 38, ll. 11-14. She indicated also that the accounts must "provides money that is usable and beyond other revenue requirement expenditures." *Id.,* p. 23, ll. 19-22. However, she was unaware of whether the storm reserve account was currently funded. *Id.,* p. 27, ll. 10-17. She agreed that in scenarios where these accounts were not funded, there would not be a lot of working capital. *Id.,* p. 27, ll. 18-25, p. 28, ll. 1-13. When asked if that would change her position on margin, she stated that in such situation, " working capital is an important thing for utility." *Id.,* p. 28, ll. 16-22, p. 37, ll. 11-17.

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balance#:~:text=City%20and%20town%20officials%20often,cash%20flow%20and%20risk%20management.

[44] Despite this, LUMA is only requesting a margin of $178 million for the System in an attempt to be customer sensitive, but in an ideal world, Mr. Smith testified that he would recommend a credit facility of $150 million for LUMA alone and would then include calculate one for the broader system using volatility of PREPA's fuel costs as the principal driver. He would size the working capital facility large enough to accommodate high and low commodity price swings so the utility can accommodate those swings and not run out of cash. Transcript 12/9, p. 266, ll. 8-25.

The accounts referred to by witness Tierney are currently insufficiently funded and are restricted, and, therefore, are not usable and do not serve as a margin to support the working capital needs of PREPA, which has a total revenue requirement in excess of $5 billion annually for the operating expenditure system needs of PREPA, Genera and LUMA. Pursuant to the T&DOMA, LUMA administers the OERA, in which PREPA deposited $30 million on Service Commencement, which is restricted to expenses for defined outage events. Exhibit 489, p. 94, Section 7.5 (d)(ii-iii). As discussed in this proceeding, PREPA has failed to replenish the OERA to cover $239 million of outage expenses, therefore LUMA has proposed a rider to recover outage restoration costs and to maintain the $30 million minimum balance. Exhibit 1.0, p. 77, ll. 1413 - 14. In response to PREPA's provisional rate filing request for $120 million to provide funds to cover these costs, PREV established a temporary Emergency Reserve Account, which is system-wide restricted account to be funded at only $15 million and is available only for high-impact reliability events that exceed the budgets of LUMA and Genera.[45] Also, as noted by PREB Consultant's Smith and Dady in their Report, this is a temporary account and there is no clear means for replenishing the Emergency Reserve Account. Exhibit 62, p. 44. LUMA's requested line-item for 2% Excess Expenditures totals $32 million as it is based only on LUMA's revenue requirement. Transcript 12/9, p. 62, ll. 20 through p. 67, ll. 16. These accounts, even if approved by PREB and fully funded, would amount to only $45 million. Therefore, these accounts are not sufficient to secure needed working capital for the PREPA system. As Mr. Andrew Smith testified, the federally funded capital reserve account can only be used for federally funded projects, it cannot be used for operations costs or outage event costs. *Id.,* p. 265, ll. 11-20.

[45] *See* Resolution and Order, NEPR-AP-2023-003 (Jul. 31, 2025) at p. 23; Resolution and Order, NEPR-AP-2023-003 (Sep. 10, 2025) at p. 2-4.

PREB's consultants Smith and Dady agree that given PREPA's large net deficit, the debt service coverage ratio (DSCR) methodology, which is commonly used for rate setting in the public power industry, as well as for public utilities that are organized as member cooperatives, is recommended and note that this rate methodology does not require having accurate historical accounting information or on utility plant balances or making assumptions about investment returns. Exhibit 62, p. 9. As stated in their report, this methodology simply adds up the utility's costs that are approved by PREB, but they note that "there is a need to include in rates an ability to collect more than the minimum required amount in order to support financial stability." *Id.* p. 10. They note that this can be accomplished by including amounts for debt service payments, consisting of principal and interest payment requirements, *plus* an element of "coverage" wherein the debt service requirements are multiplied by the DSCR. The positive aspects of this methodology for the utility and for ratepayers is that the "DSCR provides for some degree of financial stability and the ability to withstand fluctuations of revenue and expenses between rate cases, without creating a cash flow emergency and a need for an emergency rate increase." *Id* . They also point to the fact that PREPA's capital expenditures have been limited for many years, and that the DSCR revenue requirement model can be used to meet some of the capital expenditure needs through the additional cash flow beyond what is needed to cover principal and interest payments of the debt through the "coverage" component of the DSCR, which can enable the utility to manage fluctuations in case flow.

However, in their report they reject the DSCR at this time, because PREPA is not currently able to access the debt market to fund electric capital expenditures. They also discuss a mechanism to provide greater cash flow to the utility to fund capital expenditures, that they refer to as the "Modified Cash Basis." They assert that "this revenue requirement method is different from the

DSCR method in that it directly includes the full amount of capital expenditures that the utility expects to make, that are not associated with federal funding sources, in the rate year." *Id.*, p. 11. They also discuss a "Modified DSCR" or a DSCR with CapEx once the Title III process is completed. *Id.*, p. 13. In this model as in the DSCR, revenues are to be equal to all operating expenses and debt service costs adjusted to account for debt service coverage, but if capital expenditure needs exceed the cash flows available from debt service coverage, an additional increment (termed "Additional CapEx") is added. [46]

In their report, PREB's consultants Smith and Dady also respond to Tierney's concern that a margin is inappropriate. They note that inclusion of "margin" in a utility's revenue requirement can be appropriate in many circumstances as it provides a "cushion" to the utility by providing additional revenues beyond the specifically approved operating expenses and ratepayer-funded capital expenses that help the utility address unanticipated fluctuations in revenue or costs that can occur. *Id*., p. 28. However, they note that approved budgets for capital expenditures beyond those that are expected to be covered by federal funding, under the ratemaking methodology being used in this rate case, will be borne by ratepayers on a dollar-for-dollar basis for the FY 2026 revenue requirement as will Energy Bureau approved amounts for operations, maintenance and other expenses. *Id*., p. 29. Given those circumstances, they recommend against charging ratepayers for an additional amount of "Margin" for the FY 2026 revenue requirement. They disagree with basing the Margin on PREPA's Legacy Debt Obligation.[47] Instead, they recommend using the Modified

[46] *Id.* Revenues = Expenses + Legacy Debt Obligation + (Debt Service x DSCR) + Additional CapEx.

[47] *Id*. However, they note that "if new sources of financing become available for access by PREPA during the remainder of FY 2026, or during FY 2027 or FY 2028, the terms of that financing, once they are known, can be used at that time to prospectively determine a Debt Service Coverage-based Margin amount." *Id.*

DSCR ratemaking model for purposes of determining PREPA's base rate revenue requirement for permanent rates. *Id*., p. 48.

However, when he testified at the hearing, PREB's consultant Mr. Ralph Smith acknowledged that a utility needs working capital. Transcript 12/9, p. 98, ll. 9-15. He also saw the need for the system to have working capital above the accounts set up for the individual entities (i.e., PREPA, LUMA and Genera), although he was not sure of the correct amount above the reserve accounts. *Id.*, p. 101, ll. 15-22. Having heard the testimony of the panel, Mr. Ralph Smith ultimately recommended that the PREB decide on the reserve accounts and how those accounts will be replenished and then decide what margin should be included. *Id.*, p. 99, ll. 17 through p. 103, ll. 2. He noted that the margin, whatever that amount ended up being, then can be used for other purposes by the utility, including addressing fluctuations in expenses if the revenue comes in differently than what was forecasted or just for other unforeseen circumstances and can be essential, especially for cash working capital type items. *Id.*, p. 105, ll. 2-10.

It is clear from this discussion that the Bondholder's witness Tierney and the PREB consultants agree that, generally, there is a need for additional cash to be included in the revenue requirement above the utility's operating and capital costs in order to maintain financial stability and provide cash working capital for the PREPA system needs. As discussed above, although the System has reserve accounts, they do not provide sufficient working capital for the system. In the event that PREB disallows the working capital based on the DCRS, LUMA would support some of the other alternative methods listed in the Scoping Order for this case, such as applying 2% to the utility's total ARR as noted above as stated by LUMA's witnesses in the hearing, as discussed above. Denying a municipal utility any margin above operating expenses is contrary to industry-standard recommended municipal financing as discussed above. Moreover, as Mr. Andrew Smith

testified, LUMA needs sufficient working capital to pay its vendors and continue to restore the electric system in Puerto Rico for the benefit of PREPA's customers. *Id.*, p. 263, ll. 11-25, p. 264, ll. 1.

IX. PREB should adopt the reconciliation methodology proposed by LUMA witness Shannon as it complies with the statutory requirements and the PREB's regulations.

As noted by LUMA witness Shannon, Section 6.25(f) of Act 57-2014, PR Laws Ann. Tit. 22 § 1054x (2025), 22 LPRA § 1054x (2025), requires the reconciliation of any difference between the revenue generated by the provisional rate while such provisional rate was in effect and the revenue that would have been generated by the permanent rate if such permanent rate had been in effect during the same period of time as the provisional rate, and that the implementation of the permanent rates. Reconciliation will occur within sixty days of when the Energy Bureau determines the permanent rate. Exhibit 20, p. 42, ll. 953-959. The reconciliation would be implemented based on a credit or surcharge imposed on broad customer classes and will be achieved through a credits or surcharge to the per kWh charge and to smooth out the rate impact on rate payers and to protect PREPA's cash flow, the proposed methodology would spread the reconciliation credits or debits on the bills over a number of months. *Id*. p. 42, ll. 960-962. In response to a request from the PREB, LUMA's witness Shannon prepared an exhibit with an illustrative calculation of the reconciliation. Exhibit 70.01.

PREB consultant's Smith and Dady's report discusses the provisional rates that were in effect during the Provisional Rate period as authorized by the PREB's July 31, 2025 Order, which include two surcharge components (riders), one for pension costs of $0.019191/kWh and the other for costs other than pensions of $0.014931/kWh. Exhibit 62, p. 46. They state that the Commission's Rate Case Filing Rules at Section 2.02, Request for Provisional Rates, states: that:

> Pursuant to Article 6.25(e) of Act 57-2014 and Section 6A(f) of Act 83-1941, when issuing a final order establishing permanent rates, the Commission shall order PREPA to adjust its customer's bills in order to **credit or collect any difference between** (a) **Provisional Rate charged by PREPA** during the time period in which such Provisional Rate remained in effect **and** (b) the **permanent rate which the Commission determines should have applied during such time period**, so as to ensure that the Provisional Rates were just and reasonable. Such order shall reflect any upward or downward adjustment, effective as of the date the Provisional Rates were established, necessary to ensure the Provisional Rates were just and reasonable.

Id., pp. 45-46.

In their report, Smith and Dady make some recommendations about reconciling the variances between the provisional rates and the actual customers' bills reflecting their consumption and actual payments and other expenditures. Exhibit 62, p. 47. In his Surrebuttal testimony, LUMA witness Shannon explained that the "true-up" or reconciliation of the provisional rate to the permanent rate compares the annual revenue requirement that the PREB authorizes the utility to collect based on the approved permanent rates to the annual revenue requirement that the utility was authorized to collect under the provisional rate order. Exhibit 70.0, p. 13, ll. 398-407. He explained that while the sales forecast or billing determinants are relevant to calculating the rate (i.e. revenue requirement is divided by billing determinant to produce the rate), they are not relevant for the purpose of the reconciliation or the rates approved by the PREB for the provisional rates compared to the permanent rates. *Id*., p. 13, ll. 412-414. He explained that variance in utility spending and variations in customer consumption are normal parts of the utility business. *Id*., 70, p. 13, ll. 415-420.

Mr. Shannon also provided a detailed explanation of how the true-up or reconciliation will involve three different periods because the provisional rate only applies to part of the test year. *Id.* , p. 14, ll. 426-434. Specifically, for the first part of the test year (July 1, 2025-September 1, 2025),

the authorized revenue requirement was equal to the temporary budget for FY2026, so the true-up will be from the temporary budget for FY2026 to the permanent rate authorized by the PREB. *Id.*, p. 14-15, ll. 435-445. For the next part of the test period (starting September 1, 2025) the provisional rate was in effect, so the true-up will be from the provisional rate to the permanent rate until the permanent rate is effective. Mr. Shannon also provided an explanation of his recommendation that the changes to the revenue allocation should be made on a class level and then converted to a per kWh charge using the authorized sales forecast. *Id.*, p. 15, ll. 446-452; Transcript 12/11, p. 16, l. 11 through 30, l. 2. Finally, he agreed with the PREB consultants that an energy charge is appropriate for the true-up given that is how the provisional rate was then being collected. Exhibit 70, p.15, ll. 460-462.

X. Practicability

A. Affordability is not a proxy for practicability, but even so, the record shows the rate increase is both affordable and practicable.

PREB issued a provisional rate order that distinguished two concepts: practicability and affordability. Transcript, 12/11 p. 221, ll. 11-25; p. 222, ll. 1-14. PREB frames practicability as a question of whether "the rate increase [will] actually produce the required revenue increase? Or instead, will customers react to the rate increase by reducing their consumption, or installing solar panels, or leaving Puerto Rico?" Order, 7/31, p. 34; Transcript 12/11, p. 222, ll. 2-8. PREB believes that affordability is an important component of practicability, must be considered as part of the rate determination by statute, and that the trickle-down effects of affordability would result in insufficient revenue for adequate service (making the rates not just-and-reasonable). Order, 7/31, p. 34. The evidence contradicts this view.

Under Act 57-2014, PREB "shall ensure that all rates are just and reasonable and consistent with sound fiscal and operational practices that provide for a reliable and adequate service at the

lowest reasonable cost," placing the statutory duty primarily on ensuring revenue sufficiency to fund prudent utility operations and adequate service. The relevant statutes include the word affordability twice, but the term is not used as a precondition for just and reasonable rates. *See* Transcript, 12/11, p. 221, ll. 19-24.

As the Bondholders have observed, "the funding required to maintain the grid, to harden it against natural disasters, to prevent blackouts, and to pay for financing should determine the rate—not the other way around." Resolution and Order of February 12, 2025, Case NEPR-AP-2023-0003, p. 2. Dr. Susan Tierney testified that the revenue requirements ensure "that the utility is given enough money to do its job, no more. . . . And [in] some sense no less . . ." *Id.*, p. 417, ll. 10-15.

B. Rate design and revenue allocation are the proper avenues to address concerns about affordability, not by "haircutting" the revenue requirement and undermining adequate service.

The affordability of increased rates is an inevitable concern, but it is not realistic to use affordability as the baseline by which to measure whether rates are reasonable or practicable. *Id.*, p. 356, ll. 12-17. The rates proposed in LUMA's optimal budget encompass all costs and revenues necessary to provide adequate service, the guiding principle of ratemaking. The record confirms that PREB's authority to structure proceedings and rate components in phases—revenue requirement first, followed by rate design and any remaining allocation issues—accomplishes the statutory directives by providing a mechanism to manage customer impacts without compromising the revenue requirement.

Affordability concerns cannot be ameliorated "by giving a haircut to revenue requirement." *Id.*, p. 417, l. 22. Instead, there are several other tools available to PREB to address affordability concerns. For example, "if certain customers cannot afford the resulting rates, then that issue should be resolved through reallocation of costs to other customers via rate design and/or through Commonwealth subsidies." "Responses of PREPA Bondholders to Consultant Questions", In re:

Puerto Rico Electric Power Authority Rate Review, Case No. NEPR-AP-2023-0003, Dated January 21, 2025, p. 4.

Although rate design is briefed separately, it must be noted that PREB has discretion to consider affordability and related policy goals when distributing the approved revenue requirement among customer classes, meaning PREB can depart from strict equalized-return allocations for policy reasons such as affordability or economic development, consistent with longstanding ratemaking practice, as Dr. Tierney testified. Transcript 12/11, p. 418, ll. 1-24. Dr. Tierney went on to testify that cutting required revenue out of the budget based on affordability "is not used anywhere in the United States" for rate making and rate design for several reasons, including because there is no standard formula to evaluate the income thresholds for an average customer or household. *Id.*, p. 419, ll. 6-25, p. 420, ll. 1-10.

C. Affordability is not a useful measurement of practicability.

The Hearing Examiner emphasized that the statutory relevance of the Energy Bureau's consideration of affordability lies in assuring collection of approved revenues, not as a standalone standard. Through its consultant Dr. Cao, ICSE argues there is a "clash" between theory and Puerto Rico reality, incorrectly concluding that "will make it impossible to set a rate which will produce sufficient revenue (i.e., its practicability)" amid risks of grid avoidance and demand reduction due to affordability. "ICSE's Motion Submitting Expert Witness Report & Presenting the Context in which it is Filed", *In re: Puerto Rico Electric Power Authority Rate Review*, Case No. NEPR-AP-2023-0003, Dated September 8, 2025, p. 2. First, it is unacceptable to begin any analysis with the premise that it will be impossible to set a rate that will produce sufficient revenue. To adopt this premise would impose an impossible standard such that the Energy Bureau could *never* satisfy its statutory obligations. Second, the record shows this to be an inaccurate conclusion and that

affordability-based challenges to the proposed budget are speculative, lack evidentiary support, and are often contradicted by the practical realities of energy service.

1. Electricity consumption is relatively inelastic, meaning demand for electricity consumption is decoupled from the rate.

The existing research on the impact of increased electricity rates in Puerto Rico reveal that "electricity demand in Puerto Rico is relatively inelastic. That is, while rate increases may lead to modest reductions in consumption, the overall effect is small in percentage terms. Revenue trends also do not exhibit a corresponding pattern, suggesting that electricity remains a necessary good with limited short-term responsiveness to price changes." Exhibit 72, p. 17, ll. 213-217; Exhibit 72.02, p.3, p. 42.

For residential customers, "[p]rior to 2020, residential electricity usage per customer in Puerto Rico was remarkably stable, showing little variation despite fluctuations in average prices. Starting in 2020, however, there is a noticeable upward shift in consumption, while average prices remained relatively stable. This suggests a structural change in household electricity use, possibly linked to lifestyle adjustments during and after the pandemic. Overall, the data supports the conclusion that residential electricity demand is price inelastic, with consumption largely unresponsive to price changes." *Id.*, p. 19, ll. 251-257.

A similar pattern is seen for commercial consumption. Based on Ms. Estrada's analysis, "commercial electricity use per customer (UPC) exhibits relatively modest fluctuations compared to the more pronounced changes in average commercial electricity prices, indicating inelastic demand. During periods of price increases, such as 2012, 2017, and 2022, commercial usage did not decline proportionally, suggesting that electricity remains an essential input for business operations. Likewise, when prices fell, consumption did not rise significantly, reinforcing the notion that demand is not highly sensitive to cost. Overall, the data implies that commercial

electricity consumption in Puerto Rico is price-inelastic, with usage patterns shaped more by operational needs than by price signals." *Id.*, p. 20, ll. 262-268, p. 21, ll. 269-270.

Additionally, "Puerto Rico's electricity market structure, characterized by a single transmission and distribution operator (LUMA) and a fully interconnected island-wide grid, supports the assumption of price inelasticity in the short run, as consumers have limited alternatives and remain highly dependent on grid-supplied electricity." *Id.*, p. 13, ll. 156-159. Even as demand patterns change over time, "structural constraints such as limited provider choice and continued grid reliance suggest that demand is likely to remain inelastic overall, even over longer time horizons." *Id.*, p. 13, ll. 161-163. As a result, "Puerto Rico's centralized service provision limits consumer responsiveness to price changes." *Id.*, p. 13, ll. 165-166.

2. The use of the FOMB affordability threshold for residential customers is not an accurate barometer of practicability.

Dr. Cao claims that the FOMB recommends that residential customers should not pay more than 6% of their household income for electricity. *See* Exhibit 54, p. 7. The 6% figure is one way to assess customer burden, but it is not a statutory cap and has no bearing on actual consumer behavior. Dr. Cao argues that the proposed rate increase would significantly exceed the 6% FOMB affordability threshold, but this is inaccurate. *See id.*[48] First, Dr. Cao used 2023 income data to calculate the percentage of household income that residential consumers would pay, skewing the FOMB percentage upwards. *Id.*, p. 14. Dr. Cao asserts average residential burdens of 6.3% under current rates, rising to 10.1% under the "optimal" scenario and 8.7% under the "constrained" scenario. *Id.* But when updated 2024 income data is used, "the average residential customer under

[48] Notably, even Dr. Cao would not adopt the opinion that residential electricity customers should not pay more than 6% of their household income on electricity when asked, instead disclaiming it as a rule of thumb and testifying that he did not "think that there is a magic number." Transcript 12/11, p. 345, ll. 8-25, p. 346, ll. 1-15.

current FY25 rates pays about $1,175 annually, roughly 4.3% of the median household income of $27, 213, well below the 6% threshold." Exhibit 72, p. 38, ll. 577-582. Under the optimal budget model that relies on a $0.37/kWh rate, the average burden would reach 6.9%, only "slightly exceeding the threshold." *Id.*, p. 38, ll. 581-582. This percentage is likely to be still lower once income data becomes available for 2025 because "[e]ven modest income growth can materially improve affordability ratios." *Id.*, p. 39, ll. 596-597.

These averages also "overstate the impact on the most vulnerable customers," once again skewing the data. *Id.*, p. 38, l. 583. "Many low-income households are enrolled in fixed-base or subsidized rate programs that cap monthly bills, often between $30 and $50, regardless of consumption." *Id.*, p. 38, ll. 583-585. As a result, low-income households are "largely insulated from the full effect of rate increases" but remain within the aggregated median household income data, again skewing the FOMB percentage. *Id.*, p. 38, ll. 586-587. Dr. Cao admits that his affordability calculations failed to account for these subsidies. Exhibit 54, p. 7, FN 6; Transcript 12/11, p. 350, ll. 10-25, p. 351, ll. 1-25; p. 352, ll. 1-25, p. 353, ll. 1-5. Dr. Ming also recommended that when considering affordability for low-income customers as a policy objective, PREB should "focus on the discounts provided through the low-income rates and the accessibility of those rates to low-income households." Exhibit 61, p. 96.

3. Total grid defection remains highly unlikely and impractical.

Some have stated a concern that increased rates would lead to grid defection, but this is speculative at best. For example, "Dr. Cao's analysis does not account for net energy metering ('NEM') customers, who are credited at a 1:1 retail rate for energy exported to the grid. These customers are less exposed to rate increases and, in some cases, may even benefit from higher rates through increased credit value. This undermines the claim that rate hikes uniformly harm all customers or inevitably accelerate grid defection." Exhibit 72, p. 38, ll. 590-594. "Full grid

defection remains economically and technically impractical for most households due to the storage needed for reliability during low-solar periods. For example, an 800 kWh/month household would need about five 13.5 kWh batteries and sixteen 400-865 W panels to cover two cloudy days, at an estimated lease cost of $535/month ($0.73/kWh), compared with roughly $200/month at current grid rates ($0.25/kWh).” *Id.*, p. 53, ll. 862-266. Even as households adopt a hybrid approach, the available retail credits provide “a strong incentive to remain connected” to the grid. *Id.*, p. 53, ll. 873-874. These trends “do not support the overstated conclusions advanced by Dr. Cao and the ICSE, which appear to significantly overestimate the likelihood of widespread grid defection or a collapse in electricity demand.” *Id.*, p. 54, ll. 882-885.

Similar trends are seen with commercial and industrial customers. *Id.*, p. 54, ll. 886-887. The “concerns about rising electricity costs in key sectors such as manufacturing, construction, and commerce are understandable, but they overstate the risk of widespread grid abandonment or an economic collapse.” *Id.*, p. 39, ll. 611-613. While commercial and industrial customers may offset their own costs through partial load displacement, the evidence suggests they are not responding to cost increases with full defection. *Id.*, p. 39, ll. 614-616. “For commercial customers, the 1:1 NEM credit structure creates a strong economic incentive to remain grid-connected, since it allows them to offset usage at the full retail rate and substantially lower their bills while still benefiting from grid reliability.” *Id.*, p. 39, l. 616, p. 40, ll. 617-618. “On the industrial side, a 2023 Guidehouse analysis found that 43 large customers displaced about 34 GWh per month through combined heat and power (CHP) systems, yet fewer than five fully disconnected from the grid ([ ] LUMA Exhibit 72.03). Most continue to rely on centralized power for backup and operational flexibility, underscoring the grid’s ongoing importance even for heavy self-generators.” *Id.*, p. 41, ll. 623-627.

In Puerto Rico, "the current adoption of distributed energy systems is driven less by rising electricity rates and more by concerns over grid reliability, particularly its resilience during and after severe weather events or widespread outages caused by failures in the electrical system." *Id.*,p. 52, ll. 851-854. Dr. Tierney also noted that reliability is the primary driver of adopting alternative supply but that "there is not a lot of evidence that people disconnect from the grid." Transcript 12/19, p. 32, ll. 8-16. As Dr. Tierney points out, "there has never been a U.S. utility that failed due to a death spiral," and "FOMB's experts have acknowledged that fact." Exhibit 52, p. 29, l. 16, p. 30, ll. 1-2.

4. Concerns about macroeconomic impacts of rate increases are also overstated.

Dr. Cao's report relies on a very slippery slope to argue that rate increases will result in dire macroeconomic outcomes, but these concerns are speculative and unsupported by the data. First, commercial and industrial efforts to offset costs through increased efficiency or partial load displacement "reduce the likelihood of full cost pass-through to consumers," undermining Dr. Cao's speculative concerns about the broader impact of rate increases on the economy. Exhibit 72,p. 42, ll. 632-637. Notably, Dr. Cao's conclusions rely on the "Input-Output model" and incorporated data that "was last updated in 2013, meaning it does not reflect over a decade of economic, technological, and structural changes." *Id.*, p. 42, ll. 652-654. The use of outdated data for this model risks flawed multiplier estimates, distorted investment assessments, rigid production functions, inaccurate production coefficients, exclusion of emerging industries and products, exclusion of technological advancements, and outdated production functions. *Id.*, p. 43, ll. 669-672; p. 44, ll. 673-682. "Even when inflation adjustments are applied, the relative weights used, such as those from the Consumer Price Index, may be based on benchmarks as old as 2006, further compounding inaccuracies." *Id.*, p. 45, ll. 698-700.

XI. Federal Funding

A. LUMA Prioritizes Federal Funds Whenever They Are Available.

LUMA is committed to obtaining the maximum benefit from all available federal funding sources, including mitigation funding. Of the $2.7 billion of funds LUMA has deployed since it took over as operator, $2.2 billion (81%) has been sourced from the federal government, with billions more in obligated and submitted projects awaiting obligation. Transcript 12/18, p. 386, ll. 1-8 (Smith); Transcript 12/19, p. 392, ll. 14-17 (Meléndez). To accelerate progress, LUMA has established a federal funding team resident in the Finance Department led by a VP-level manager, that is responsible for evaluating all of the potential funding sources, submitting projects for obligation and reimbursement, and coordinating all such activities, including working with specialized outside contractors. Transcript 11/13, p. 60, ll. 10-14 (Meléndez). LUMA has also worked diligently to improve the speed at which reimbursements are sought and is requesting funds for software to aid in accelerating the process. Transcript 12/18, p. 406, ll. 24-25, p. 407, ll. 1-15 (Smith describing the likely benefits of the requested grant management portal).

B. Bondholders' Criticism of LUMA's Utilization of Federal Capital Is Untethered to Any Standard and Has No Evidentiary Value.

The direct and implied criticism leveled by Bondholders regarding LUMA's "effectiveness" in securing federal funds is based on nothing more than supposition. Bondholders' experts did no meaningful investigation, failed to consider the impact of Puerto Rico's unique circumstances including the lack of access to normal sources of capital, and do not claim to have spoken to anyone at LUMA, COR3, PREPA, FEMA, or anywhere else about these issues. *See generally* Exhibit 50 (Hogan testimony), 51 and 66 (Hurley testimonies). Even if they had conducted any meaningful investigation, the most glaring problem with their armchair-quarterback opinions is the complete lack of any objective defined benchmark by which to measure LUMA's

performance. They also fail to meaningfully identify any deficiencies in LUMA's approach to federal funds, nor how to improve. As such, these opinions have no evidentiary value here—to the extent they are even relevant to setting just and reasonable rates in the first place.

The Bondholders' criticism also seems to fundamentally misunderstand the FEMA funding process. For example, LUMA CFO, Mr. Smith, responded in part to Mr. Hurley's incorrect assertion that large amounts of federal capital remain unspent:

> Federal disaster funding for Puerto Rico's grid recovery is not unrestricted capital that operators can redeploy at will. Instead, FEMA funding is incident-specific, limited to eligible scopes of work, and contingent upon grantee and FEMA approval. What may appear as unused funds are, in fact, subject to eligibility determinations, environmental and historic preservation compliance, and the Commonwealth's prioritization through COR3 as the grantee. . . .
>
> The presence of obligated or advanced funds that are not yet disbursed is a function of FEMA's structured pipeline and Section 428 processes rather than evidence of underutilization. As this process continues to move along LUMA will spend all the federally funded dollars allocated for T&D. FEMA-obligated fund balances reflect reserved federal authority to fund work, not cash on hand, and disbursements occur only after compliance milestones are met. . . .

Exhibit 79.0, p. 23, ll. 510-522, p. 24, ll. 523-525. Additionally, Smith explained that "[e]xercising deliberate pacing in the use of federally funded capital expenditures is a prudent safeguard against deobligation or audit risk, consistent with FEMA's fiduciary requirements." *Id.* p. 24, ll. 537-539. Various witnesses also dispelled the myth that a pell-mell race to spend FEMA dollars would be prudent, noting for example that if the FEMA reconstruction grant is exhausted before projects can be qualified for hazard mitigation funding, that funding will be lost. Exhibit 5.0, p. 25, ll. 570-573 (Meléndez); Transcript 12/19, p. 328, ll. 9-25 (PREPA's Suzette Diaz: "And it's very critical for us and for our operators to . . . make every single effort to identify 406 funding and try to limit the 428 projects.").

And their criticisms also improperly discount or ignore the unique circumstances of Puerto Rico and the consequences of PREPA's bankruptcy. As Mr. Smith explained, "our single biggest

obstacle to performing work today is [lack of] money." Transcript 12/18, p. 404, ll. 2-3. Federal funds are *reimbursed*. That means there must be working capital available to complete the project first. Exhibit 79.0 p. 24, ll. 527-528 (Smith: "Normal procedures require that project costs be advanced, using LUMA's own capital, and then reimbursed after the conditions are satisfied."). PREPA's bankruptcy means that the system has no access to traditional sources of long-term capital. Exhibit 2.0, p. 25, ll. 481-496, p. 26, l. 497 (Smith explaining that, as a result of bankruptcy, "the utility must operate under a 'cash financing' regime"). Although programs like Working Capital Advance ("WCA") help to bridge liquidity gaps, they do not eliminate any of FEMA's rigorous requirements for obligation or reimbursement and come with their own extra set of bureaucratic and practical challenges. Exhibit 79.0, p. 5, ll. 546-556 (no relaxation of compliance requirements). As Mr. Smith explained,

> WCAs are restricted advances tied to specific FEMA obligated projects, not discretionary liquidity. They are subject to stringent compliance requirements, including deposit in interest bearing accounts, 90-day spend plans, and reconciliation through Requests for Reimbursement within 180 days, with monthly reporting thereafter.

Id., p. 32, ll. 708-712. And as Mr. Meléndez added, executing on federal funding has been significantly hampered by a lack of proper funding from PREPA—a problem that the WCA program cannot overcome.

> However, [WCAs] do not completely bridge the gap caused by absence of sufficient working capital caused primarily by the failure of PREPA to fund at least 4.5 months of expected federally funded capital every month, a stipulation in the T&D OMA, and the pauses implicit within the 25% interval are not compatible with flow of work in executing projects.

Exhibit 74.0, ll. 552-556; *see also* Exhibit 79.0, p. 26, ll. 574-576 ("Without being bridged by [NFC] funds, there would be pauses in the work performed with significant schedule and budget ramifications.").

Additionally, FEMA funding requires a 10% cost-sharing match. Exhibit 79.0, p. 34, ll.765-767, p. 35, ll. 777-778. Although there are programs, such as HUD Community Development Block Grant ("ER1") and the Commonwealth's Energy Reserve Fund, neither are discretionary nor reliable sources for cost sharing. *Id.* p. 33, ll. 727-739. For example, despite almost 100 requests for reimbursement under the ER1 project, none have been approved to date. *Id.* As Mr. Smith further explained,

> Ratepayer NFC budgets do not replace FEMA funding but complement it by covering the required non-federal cost share, which remains unfunded absent HUD ER1 disbursements. Furthermore, only certain projects are eligible to be reimbursed via FEMA or other federal funding. For example, FEMA funds cannot be used to replace aged infrastructure that is past its useful life, or infrastructure that has failed or is failing due to PREPA's chronic underinvestment in maintenance. Federal requirements and timelines are not a reason to avoid FEMA funds, but they do require that ratepayer resources be budgeted to ensure FEMA's federal share can be accessed without risk of deobligation. LUMA's budgets take this into account to allow federal dollars to flow with minimal interruption; program requirements and timelines are managed through sequencing and WCAs, not by shifting eligible capital to rates.

Exhibit 79.0, p. 39, ll. 866-876.

Beyond lack of money, the FEMA reimbursement process itself is challenging and highly bureaucratic. And LUMA, a subrecipient with limited control, has faced many additional challenges at the Commonwealth level—including PREPA's unilateral decision to deactivate crucial T&D projects from the list of active obligations, unreasonably long delays from Hacienda to receive routine, but necessary documentation, COR3's unwillingness to accept alternative proof in such cases, recent material changes mandated by COR3 that cause significant delays to WCA reimbursements, and a hostile Commonwealth government playing politics and baselessly suing to cancel LUMA's contract. Transcript 12/18, p. 309, ll. 24-24, pp. 309-310, p. 311, ll. 1-3 (Smith describing the COR3 reimbursement process for WCA, recent changes in the COR3 process, and the delays caused by Hacienda).

C. What Can the Bureau Do To Assist?

1. Provide Adequate Capital.

Providing adequate cash funding while access to capital markets remains unavailable is crucial. In order to maximize federal funds, maximize the speed at which they are deployed, and maximize their *benefit* to ratepayers, the system must have access to as much non-restricted capital as possible. Under the present circumstances, that means some form of cash financing from ratepayers.

There are many tangible benefits. First, having sufficient capital permits critical work to be performed now and later submitted for reimbursement—what is known as "work completed" reimbursement. Exhibit 81.0, p. 7, ll. 105-115, p.8, ll. 116-118; Transcript 11/13 p. 58, ll. 12-25, p. 59, ll. 1-17. Doing so provides critical system stabilization, mitigates health and safety risks, and provides immediate ratepayer benefits while preserving eligibility for federal funding. *Id*; *see also* Exhibit 74.0 p.18, ll. 353-374 (describing the use of NFC to address emergency/emergent system needs).

Second, having sufficient capital reduces the consequences of the stop/start nature of WCAs, meaning that crews can keep working during the long downtimes while COR3 processes paperwork without the added cost of mobilizing and demobilizing. As Mr. Meléndez explained

> Due to the fungibility of cash, LUMA can utilize NFC while waiting for the next WCA to be disbursed. If, instead, LUMA lacks funds to purchase equipment, pay contractors, or make payroll without access to WCA, then work could stop on projects necessary to rebuild the grid while LUMA waits for capital infusions. This would be inefficient and costly and needlessly postpone work to stabilize the grid. Speed in execution of the work is negatively impacted due liquidity-related challenges and is as critical as the effects of the work itself.

Exhibit 5.0, p. 50, ll. 970-978.

Third, having access to sufficient capital permits LUMA to achieve synergies by performing non-reimbursable NFC projects alongside federally funded projects. Exhibit 5.0, p. 48,

ll. 940-941, p. 49, ll. 949-951; Exhibit 79.0, p. 36, ll. 796-798 ("NFC budgets therefore cover scopes that are non-federally eligible, ensuring operational continuity."), Exhibit 79.0, p. 50, ll. 1110-1111 ("[N]on-federal capital expenditures serve an essential and complementary role, rather than representing missed opportunities for federal funding."). As Pedro Meléndez explained in more detail:

> [T]here are circumstances in which a project may involve a mix of NFC and Federal Funds. For example, portions of projects that will likely qualify for FEMA public assistance or hazard mitigation, but if submitted for such funding, could preclude the opportunity to use these funds for a more comprehensive fix, as there are instances where the focus of an investment is to restore an asset to service (often driven by urgency related to unacceptable safety or reliability risk levels), when in fact, the ultimate objective is to bring the asset up to code and standard. If LUMA were to request federal funds for the restoration activities (a less costly activity), the higher cost to then bring the asset up to code and standard could be deemed to exceed baseline restoration, and would therefore, need to be funded by ratepayers. . . . This interplay between NFC funds requested and the availability of federal funds was acknowledged in my direct testimony, where I stated that NFC funds will be used to enhance the benefits derived from federally funded projects . . . .

Exhibit 74.0, p. 32, ll. 645-658, p. 33, l. 659.

As discussed at the hearing, LUMA welcomes any mechanism that may provide such funding—whether that's through funding the requested 2% reserve, funding the Optimal Budget for NFC, providing some other source of capital such as something similar to the one proposed by Mr. Guimel Cortes (bearing in mind the caveats noted in Mr. Smith's surrebuttal testimony, *see* Exhibit 81.0, pp. 14-18) or all of the above. Access to funds has direct positive effects on reliability for ratepayers.

2. Fund the Tools Requested to Improve Reimbursement Efficiency.

As noted above, LUMA seeks funds in the finance department's critical financial systems budget for new software for timekeeping and grant management. These systems are critical to reducing the administrative burden of federal reimbursement and expediting the process. Transcript 12/18, p. 400, ll. 20-25, p. 401, ll. 1-4.

3. Provide Certainty About Which Projects LUMA is Expected to Execute With NFC Even if They Are Deactivated From Federal Funding.

As noted above, PREPA chose unilaterally to ask FEMA to deactivate a number of crucial T&D projects from the federal pipeline that the Bureau has ordered LUMA to complete. As LUMA explained, it was not consulted, had no input on deactivation, and has no control over reactivation. Transcript 12/18, p. 325, ll. 15-25, p. 326, ll. 1-9. As Mr. Smith explained, the unilateral deactivation has put LUMA in the difficult position of not being able to complete these projects with federal funds. PREB should provide as much certainty as possible as to how it expects LUMA to proceed in the absence of federal funding.

> We've described here, you know, scenarios where we've got the inactivated projects with FEMA, projects come in and out of the program. We've got, we have a multi-year PSP stabilization plan. Again, I talked about certainty, right? Having that certainty of what LUMA is expected to execute and having that be stable is very, very critical.

Transcript 12/18, p. 401, ll. 8-15. As Mr. Smith further explained:

> A lot of those [inactivated] projects, like almost all those projects, are PREB approved projects, right? The PREB wants [them] performed, but we now can't work on [them] because of the dynamic with the projects being activated at FEMA. And so that that comes back to certainty. We have an order from the PREB for work that we agree is critical to be performed, but now we can't perform it because something else in the process has now blocked that right? So, if the PREB comes out and I guess has to reassert what it wants done, that at least establishes [what the] regulator wants LUMA to perform. We want to perform them, but there are issues in the way of us being able to perform them. So, the PREB being able to outline certainty around that, I think would be … very, very helpful.

Id., p. 402, ll. 1-13, p. 403, ll. 1-5.

4. Establish Clear Metrics for Performance that are Within LUMA's Control If the Bureau Wishes to Regulate in this Area.

To the extent that PREB wishes to regulate LUMA with respect to federal funds, it must first establish fair, objective performance metrics that are within LUMA's control. It is not sufficient, as Bondholders have done here, to merely hand-wave and say that LUMA "could do

better." Better compared to what fair, reasonable, and objective criteria? As Mr. Smith testified in response to questions from the Hearing Examiner, having a benchmark is critical.

> [W]hat's the standard, right? We're making an assumption in a lot of the questions that have come today that LUMA is somehow in some way underperforming on its federal funds, but I don't know versus what, right? 81% of the capital that's been invested since the inception of LUMA has been federally funded. 19% has been rate payer funded. . . . So, I come back to, I struggle with what to be benchmarking against. I completely support if there's a benchmark out there, let's measure against it because otherwise we don't know whether we're doing right or wrong. I just don't know what the benchmark is.

Transcript 12/18, p. 386, ll. 1-25.

WHEREFORE, LUMA respectfully requests that the PREB **take notice** of the arguments set forth in this brief; **approve** LUMA's proposed Optimal Budget; **approve** LUMA's proposals on debt service and margin; **adopt** LUMA's proposal on budget amendments; and **eliminate** the fourth quarter report filing requirement.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 23rd day of January, 2026.

WE HEREBY CERTIFY that this document was filed using the electronic filing system of this Energy Bureau and that electronic copies of this document will be notified to Hearing Examiner, Scott Hempling, shempling@scotthemplinglaw.com; and to the attorneys of the parties of record. To wit, to the ***Puerto Rico Electric Power Authority***, through: Mirelis Valle-Cancel, mvalle@gmlExhibitnet; Juan González, jgonzalez@gmlExhibitnet; Alexis G. Rivera Medina, arivera@gmlExhibitnet; Juan Martínez, jmartinez@gmlExhibitnet; and Natalia Zayas Godoy, nzayas@gmlExhibitnet; and to ***Genera PR, LLC***, through: Jorge Fernández-Reboredo, jfr@sbgblaw.com; Giuliano Vilanova-Feliberti, gvilanova@vvlawpr.com; Maraliz Vázquez-Marrero, mvazquez@vvlawpr.com; ratecase@genera-pr.com; regulatory@genera-pr.com; and legal@genera-pr.com; ***Co-counsel for Oficina Independiente de Protección al Consumidor***, hrivera@jrsp.pr.gov; contratistas@jrsp.pr.gov; pvazquez.oipc@avlawpr.com; ***Co-counsel for Instituto de Competitividad y Sustentabilidad Económica***, jpouroman@outlook.com; agraitfe@agraitlawpr.com; ***Co-counsel for National Public Finance Guarantee Corporation***, epo@amgprlaw.com; loliver@amgprlaw.com; acasellas@amgprlaw.com; matt.barr@weil.com; robert.berezin@weil.com; Gabriel.morgan@weil.com; Corey.Brady@weil.com; alexis.ramsey@weil.com; ***Co-counsel for GoldenTree Asset Management LP***, lramos@ramoscruzlegal.com; tlauria@whitecase.com; gkurtz@whitecase.com; ccolumbres@whitecase.com; iglassman@whitecase.com; tmacwright@whitecase.com; jcunningham@whitecase.com; mshepherd@whitecase.com; jgreen@whitecase.com; ***Co-counsel for Assured Guaranty, Inc.***, hburgos@cabprlaw.com; dperez@cabprlaw.com;

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CERTIFICATE OF COMPLIANCE WITH WORD-COUNT LIMIT

LUMA hereby **CERTIFIES** that this document has **56,710** words, excluding the caption, table of contents, signature blocks, and service information.

/s/ Margarita Mercado Echegaray