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

IN RE: PUERTO RICO ELECTRIC POWER AUTHORITY RATE REVIEW	**CASE NO.:** NEPR-AP-2023-0003 **SUBJECT**: **LUMA's Motion in Compliance with Hearing Examiner's January 26th Order**

LUMA'S MOTION IN COMPLIANCE WITH HEARING EXAMINER'S JANUARY 26TH ORDER

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

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

1. Following the conclusion of a six-week long evidentiary hearing held in the captioned proceeding, on December 22, 2025, the Hearing Examiner issued an *Order on Exhibits, Miscellaneous Post-Hearing Matters, and Legal Issues* ("December 22nd Order"). Therein, the Hearing Examiner outlined the preliminary schedule for post-hearing briefs and established the corresponding word limits for said briefs, capping affirmative briefs at 52,000 words[1] and reply briefs at 31,000 words.

2. On January 23, 2026, LUMA timely filed its *Revenue Requirement Brief*, together with a certificate addressing the applicable word limit. Due to the complexity and number of issues necessary to be addressed, LUMA's affirmative brief on revenue requirement exceeded 53,000 words,[2] reflecting the scope of arguments required by the vast evidentiary record. Accordingly,

[1] LUMA was afforded an additional 1,000 words solely to describe the combined revenue requirement proposed by the three applicants. December 22nd Order, p. 4.

[2] Specifically, *LUMA's Revenue Requirement Brief* totaled **56,710 words**.

together with *LUMA's Revenue Requirement Brief*, LUMA filed a *Request for Leave to File LUMA's Revenue Requirement Brief in Excess of the Current Page Limitation, Request for Enlargement of Briefing Word Limitation Currently Applicable to LUMA, and Request for Leave to File Appendix* ("Request for Leave").

3. Despite the above, on January 26, 2026, the Hearing Examiner entered an *Order Requiring LUMA to Comply with Word Limits* ("January 26th Order"). In sum, the Hearing Examiner denied LUMA's Request for Leave and granted LUMA "until Monday, January 26, 2026, 5p Eastern, to file a replacement brief." January 26th Order, p. 2. The Hearing Examiner stated as follows: "Whatever LUMA files, it must not exceed 53,000 words. I reject its request to exceed that amount. Write concisely, drop hortatory language, and comply with the Order." *Id*.

4. In compliance with the Hearing Examiner's January 26th Order, LUMA hereby files a revised version of *LUMA's Revenue Requirement Brief*. *See Exhibit A* of this Motion. LUMA hereby **CERTIFIES** that said revised version has 40,257 words, excluding the caption, table of contents, signature blocks, and service information.

WHEREFORE, LUMA respectfully requests that the Energy Bureau and its Hearing Examiner **take notice** of the aforementioned; **deem** LUMA in compliance with the January 26th Order; and **accept** the revised and condensed version of *LUMA's Revenue Requirement Brief* into the record.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 26th day of January, 2026.

WE HEREBY CERTIFY that this Motion was filed using the electronic filing system of the Energy Bureau and that electronic copies of this Motion will be notified to Hearing Examiner, Scott Hempling, shempling@scotthemplinglaw.com; and to the attorneys of the parties of record. To wit, to the ***Puerto Rico Electric Power Authority***, through: Mirelis Valle-Cancel, mvalle@gmlex.net; Juan González, jgonzalez@gmlex.net; Alexis G. Rivera Medina, arivera@gmlex.net; Juan Martínez, jmartinez@gmlex.net; and Natalia Zayas Godoy,

nzayas@gmlex.net; and to ***Genera PR, LLC***, through: Jorge Fernández-Reboredo, jfr@sbgblaw.com; Giuliano Vilanova-Feliberti, gvilanova@vvlawpr.com; Maraliz Vázquez-Marrero, mvazquez@vvlawpr.com; ratecase@genera-pr.com; regulatory@genera-pr.com; and legal@genera-pr.com; ***Co-counsel for Oficina Independiente de Protección al Consumidor***, hrivera@jrsp.pr.gov; contratistas@jrsp.pr.gov; pvazquez.oipc@avlawpr.com; ***Co-counsel for Instituto de Competitividad y Sustentabilidad Económica***, jpouroman@outlook.com; agraitfe@agraitlawpr.com; ***Co-counsel for National Public Finance Guarantee Corporation***, epo@amgprlaw.com; loliver@amgprlaw.com; acasellas@amgprlaw.com; matt.barr@weil.com; robert.berezin@weil.com; Gabriel.morgan@weil.com; Corey.Brady@weil.com; alexis.ramsey@weil.com; ***Co-counsel for GoldenTree Asset Management LP***, lramos@ramoscruzlegal.com; tlauria@whitecase.com; gkurtz@whitecase.com; ccolumbres@whitecase.com; iglassman@whitecase.com; tmacwright@whitecase.com; jcunningham@whitecase.com; mshepherd@whitecase.com; jgreen@whitecase.com; ***Co-counsel for Assured Guaranty, Inc.***, hburgos@cabprlaw.com; dperez@cabprlaw.com; mmcgill@gibsondunn.com; lshelfer@gibsondunn.com; howard.hawkins@cwt.com; mark.ellenberg@cwt.com; casey.servais@cwt.com; bill.natbony@cwt.com; thomas.curtin@cwt.com; ***Co-counsel for Syncora Guarantee, Inc.***, escalera@reichardescalera.com; arizmendis@reichardescalera.com; riverac@reichardescalera.com; susheelkirpalani@quinnemanuel.com; erickay@quinnemanuel.com; ***Co-counsel for the PREPA Ad Hoc Group***, dmonserrate@msglawpr.com; fgierbolini@msglawpr.com; rschell@msglawpr.com; eric.brunstad@dechert.com; Stephen.zide@dechert.com; david.herman@dechert.com; michael.doluisio@dechert.com; stuart.steinberg@dechert.com; ***Sistema de Retiro de los Empleados de la Autoridad de Energía Eléctrica,*** nancy@emmanuelli.law; rafael.ortiz.mendoza@gmail.com; rolando@emmanuelli.law; monica@emmanuelli.law; cristian@emmanuelli.law; lgnq2021@gmail.com; ***Official Committee of Unsecured Creditors of PREPA***, jcasillas@cstlawpr.com; jnieves@cstlawpr.com; ***Solar and Energy Storage Association of Puerto Rico,*** Cfl@mcvpr.com; apc@mcvpr.com; javrua@sesapr.org; mrios@arroyorioslaw.com; ccordero@arroyorioslaw.com; ***Wal-Mart Puerto Rico, Inc.,*** Cfl@mcvpr.com; apc@mcvpr.com***; Solar United Neighbors***, ramonluisnieves@rlnlegal.com; ***Mr. Victor González,*** victorluisgonzalez@yahoo.com; and ***the Energy Bureau's Consultants***, Josh.Llamas@fticonsulting.com; Anu.Sen@fticonsulting.com; Ellen.Smith@fticonsulting.com; Intisarul.Islam@weil.com; jorge@maxetaenergy.com; rafael@maxetaenergy.com; RSmithLA@aol.com; msdady@gmail.com; mcranston29@gmail.com; dawn.bisdorf@gmail.com; ahopkins@synapse-energy.com; clane@synapse-energy.com; guy@maxetaenergy.com; Julia@londoneconomics.com; Brian@londoneconomics.com; luke@londoneconomics.com; kbailey@acciongroup.com; hjudd@acciongroup.com; zachary.ming@ethree.com; PREBconsultants@acciongroup.com; carl.pechman@keylogic.com; bernard.neenan@keylogic.com; tara.hamilton@ethree.com; aryeh.goldparker@ethree.com; roger@maxetaenergy.com; Shadi@acciongroup.com; Gerard.Gil@ankura.com; Jorge.SanMiguel@ankura.com; Lucas.Porter@ankura.com; gerardo_cosme@solartekpr.net; jrinconlopez@guidehouse.com; kara.smith@weil.com; varoon.sachdev@whitecase.com; zack.schrieber@cwt.com; Isaac.Stevens@dechert.com; James.Moser@dechert.com; Kayla.Yoon@dechert.com; juan@londoneconomics.com; arrivera@nuenergypr.com; ahopkins@synapse-energy.com.

DLA Piper (Puerto Rico) LLC
Calle de la Tanca #500, Suite 401
San Juan, PR 00901-1969
Tel. 787-945-9122 / 9103
Fax 939-697-6092 / 6063

Margarita Mercado Echegaray
/s/ Margarita Mercado Echegaray
RUA 16,266
margarita.mercado@us.dlapiper.com

/s/ Jan M. Albino López
Jan M. Albino López
RUA 22,891
jan.albinolopez@us.dlapiper.com

Exhibit A

[Revised version of *LUMA's Revenue Requirement Brief*]

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

January 26, 2026

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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 on 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 in Transmission and Distribution ("T&D") Non-Federally-Funded Capital ("NFC") than its average mainland neighbors. 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 to 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 ("OB"), 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 ("CB") 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 ("FERC"), and the CEO of a regulated utility, offered opinions on the differences in the regulation of public-owned electric utilities, regulatory issues created with the PREB requirement to submit two annual revenue requirements for the same year, and regulatory issues raised with the requirement to file a CB with new performance indicators. Exhibit 19, 3:13-17, 8:122-126. 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.* 14:249-261.

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, 12:209-214. 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.* 12:215-219, 13:218-227.

Mr. Terzic urges PREB to focus its review on the OB, which represents the utility's best estimate of necessary costs to achieve just-and-reasonable performance. Exhibit 19, 16:302-306, 17:307-308. 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. 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, 417:4-22.

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 remains with PREPA, eliminating the risk of over-recovery. Exhibit 19, 17:309-320.

PREB should credit and adopt the core conclusions of Mr. Terzic's testimony. PREB should anchor its decision in LUMA's OB as PREPA's necessary cost to achieve just-and-reasonable performance. 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.

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

1. The System is in dire need of capital investments.

"[T]he [S]ystem is in … dire need of capital dollars." Tr. 11/12, 318:24-25. "[The Federal Emergency Management Administration] "FEMA" cannot cover it all." Tr. 11/17, 140:25; 141:1-6. "There are thousands and thousands of critical conditions that exist on the island." Tr. 11/13, 67:16-17. 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." Tr. 11/17, 138:20-24.

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. 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 the number of customers served in the in-service substation to 5,000. Tr. 11/12, 194:15-25; 195:1. If the substation now serving 5,000 customers goes out of service, the likelihood of failure increases. *Id.* 295:5-15.

"With a weakened grid, small events have big impacts." Exhibit 5.0, 19:449. The growing number of faults due to the age and degradation of the equipment, leads to exponential degradation of the System. Tr. 11/17, 106:7-25; 107:1-9. "[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 5.0:451-457. "[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.* 19:441-445; *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, 18:427-429. "Without significant increases in funding, the system will not improve, and the rate of deterioration will likely worsen." *Id.* 19:437-438. Degradation will stop through investments and repairing all out-of-service and failing equipment. Tr. 11/12, 195:15-17.

"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, 20:475-478; Tr. 11/17, 97:4-19. If PREB funds less than the proposed NFC investments of the OB, 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. Tr. 11/12, 193:3-10.

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 System reliability." *Id.* 194:3-7, 195:5-25, 196:1-6., 197:1-19.

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

2. Capital Programs' Optimal Budget

The OB for Capital Programs of $401.3M for FY2026, $646.3M for FY2027, and $790.7M 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, 28:639-643; 29, Table 1; Exhibits 5.15, 6.15, 132, 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, i:43-49; pp. 29-56, Table 1; 29:650; 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, 29:663-664; 30:665. 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.* 30:673-676. Projections were adjusted to focus on “preventing any further slippage in the period originally contemplated in the [SRP]; … 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.* 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.* 43, Table 4 (describing programs); 44, Table 5 (with breakdown of costs for 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, 47:928-929. Capital Programs also requested funding to purchase lands for battery energy storage systems (“BESS”). *Id.* 69:1362-1369; 70:1370-1374; Exhibit 639.

NFC costs adhere to cost-estimating principles that reasonable operators would apply, 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, 55:1086-1089; 56:1090-1091; Exhibit 74.26. Table 6 of Exhibit 5.0 includes cost 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 $4.2B in total capital work managed or performed by the organization." *Id.* 36:815-817. "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.* 36:818-819; 37:820-823. For staffing budgets, historical data was reviewed to determine the percent of labor that has been categorized as O&M costs

Failure to fund the requested O&M Budget will severely impact project execution. Exhibit 5.0, 41:888. 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.*: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.*:893-895.

a. Costs for seconded labor are reasonable and necessary.

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. Tr. 11/17, 223:20-24; 224:1-10. 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.* 224:8-10; 214:7-20. There is no markup for profit for secondee-costs, which are "pass-through costs." *Id.* 168:19-25; 169:1-7; 172:22-25; 173:1; Exhibit 48, 7:157-161; 8:162-184; 9:185-200.

LUMA's seconded workforce is rooted in Section 4.2 (k) of the Puerto Rico Transmission and Distribution System Operations Agreements ("OMA"), which states that, as necessary to provide operations and maintenance services ("O&M Services"), LUMA ServCo may hire employees of its affiliates. Exhibit 489; Exhibit 388, p.2; Exhibit 48, 8:179-184; 9:185-189. "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, 9:190-195. As Mr. Meléndez explained, "seconded employees fill critical skill 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. Tr. 11/17, 215:8-23. Some seconded employees are paid by the hour with no benefit to the parent company, meanwhile, others are given specific assignments. *Id.* 172:22-25; 173:1-9.

Mr. Meléndez clarified that the figures of projected seconded labor during the rate period that are referenced in his pre-filed testimony, between 600 800 employees, represent budgeted or projected ramp-up levels, rather than the number of active seconded employees at any single point

in time. *Id.* 155:6-14; 156:4-25; 157:1-14; 158:22-25; 159:1; 159:12-25; 160:4-14. He testified that, as of mid-2025, the active number was closer to 450 seconded employees. *Id.* 156:4–9.

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; Tr. 11/17, 207:19-25; *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 certain seconded-employee costs that FEMA contested, which matter is on appeal. Tr. 11/17, 225:10-25; 226:1-18; *see also* Exhibit 547.3, p.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**, … COR3 submits its own cost analysis, included herein as Exhibit C, for FEMA's consideration. COR3's **cost analysis** 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 in hypothetical questions. The record lacks evidence to challenge the need and reasonableness of these proposed costs. As Mr. Meléndez testified, these costs are necessary to benefit ratepayers. *See e.g.,* Tr. 11/17, 218:24-25; 219:1-4. As contemplated in the OMA and validated by the Government of Puerto Rico when it executed it, this arrangement benefits ratepayers and the public interest. Exhibit 48, 9:185-189. *See id.*

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

Achieving improvements in the System's operational performance and quality of service requires "an increase in resources compared to levels currently in place…. One of the resources available to LUMA 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 ... . Exhibit 388, p.4. PREB should approve the proposed costs for seconded labor to allow LUMA to leverage necessary expertise for science-based work, such as protection and control systems not available in Puerto Rico and transformer deployments that require specialized skill sets. Tr. 11/17, 224:15-25; 225:1-4.

3. Operations' Optimal Budget

The OB for the Operations Department of $548.7M for FY2026, $582.1M for FY2027, and $621.3M 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; 22:446-447, 23:448-463, 24-28, Tables 3, 4. Labor costs include base salaries, benefits, bonuses, overtime payments, and compensation for 29 seconded employees. Exhibit 6.0, 29:542-547. As Mr. Burgemeister testified, LUMA has a plan to have a workforce in place for the

proposed ramp-up in maintenance, including ongoing training of Puerto Rican-qualified line workers and substation technicians. Tr. 11/17, 119:1-25, 120:1-19.

The OB 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, p. 48-49, Table 7, 51:992-998. Maintenance efforts are critical for a System that has not been maintained for a long time and for equipment that is past its useful life. Tr. 11/17, 91:6-14.

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 caused by Hurricanes María and Fiona, and comply with the PREB requirement for retail wheeling. Exhibit 6.0, 37:688-708.

Per prudent utility practices, the OB 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. Tr. 11/17, 86:10-25, 87:10-22, 88:11-22, 90:14-25, 91:1-5. LUMA would also maintain transmission lines and conduct visual and thermography inspections in feeders within five years. *Id.* 88:16-25, 89:1-6, 121:9-25, 122:1-3; 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, 50:956-975, *Id.* 51:976-978. The OB also enables LUMA to comply with Contract Standards as required by the OMA. *Id.* 54:1047-1055.

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.* 53:1027-1044.

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

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.* 20:389-397. 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.*:390-397. A full "bottom-up" approach was applied to the costs associated with preventive maintenance ("PM"). *Id.*:398-399, *Id.* 21:400-402. 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.*:403-410; *see id.* p. 24, Table 3 (CM and PM costs profile), p. 26, Table 4 (maintenance plan); Tr. 11/17, 93:7-16, 94:12-19. The "Puerto Rico factor" is grounded on LUMA's experience of failure rates in the System and applying engineering judgment. Tr. 11/17, 93:11-16, 24-25*;* 94:1-6; 95:8-24. These

estimates are conservative, recognizing the increase in funds requested. *Id.* 95:18-24; 96:1-6; 105:23-25; 106:1-25; 107:1-9.

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

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

a. Vegetation Management ("VM")

LUMA's VM program is central to reliability performance and customer safety.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, 8:149-252. 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.*:154-157, 457-460.

Increasing VM funding by $75M annually, thus bringing the annual O&M total to approximately $125M 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.* 28:531-539; Exhibit 553 (showing Optimal and Constrained VM O&M

budgets, with $125M, $131.25M and $137.8M 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, 35:655-672.

LUMA's VM program is grounded in an 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 OMA, and applicable law, and avoiding double-counting. Exhibit 6.0, 20-22:389-445. VM is foundational to reliability and requires increased contractor capacity while LUMA builds internal staffing. *Id.* 22:446-447; 23:448-460; Table 5; *see also* Exhibit 516 (expected SAIDI and SAIFI impacts). 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. LUMA's VM contracts, as examined during the 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).[1]

Mr. Burgemeister testified that vegetation is responsible for "consistently" around 50 percent of outages and that, absent the requested funding, the problem will worsen. Tr. 11/12, 13:3-21. O&M and federal capital clearing are not substitutes. O&M-funded maintenance targets worst-performing feeders with focused spot clearing to deliver 12-18-months of 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. Tr. 11/12, 53:5-25. Thus, 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. Tr. 11/12, 45:17-25, 20-25; 46:1-14; 49:22-25; 50:1-16; 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 contracted unit costs considering terrain, density, and access variability. Exhibits 557, 557.1, 557.2, 557.3.

The Hearing Examiner questioned whether 3,100 distribution miles and 729 transmission miles would be deferred under LUMA's CB scenario, per LUMA's VM and Capital Clearing

[1] 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).

Implementation SRP Program (Exhibit 6.14). Tr. 11/12, p.76. VM O&M request was about $75M (versus $130M under the optimal scenario), rising to approximately $130M 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. Tr. 11/12, 76:25; 77:1-25; 78:1-6.

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. Tr. 11/12, 38:10-16, 21-25; 39:1-8; 53:5-25; 54:1-25. 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, 35:663-672. The tradeoff is thus stark. Underfunding VM O&M prolongs a reactive approach, elevates SAIDI and SAIFI, increases restoration costs and overtime, and degrades customer experience, while adequately funding VM anchors reliability improvements, preserves federal reset benefits, and reduces long-run costs. *Id.* 35:655-672; 50:965-966; 52:1014-1021; 53:1022-1024; 56:1082-1089; Tr. 11/12, 78:8-25; 79:1-21; *see also* 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 primarily focused on emergent and routine maintenance, whereas Capital Programs focuses 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* Tr. 11/12, 293:12-25; 294:1-23.

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, Table 5; Exhibit 5.04; Exhibit 144.1, rows 12-36, includes details of the need for each of the projects. The FY2026 OB request for Capital Programs is approximately $14M. Exhibit 5.0, Table 4; Tr. 11/12, 162:10-14. Amounts increase in FY2027 and FY2028. Exhibit 5.0, p.44, Table 5; Tr. 11/12, 161:19-22; 162:10-14. As LUMA continues assessments, it expects to continue finding needed pole replacements. Tr. 11/12, 232:9-15; 236:6-9.

Replacements are triggered by condition-based assessments supplemented by engineering analysis. Tr. 11/12, 150:12-16. 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.* 150:24-25; 151:1-16. Inspection patrols identify structures with structural deficits; engineering then validates and scopes the necessary replacements. *Id.* 151:25; 152:1-6. 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.* 156:6-14. Mr. Meléndez explained that these costs were informed by experience, having done over 20,000 pole replacements. *Id.* 157:12-25; 158:1-10. 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.* 162:2-9. Ratepayer funds are requested to address the urgent needs of the T&D System. *Id.* 165:2-8. Spending non-federal capital allows LUMA to replace poles to avoid large-scale events (outages) in transmission structures. *Id.* 165:17-25; 166:1-13. 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.* 247:15-25.

Failure to approve the OB would cause outages associated with pole failures. Tr. 11/12 164:7-15. Under a CB scenario that reduces project scope by 13% ($16.6M), LUMA would defer replacement of deficient transmission structures, resulting in more costly reactive maintenance. Exhibit 5.0, 62:1204-1208.

For FY2026, the NFC Budget for Operations is $10M, increasing to $12M in FY2027 and $16.2M in FY2028. Exhibit 6.0, Table 6. 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.*:774-778. The funding identified for this emergent work is based on forecasted failures and find rates from proactive inspection and maintenance activities. *Id.*:778-779. LUMA used an initial factor of approximately 65% capital investment (NFC) to O&M, based on industry standards and four years of experience. *Id.*:788-787; Tr. 11/12, 318:8-22.

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 the procurement of emergency spares. Exhibit 5.0, Table 4; Exhibit 144.1, rows 94-139; Exhibit 147. Funding for Substation Rebuilds will be allocated to repair and rebuild 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. LUMA applied prudent utility practices to optimize repairs and replacements. Tr. 11/12, 457:2-17. 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. Tr. 11/12, 366:16-23. This includes out-of-service transmission and distribution transformers should be deployed rapidly. *Id.* 366:2-12. LUMA applied engineering analyses to understand the conditions and health of the assets. *Id.* 394:23-25; 395:1-25.

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

Mr. Meléndez provided several examples of substation reliability projects, including the replacement of Monacillos Transformer banks, Exhibit 2.05, line 163, for which LUMA allocated $6.2M of NFC in FY2026, explaining that the two transformers have been out of service for a significant amount of time due to failure. Tr. 11/12, 371:8-22. Some of these projects are federally

funded, but the NFC funds are needed for components that are not federally funded, such as upgrades to the Monacillos transformer that are not eligible. *Id.* 371:8-16; 373:7-25; 374:1-25; 375:1-5.

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, 39:741-742; Exhibit 6.12; Exhibit 133. Key actions include the replacement of capitalizable substation components that have failed or are in the process of failing. Exhibit 6.0, 39:744-748. Costs estimates are built upon historic actuals and industry trends. *Id.*:750-751. LUMA applied an initial factor of 15-25% capital investment (NFC) to O&M activities (inspections, preventive, and corrective maintenance). *Id.*:755-756; 40:757-758.

The OB for these programs allows for advancements, meanwhile the CB is a pullback on how much work is performed. Tr. 11/12, 400:1-4. LUMA would replace five transformers less under the CB in FY2026. *Id.* 400:5-7, 11-20. If the CB is approved, LUMA expects significant operational and safety risks, failure to safely and efficiently keep pace with system-wide load growth, and the related connection of new customers. Exhibit 5.0, 59:1141-1149. 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 OB will likely mean more equipment failures in storms, with longer, more costly restoration times. *Id.*

ii. Substation rebuilds

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

term reliability. Exhibit 5.0, Table 4; Exhibit 5.07; Exhibit 144.1, rows 130-139. Budgeted amounts are $3M in FY2026, $5M in FY2026 and $15M in FY28. Exhibit 5.0, Table 5. Cost estimates reflect industry perspectives, adjusted to reflect the realities of performing work in Puerto Rico. *Id.* Table 6. Meanwhile, the NFC budget for Operations is $1.2M for FY 2026 and $1.5M 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, 40:761-763. Projected costs are based on industry standards, factored to account for the comparative condition of the assets. *Id.:*763-768.

c. Distribution

Cost assumptions on the distribution side are driven by an overloaded system. Tr. 11/13, 109:18-25; 110:1-19. LUMA used historical data for cost assumptions for pole replacements, as well as information obtained from assessments and RS Means. *Id.* 110:21-25; 111:1-25; 112:1-24. 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.* 113:8-13.

i. Distribution Pole and Conductor Repairs

LUMA will repair and replace distribution poles, associated hardware, and conductors. Exhibit 5.0, Table 4; Exhibit 585; Exhibit 633; Exhibit 157. Costs were projected using historical information, adjusted for inflation. Exhibit 5.0, 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. Funds for distribution pole replacement are associated with criticality, for example, to replace a pole that failed and must be restored using NFC and poles or assets that are near failure. Tr. 11/13, 22:16-25; 23:1-25; 24:1-25; 24:1-4; 25:9-22; 65:11-18. Criticality means LUMA cannot

wait to perform the work; therefore, in the NFC request, LUMA prioritized the work it believes must be done now. *Id.* 25:16-22; 66:12-24. That does not negate the possibility that LUMA could later submit the costs to FEMA. *Id.* 26:5-23; 68:1-11. As Mr. Meléndez explained, however, it is not possible to estimate what FEMA would decide in terms of obligating these projects. *Id.* 68:13-25; 69:1. These circumstances therefore render just and reasonable, LUMA's expert judgment to propose an NFC funding allocation for these projects.

Regarding corrective maintenance projects, there are several levels of priority, based on the items that the Operations teams identifies need corrections or replacing assets. *Id.* 82:7-21. The funding request for Out of Service activities increases over the rate period to put more components back in service. *Id.* 85:10-18. 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; Tr. 11/13, 90:15-25; 91:1-4. Cost estimates for nonstructural repairs are based on historical costs, identified work, and a necessary ramp-up. *Id.* 94:6-25; 95:1-3.

Capital Programs is putting forth a reasonable and necessary budget of $70M for FY2026, $226M for FY2027, and $261M for FY2028. Exhibit 5.0, Table 5. The NFC budget for Operations is $28.4M for FY2026, $29.0M for FY2027, and $35.6M for FY2028. Exhibit 6.0, Table 6. If the CB is approved, LUMA would reduce the number of deficient poles and non-structural components to be replaced, resulting in higher levels of more costly reactive maintenance, increased risks of limited operational flexibility, negative impacts on reliability, and elevated public and employee safety concerns. Exhibit 5.00, 58:1131-1132; 59:1133-1138; 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. Exhibit 6.00, 58:1126-1134; 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, Table 4; Exhibits 5.09 and 6.08; Exhibit 144.1, rows 75-78; Tr. 11/13, 114:19-25; 115:1-8; Exhibits 146, 585, and 633. LUMA is also adding telecom infrastructure to integrate the assets into the control center. Tr. 11/13, 114:21-25; 115:1. The focus is to improve reliability, reduce outages, and extend the life of assets. Exhibit 6.0, 37:710-711; 38:712. These investments will give LUMA visibility to isolate problems and help reduce the number of customers impacted and the duration of outage events. Tr. 11/13, 115:1-5, 10-14; 112:3-4; Exhibit 146. The Program also includes the implementation of technology to enhance wildfire resilience. Exhibit 144.1, row 77; Tr. 11/13, 116:10-18; 117:2-13; Exhibit 633.

Asset conditions and input from the engineering team inform the decisions on proposed investments. Tr. 11/13, 117:24-25; 118:1-3. Capital Programs estimated costs using historical costs adjusted for inflation. Exhibit 5.0, Table 6. The funding request is $2.0M, $4.0M, and $9.0M for FYs 2025, 2026, and 2027, respectively. Exhibit 5.0, 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, 38:714-716. The funding request for Operations is $0.9M for FY 2026. *Id.* Table 6.

Proposed investments will improve reliability and resilience and are essential to reduce outage duration and frequency. Exhibit 146. If PREB approves the CB, 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 $37M for FY2026, $57M for FY2027, and $72M for FY2028. Exhibit 5.0, Table 5. The budgeted costs for Operations are $5.1M in FY2026 and $5.2M in each of FYs 2027 and 2028. Exhibit 6.0, Table 6. Cost projections for Operations are based on forecasted failures and find rates. *Id.* 38:730-733. LUMA considered historical costs plus inflation and projected emergent work based on industry standards, factoring in the comparative condition of the assets. *Id.* 39:737-739. Failure to make the replacements budgeted in the OB will increase exposure to risk and adversely affect the reliability of the underground distribution system. *Id.*:735-736.

LUMA will replace, harden, and/or recondition damaged or ineffective distribution lines. Exhibit 5.0, Table 4; Exhibit 144.1, rows 84-93; Exhibits 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 lines losses, and install underground cable and/or tree wiring. Exhibit 6.0, 38:718-723. The Program also includes a project to enhance resilience against wildfires. Exhibit 633; Exhibit 144.1, row 93.

Furthermore, this Program includes upgrade costs resulting from the identification of components exposed to overloads due to the interconnection of solar systems. Tr. 11/13, 104:6-25; 105:1-25; 106:1-25; 107:1-2; Tr. 11/14, 135:8-21; 136:2-10; 143:7-16; 154:6-13 (Mr. Meléndez explaining costs projections); Exhibits 141, 142; Exhibit 144.1, row 87; Exhibit 2.05, line 155 (total of $45.9M for the rate period). As stated in Exhibit 142, LUMA's proposal is consistent with its obligations under the OMA, including operating within safe thermal loading

levels, providing acceptable voltage performance, and safe and reliable operation of the distribution infrastructure.

The beneficiaries of the upgrades are the individuals connected to the circuit, as the system will come back into configuration. Tr. 11/13, 104:13-25; 105:1-5; 173:17-20. The budget request for Fiscal Years '26, '27, and '28 is comprised of LUMA's estimate of the cost of upgrades based on past expenditures and technical evaluations, Tr. 12/4,438:7-24; 445:14-25, projections of necessary additions to the system, *Id.* 432:3-12; 445:21-25, and equipment replacement requirements, *Id.* 439:1-2. *See also id.* 445:13-25; 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, Table 4; Exhibit 144.1, rows 140-146; Tr. 11/13, 170:23-25; 171:1-25; 172:1-25; 173:1-6; Exhibits 6.06 and 635. Requested NFC costs for Capital Programs are $13M for FY2026 and FY2027 and $14M for FY2028. Exhibit 5.0, 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. Tr. 11/12, 219:5-22; Exhibit 2.05, NFC, line 140.

Operations require an annual amount of $2.3M to install or connect new customers. Exhibit 6.0 44:844-847; 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. *Id.*:847-850.

Capital Programs used historical data to project volume and knowledge of large projects that are connected. Exhibit 5.0, Table 6; Tr. 11/13, 174:2-7; Exhibit 659. The CB would risk failure to meet service agreements and decrease responsiveness. Exhibits 5.11 and 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. Tr. 11/13, 405:23-25; 406:1-25; 407:1-4.

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, Table 4; *Id.* 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; Tr. 11/14, 49:18-25; 50:1-6; 51:11-22 (Mr. Meléndez explaining NERC design standards and guiding principles for transmission lines rebuilds designed by LUMA). LUMA utilized information from work performed and evaluated the conditions of the assets to understand what needs replacement. Tr. 11/12, 149:9-16; 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 counsel reconductoring or larger-scale rebuild. Tr. 11/12, 150:12-16; 155:4-10; 169:2-17, 24-25; 170:1-25; 171:1-25; 171:1-20. Rebuilds can include

reconductoring, capacity increases, and/or full replacement of poles and wires, as dictated by engineering analysis and System needs. *Id.*169:2-18; 170:11-18.

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.* 155:4-21. Line-specific detail is provided for 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.* 186:4-15; 197:8-9; 189:2-21. Mr. Meléndez cautioned that forcing line-specific allocations far in advance would result in "false precision." *Id.* 189:24-25; 190:1-24.

The funding request is: $40M for FY2026, $38M for FY2027, and $51M for FY2028. Exhibit 5.0, Table 5. To estimate project costs, LUMA uses RSMeans, a standard tool that provides details on current labor costs and prevailing wages. Tr. 11/12, 149:20-25; 150:1-4; Exhibit 5.0, Table 6. LUMA also has information on actual project costs and on contracts in place, which give a pretty good idea of execution rates. Tr. 11/12, 155:4-21.

LUMA analyzed FEMA eligibility for each rebuild element, evaluated hazard mitigation options, and optimized funding sources accordingly. *Id.* 172:5-20; 173:2-9. 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.* 176:2-10, 22-25; 177:1-2, 24-25; 178:1-5. LUMA analyzed synergies between non-federal capital funds and federal funds. *Id.* 173:2-9, 24-25; 174:1-25; 175:7-24.

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

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

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; Tr. 11/13, 18:25; 19:1-20; 20:10-25; 21:1-25; 22:1-5; Exhibit 2.05, row 123.

Under the CB, the Transmission Line Rebuild Program is reduced in scope by 30% (nearly $40M), and LUMA would have to defer projects intended to mitigate the impacts of wildfires. Exhibit 5.0, 59:1152-1154. 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.* 60:1156-1158. Interconnections of new residential and small commercial Distributed Energy Resources and BESS and critical reliability projects would be delayed. *Id.:* 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, Table 4; Table 5; Exhibit 5.03. Costs for telecom nodes were estimated using quotes. Exhibit 5.0, 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 $4.0M annually, for the rate period. Exhibit 5.0, Table 5.

b. Distribution

i. Distribution Grid Reliability

The requested funding for Distribution Grid Reliability is: $21M for FY2026, $23M for FY2027, and $26M for FY2028. Exhibit 5.0, Table 5. The proposed work will strengthen grid resilience and improve service for customers. Exhibit 5.0, Table 4; Exhibit 585; Exhibit 633; Exhibits 143 and 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 the current impacts of system failures. Exhibit 5.0, Table 4; Tr. 11/13, 43:2-13, 23-25; 44:1-16; 102:21-25; 103:1-13; 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 facilities that do not meet code, reconductoring, and transformer replacements. Tr. 11/13, 79:5-25; 80:1-25; 81:1-4.

Through in-depth assessments, LUMA identifies feeders that are not performing well to develop a scope of work for repairs. *Id.* 47:19-25; 48:1-4; 118:14-25; 119:1-4, 13-25; 120:1-3. Based on historical information, an average cost of $210,000 per feeder was chosen as a starting point, scaling up to an average cost of $500,000. Exhibit 5.0, 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. Tr. 11/13, 50:19-25; 51:1-4; 52:4-25; 53:7-10. For Operations, the target is to conduct in-depth assessments of feeders on a five-cycle basis as per prudent utility practices. *Id.* 47:19-25; 48:1-12; 122:7-17.

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, Table 4; Exhibit 5.12; Exhibit 144.1, rows 79-83. The budgetary request is $4M in FY2026, $15M in FY2027, and $21M 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, Table 5; Tr. 11/13, 123:16-25. Public safety risks, asset conditions, and imminence of failure drive the need and reasonableness of these costs. Tr. 11/13, 133:11-25; 134:1-13; 135:24-25; 136:1-14, 18-24; 137:1-9; 140:24-25; 141:1-3; 142:6-21.

The budget is based on preliminary estimates of the number of luminaries LUMA will replace. Exhibit 5.0, 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.*; Tr. 11/13, 335:19-23; 336:15-25; Exhibit 750 (historical replacements). Cost increases reflect the projected number of replacements and establishment of a streetlight program managed by LUMA. Exhibit 5.0, Table 6; Exhibit 752; Tr. 11/13, 333:15-21; 335:4-13.

If the CB is approved, LUMA risks non-compliance with targets outlined in Act 17-2019 regarding the replacement of high-pressure sodium (HPS) lamps with LEDs. Exhibit 5.12. LUMA expects increased risks to public safety. *Id.*; Tr. 11/13, 124:20-25; 125:1-8, 14-25; 126:1-9. 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, Table 4. Estimates are based on industry experience, adjusted to account for the need to hire outside consultants. *Id.* Table 6. The budgetary NFC request is: $10M for FY2026, $13M for FY2027, and $20M for FY2028. Exhibit 5.0, Table 5.

Mr. Meléndez testified about the need to conduct technical evaluations and studies, given that DG systems inject power, while the T&D System was not originally designed for that. Tr. 11/14, 233:12-25; 234:1-9. 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 and 142, subsection (b); Tr. 12/04, 413:5-18. 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 $5M annually, Exhibit 5.0, 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, Table 4; Table 5; Exhibit 5.14. Costs were estimated using historical data. Exhibit 5.0, Table 6. GIS integrates data from all field assets and engineering-based data. Tr. 11/14, 242:25; 243:1-10; 244:6-13. As Mr. Meléndez testified, part of the work is to collect data to support the connectivity model and the deployment of the Energy Management Control System ("EMS"). *Id.* 245:3-12. From an operational standpoint, GIS is the tool that helps LUMA know the System. *Id.* 251:15-23. This helps with planning, improves outage prediction and response, and provides a foundation for better coordination, improved data accuracy, and more informed decision-making. *Id.* 251:24-25; 252:1. 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, 41:791-794; Exhibit 6.02. Proposed costs of $14.0M for FY2026, $11.0M for FY2027, and $8.3M for FY2028, Exhibit 6.0, Table 6, are based on historical costs plus inflation overlaid with anticipated support for the AMI Program. Exhibit 6.0, 41:798-800. Standardized Metering and Meter Shop Setup costs are to achieve remediated state after implementing a new meter shop and purchasing minimal test equipment. *Id.* 42:813-814; 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.* 42:813-819. LUMA considered historical costs on meter testers, plus inflation. *Id.* 42:819-820. These proposed budgets consider a reduction over time of legacy meters while LUMA rolls outs AMI meters. Tr. 11/13, 188:12-20; 191:19-25; 192:1-4.

b. Critical Energy Management System

Funds for EMS upgrade are to replace an obsolete and unsupported EMS that does not afford LUMA sufficient System visibility. Exhibit 6.0, 42:803-804; Tr. 11/13, 425:2-9; Exhibit 6.05. 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, 42:805-807. The project, that requires $2.9M in FY2026, will establish a fully functional digital and 21st century EMS integrated to platforms such as the Outage Management System ("OMS"). Tr. 11/13, 425:6-9. Costs estimates of projected work are based on industry experienced costs and considerations of the realities of performing work in Puerto Rico. *Id.* 42:807-810.

c. Aviation and Tools and Repairs

NFC costs of $23.7M for FY2026, $10.7M for FY2027, and $9.6M for FY2028, Exhibit 6.0, Table 6, for aviation are needed to purchase an additional helicopter to serve increased substation and line inspections and outage response activities. Exhibit 6.0, 44:852-853. Also, to purchase a hanger and maintenance facility to eliminate ongoing rental costs and implement assets and support for internal Drone ("UAS") program. *Id.* 44:854-858. Cost estimates for the helicopter and hangar are based on previous detailed estimates, adjusted to reflect the current market. *Id.* 44:859-861.

The Tools Repair and Management Program involves prudent and necessary investments to support field activities. *Id.* 44:863-865; Exhibit 6.01. LUMA considered historical costs plus

inflation and overlayed increased tooling requirements associated with a larger workforce. Exhibit 6.0, 44:871-873.

d. Retail Wheeling ("RW")

RW is a legal and regulatory mandate to implement the energy wheeling mechanism in Puerto Rico. Exhibit 6.0, 41:875-897; Exhibit 6.04. In an OB scenario that requires funding in the amounts of $3.1M for FY2026, and $15.5 annually for FY2027 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, Table 6; 46:898-902.

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 OB. Exhibit 5.0, 50:988-898; 51:990-1010; 52:1011-1022; 53:1023-1039; Exhibit 75. Proposed investments will mitigate the risk of large-scale regional outages and gradually improve outage frequency and duration. Tr. 11/12, 198:8-24.

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 5.0:997-1002; Table 8; *see also* Exhibit 74.16 (illustrating minimum expected reliability improvements of the Distribution Line Rebuild, Distribution Automation, Distribution Pole and Conductor Repair, and Grid Reliability Programs); Exhibit 74.18 (expected improvements in

SAIDI and SAIFI of investing in Grid Automation and Grid Reliability Programs). Economic benefits are also expected from reduced outages. Exhibit 5.0:1002-1005.

The uncontested record, supported by the expert opinion of Mr. Shearman, establishes that LUMA's reliability methodology, which 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, 7:207-209; 75:850-852; *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 the 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.* 7:203-206; 10:243-247. 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, 15:290-300; Exhibit 75.0, 22:430-438:

> 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, 22:432-438; Exhibit 74.0, 15:293-300. 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.**

Exhibit 75.0, 23:446-447, 458-463 (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 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.

Tr. 12/18, 404:2-8. As even the Bondholders' expert concedes, LUMA has consistently executed its NFC project goals. *See* Exhibit 51.0, 44:2-4. 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, 24:474-477. The NFC requests in both the Optimal and CBs for the rate case period represent increases 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 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, p.63. LUMA has also procured key long-lead items and worked diligently to increase qualified lineworkers on the island. Exhibit 74.0, 26:515-520; Exhibit 74.0, 52:1071-1089. As Mr. Meléndez explained, any skills gap in LUMA line personnel can be remedied by employing contractors and, if absolutely necessary, secondees. *Id.:* 1085-1089.

Ramp-ups in capital project spend of similar magnitude are common and well precedented. 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 $10B. During the first 18 months of the plan, he doubled annual capital spending (from $400M to $800M) and then doubled it again during the subsequent 18 months—a ramp-up of $400M to $1.6B annually in three years. Exhibit 74.0, 46:940-946. At ITC Holdings, Mr. Meléndez oversaw a tenfold increase in annual capital projects from $80M to $800M, with most of the growth occurring over four years. *Id.* 46:947-952. Further, Mr. Shearman, who brings more than 40 years of experience advising major utilities on six continents, provided numerous additional examples from the industry of similar ramp-ups. Exhibit 75.0, 68:702-726; Exhibit 75.16.

LUMA has also benefited from several years of experience operating the T&D System, thereby understanding the System's needs and the 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. Tr. 11/17, 511:4-25; 512:1-25; 512:1. 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.* 512:22-25; 513:1. And that makes sense. To quadruple a $400M capital budget in three years, as 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 put 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, 61-65. 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. 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." Tr. 11/17, 499:2-4. 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.* 499:4-13; 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 OB immediately and funded at least at that level, adjusted for inflation, ***forever***. Tr. 11/17, 108:16-17. 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.* 98:8-11.

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 . . . ." Tr. 11/17, 499:19-21. 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.* 516:9-15. 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 a lack of access to ready capital, which can be remedied in part by funding the system adequately. The WCA process, while helpful, is inefficient and causes delays of more than 100 days between each 25% funding tranche. *Id.* 20:397-404.

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 $21B (in 2024 dollars, before considering recent tariffs) of capital work just to achieve mainland-level reliability, far more than is available with federal funds. Exhibit 74.0, 20:410-421. 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, 48:992-

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, 3:57-58. LUMA operates a transmission network of over 2,500 miles, inherent in 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.[2] *Id.* 3:62-68; 4:85-92; 5:93-102; 12:236-243; 13:244-246. LUMA strives for the complete safety of all persons—even one injury is too many—as well as a compliant, safe physical environment. *Id*. 3:58-60. Funding is needed to ensure public safety and the safety of LUMA employees.

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

The largest component of HSEQ's OBs is staffing. *Id.* Table 1; 8:156; 9:157-179; 10:180-199; 11:200-219; 12:220-235. Over FY2026 and FY2027, HSEQ needs to hire 15 additional safety personnel to enhance oversight of employee and contractor safety, thereby reducing the risk of

[2] HSEQ facilitates training programs for its employees and the public at large. *See* Exhibit 8.0 at 4:91; 5:93.

injuries, lowering liability, preventing project delays, and strengthening compliance with OSHA. *Id.* 10:180-186. These hires are also necessary to keep pace with the overall increase in LUMA personnel and projects. *Id.* 10:191-192. Mr. Michael Granata, LUMA's Senior Vice President, Safety, Security, and Emergency Response, explained that the industry benchmark is to have one safety advisor for 100-150 employees. *Id.* 11:209-212. LUMA currently has one technical trainer for over 1,500 field employees and one safety trainer for every 1,000 employees. *Id.* 10:192-194.

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. *Id*. 13:248-251. This increases the risk of workplace accidents and significant disruption to the T&D System. *Id.* 13:255-258.

As Mr. Granata explained, there is a critical need for ongoing training that is only possible with the funding called for the OB:

> 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.

Tr.11/14, 302:24-25, 303:1-2.

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 8.0, 12:237-243; 13:244-246.[3]

Constrained by limited funding, HSEQ's programs have reached only 1% of Puerto Rico's population. *Id.* 12:226-228. Additional funding is needed to ensure the safety of all of Puerto

[3] Costs for these programs falls under the Miscellaneous category in the OB, rather than the Staffing category. *See* Exhibit 8.0 (Table 1)

Rico's citizens, and five additional safety personnel will help LUMA communicate critical information to the public. *Id.* 12:231-235.

HSEQ's modest $3.85M increase to its FY2025 budget for FY2026 will cover these safety trainings and protocols for employees, contractors, and the public by allowing the retention of necessary safety employees and the implementation of training programs. This money will prevent injuries and save lives. Tr. 11/14, 328:17-25; 329:1-6. 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, legal costs, remediation costs, and reputational harm. Exhibit 8.0, 4:69-83; 5:96-102; 13:266; 14:267-279.

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, 51:1035-1048. The Department is requesting a budget of $63.10M (O&M $46.90M; NFC $16.20M) for FY2025; $62.67M (O&M $48.60M; NFC $14.07M) for FY2026; and $94.45M (O&M $51.05M; NFC $43.40M) for FY2026. *Id.* 65:1339, 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.* 54:1099-1104; 56:1164-1167; 57:1168-1178. Consistent with this need, the evidence shows that Finance must execute a multi-year modernization. The OB includes 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*. 64:1329 through 79:1647.

Mr. Smith's prefiled testimony explains the Finance Department's functions and their mapping to cost centers, showing where budgeted dollars will be deployed. *Id.* 58:1192, Table 5. The testimony details current-state deficiencies inherited from PREPA driving labor-intensive operations and elevated risk of error. Exhibit 2.0, 52:1067-1069; 53:1090-1092. Mr. Smith describes manual management of bank accounts, cash reporting, and accruals for approximately $30M of monthly invoices, and the absence of a risk management information system – conditions that increase workload and risk. *Id.* 53:1089-1097.

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. *Id.* 65:1341-1350. The Department's headcount rises to 184 in FY2026, 193 in FY2027, and 198 in FY2028. *Id.* 66:1364. These additions target risk areas in controls, processes, systems, and best practices, and support LUMA's capital plan and federal reimbursement execution. *Id.* 65:1350-1354; 66:1355-1359. 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, 68:1407-1408; 69:1409-1416; Tr. 12/3, 250:9-25; 251:1-25; 252:1-5.

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, 74:1541-1543; 75:1544. The primary driver of the increase from FY2025 to FY2026 is the Oracle ERP project, *id.* 75:1544-1545, whilst the plan, from 2027 onward, focuses 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.* 75:1550-1552.

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 OB 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-of-life in 2032. Tr. 12/4, 190:6-13, 21-25; 191:1-3; 192:12-16. 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.* 193:1-17. 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.* 188:15-25; *see also* Exhibit 2.0, 75:1562-1566; 76:1567-1589; 77:1590-1594.

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.* 77:1600-1604. This program's projected NFC budget increase from FY2025 to FY2026 is attributable to the ERP Oracle replacement, as described above. *Id.* 77:1611. 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.* 78:1614-1619.

Mr. Smith describes the risks of the CB, 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.* 80:1662-1672; 81:1673-1674. Without ERP modernization, LUMA would remain on an older, expensive-to-maintain system lacking modern functionality, increasing long-term cost and operational risk. *Id.* 80:1669-1672; 81:1673-1674. 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.* 80:1657-1661.

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 OB 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 OB for FY2026-FY2028 as set forth in Exhibit 2.0.

D. Corporate Services and Internal Audit

In Section VIII of Mr. Smith's prefiled testimony, LUMA identifies "Other Costs" that are forecasted 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, 89:1859-1860; 90:1861-1862.

For the Chief Corporate Services Officer ("CCSO") cost center, LUMA is requesting approximately $0.75M, $0.68M, and $0.71M in O&M funds under the OB for FY2026 through FY2028, respectively. *Id.* 90:1864-1865, Table 8. Mr. Smith explained that the budget provides for a future Chief Corporate Services Officer, two employees in the cost center support these subdepartments, and reports to the Chief People Officer until the CCSO role is filled. *Id.* 90:1869-1872; 91:1873-1882. Materials and supplies cover routine office needs, while miscellaneous expenses reflect infrequent departmental costs with inflation applied to out-years. *Id.* 91:1886-1889; 92:1890.

Regarding the Internal Audit Department,[4] LUMA is seeking an OB with total O&M of approximately $1.22M in FY2026, $1.64M in FY2027, and $2.00M 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.* Tables 9 and 10. Miscellaneous expenses for Internal Audit are largely training to maintain professional credentials and keep pace with evolving standards, along with reimbursed professional fees. *Id.* 92:1892-1896. Technical and professional services are driven by IT licenses for the Workiva audit platform. *Id.* 92:1898-1900.[5]

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 an OMA requirement, advances financial oversight, proper

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

use of ratepayer funds, regulatory compliance, and operational improvements that foster customer confidence and transparency. *Id.* 93:1914-1925; 94:1926-1931.

E. Procurement and Materials

Procurement and Supply Chain recommends that PREB approve its proposed OB of $16.87MMfor FY2026, $16.19M for FY2027, and $16.70M 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, 13:257-262; 21:446-448; 22:449-457; 23:477-486; 24:504-509; 25:522-539; 27:580-591; 28:592-593.

The functions of Procurement and Supply Chain are mandated by the OMA 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, COR3, FEMA, and PREB. *Id.* 5:92-101. 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.* 4:74-80.

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, 3:65-77; 3:81-84.

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, 21:447-448; 22:449-457; 23:488-496; 24:497-502. Additional hires, especially managers, are essential to reduce cycle times, increase throughput, and improve training. *Id.* 23:478-486. Technical and/or professional services are necessary to augment capacity, given the steep learning curve and limited pool of experienced local candidates. *Id.* 24:504-509; 25:524-532.

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. Tr. 11/14, 262:7-25; 263:1-23; 264:23-25; 265:1-9; Exhibit 15.0, 31:663-667.

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 CB, 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, 31:653-660; Exhibit 15.03; Tr. 11/14, 259:12-18. 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, 28:594-599; Tr. 11/14, 264:23-25; 265:1-9.

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. Tr. 11/14, 284:9-16. Ms. Pérez also explained that if only the CB were approved, deferrals would particularly hit barcoding and oil containment, impairing inventory accuracy, environmental compliance, and timely emergency response. *Id.* 255:13-25; 256:1-2. 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.* 231:23-25; 232:1, 5-22.

The record shows that Procurement and Supply Chain's OB proposal is grounded in an integrated procurement and materials management framework approved by public authorities, aligned with the OMA, 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, 21:446-448; 22:449-457. Consultant support is a near-term bridge given the expertise shortage and steep learning curve under federal and local compliance rules. *Id.* 25:522-539.

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, 28:609-

615; 29:616-630. Conversely, investments in barcoding and materials management reduce time-to-restore by speeding up the location and dispatch of critical materials. *Id.* 27:580-583, 589-591; 28:592-593. Environmental and safety investments reduce spill risks and injuries at warehouses, protecting workers and the public and avoiding liabilities. *Id.* 28:58-589.

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 ("Facilities") ensures resilient, efficient and safe facilities for LUMA's employees and customers. Exhibit 17.0, 5:120-121. Facilities 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.* 5:113-114; 6:115-117. To achieve this, Facilities operates and maintains critical systems while performing janitorial services, equipment repairs, and landscaping. *Id.* 6:117-123. It also ensures facilities are strategically located to enable rapid response to unplanned outages and major events. *Id.* 6:123-125. The functions of Facilities are required by the OMA, further Puerto Rico's energy public policy and help meet regulatory requirements, like International Building Codes and Occupational Safety and Health Administration ("OSHA"). *Id.* 12:267-311.

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

The OB was developed bottom-up, utilizing internal analyses and external validations. *Id.* 15:323-325; 16:349-352. LUMA used many 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.* 17:359-378; 18:379-385. The budget also incorporated new responsibilities.. Inflationary factors, regulatory compliance costs, and market benchmarks were also included to ensure reasonableness and alignment with operational needs and industry standards. *Id.* 19:403-411.

For NFC expenditures, a risk-based weighted ranking methodology prioritized projects, giving precedence to safety and compliance needs. *Id.* 18:391-395; 29-30:570-579; *see also* Exhibit 121.

LUMA is proposing a staffing budget of $9.57M for FY2026, $10.30M for FY2027, and $10.82M for FY2028. *Id.* 15:321. The projected costs include overtime. *Id.* 21:467-468. Facilities is requesting 57 additional FTEs for FY2026, and two more for FY2027 and FY2028. *Id.* 21:463-468; Table 2; 21:469 (breakdown of positions). The costs for these employees cannot be federally funded. Tr. 12/04, 286:17-21. 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 for landscaping, generators, plumbing, electrical, and HVAC services. *Id.* 286:23-25; 287:1-3; *see also* Exhibit 17.0, 22:470-473; 23:474-478.

LUMA is proposing a budget for materials and supplies of $2.57M for FY2026, $2.70M for FY2027, and $2.84M for FY2028. *Id.* 15:321. The increase is mainly due to acquire additional materials and supplies to maintain inventory levels. *Id*. 23:489-491.

LUMA is proposing a budget allocation for technical and professional services of $10.72M for FY2026, $11.18M for FY2027, and $11.74M for FY2028. *Id.* 15:321. 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.* 23-24:495. The main driver for the increase is a surge in janitorial services to bring the facilities to an acceptable standard and expand services to 28 critical substations facilities. *Id.* 24:510-513.

LUMA is proposing a budget allocation for utilities and rent of $13.48M for FY2026, $14.14M for FY2027, and $14.84M for FY2028. *Id.*, 15:321. These costs include electric service and potable water across all facilities, including the newly assigned substations, whereas rent addresses leases for all LUMA facilities. *Id.*, 25:519-522. The budget also provides parking areas for LUMA employees. *Id.*, 25:535-537; 26:538-539. The increase in rent is due to new laydown yards, warehouses, and swing spaced for administrative offices for capital programs and the call center. *Id.*, 25:532-534. 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.*, 26:541-543; Tr. 12/04, 352:5-15. Having these warehouses and laydown yards allows employees to access equipment in a reasonable timeframe to service the operation, thereby reducing travel, logistics, and delivery costs. *Id.*, 350:13-25; 351:5-25; 352:8-22. 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 at 26:544-547. Parking costs are to cover the costs for space contracted in current leases. *Id.*, 25:535-537; 26:538-539.

Facilities is proposing an NFC budget allocation of $64.21M for FY2026, $8.07M for FY2027, and $7.34M for FY2028. *Id.*, 27-29:561-567; Exhibit 122 (explaining need and

reasonableness of the projects). The proposed NFC projects cannot be federally-funded. Tr. 12/04, 287:21-25; 288:1. This budget will serve to implement 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, operational continuity, regulatory compliance, and a safe work environment. Exhibit 17.0, 27:560-567; Exhibit 17.01; Tr. 12/04, 289:4-9; Exhibits 118 and 118.1.

LUMA determined that no reasonable alternatives existed other than the proposed NFC cost projects. Exhibit 122. The generators and HVAC systems identified for replacement are damaged beyond cost-effective repair, and deferring them would pose safety, environmental, property loss risks and operational interruptions. *Id.* For example, if generators fail during critical events, it could compromise life-protection systems, emergency lighting, fire suppression equipment, and other infrastructure. Further, critical building repairs 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.*

Reducing the OB implies that LUMA will be forced to defer hiring personnel needed to expand the department's footprint from four to six regions. *Id.*, 33:641-649. It will also have to reduce the scope of certain projects and postpone others to future years, including critical improvements. *Id.*, 33:649-650; 34:651. 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.*, 33:644-650; 34:651. 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.*, 33:649-650; 34:651; Tr. 12/04, 355:2-17. Deferring these activities will also create significant obstacles for employees due to substandard facility conditions, including health-related damages. *Id.*, 34:655-670.

Facilities' OB is necessary, prudent, and just and reasonable. These expenditures are essential to provide safe, resilient, and compliant facilities under the OMA and energy policy mandates.

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 OMA, and ensures compliance with laws, regulations, and contractual obligations. LUMA Exhibit 1.0, 52:943-946. It coordinates across five subdepartments, *Id.*, 53:968-970, to serve as LUMA's interface with regulators and policymakers. *Id.*, 52:948-951; 53:954-975; 54:976-998; 55:999-1021; 56:1022-1041.

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; 58:1065.

Mr. Figueroa testified that if the pace is maintained, total FY2025 filings would exceed FY2024. *Id.*, 58:1061-1064; Tr. 12/3, 485:1-6. Beyond volume, the complexity of filings has escalated, often taking more than a month to prepare per filing. Tr. 12/3, 522:4-25; 523:1-6. Mr. Figueroa further explained that PREB filings are not uniform in complexity, some requiring one month to prepare, and that significant workloads also arise beyond PREB filings (government

affairs, OMA compliance, multiple audits, and federal funding reporting), further straining departmental capacity. Tr. 12/3, 521:3-19; 522:4-24.

Exhibit 1.0 specifically outlines the FY2026 headcount plan and subdepartment-specific needs, including 33 new hires across six subdepartments, with rationales tied to docketed work, internal compliance responsibilities, and cross-agency obligations. Exhibit 1.0, Table 8; 59:1074-1075. The Regulatory Department seeks six (6) positions to create a senior management layer beneath the Chief Regulatory Officer. 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.*, 60:1082-1097.

As for the Tariffs, Budgets, and Load Forecasting sub-department, six 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, 60:1100-1102; 61:1103-1108. Load Forecasting's specialized studies require staffing depth to preserve knowledge and meet deadlines. *Id.*, 61:1108-1113.

For the Contracts Management sub-department, two 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 OMA. *Id.*, 61:1115-1124. Mr. Figueroa confirmed that once shared services wind down, staff from this sub-department would be reassigned to other work streams. Tr. 12/3, 312:10-25; 313:1-7, 9-12.

The Programs and Compliance sub-department requires twelve hires to address multiple active regulatory proceedings, outage investigations, performance metrics, federal funding reporting, and broad cross-docket responsibilities. Exhibit 1.0, 52:986-993; Table 8; 59:1074;

62:1125-1129; Tr. 12/3, 313:17-25; 314:1-8. The team has been thinly staffed and backstopped by external consultants. Exhibit 1.0, 62:1125-1129. The hiring plan seeks to internalize work presently outsourced, recognizing onboarding overlap before external costs decline in later years. *Id.*, 62:1127-1129; Tr. 12/3, 313:17-25; 314:1-21. Likewise, the Grid Modernization sub-department requested four hires stemming 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. Exhibit 1.0, 62:1132-1142.

Lastly, the Government Affairs and Public Policy sub-department requests three new analysts, necessary to respond to legislative measures and requests for information and to manage relationships across more than one hundred executive-branch entities plus legislative bodies. Exhibit 1.0, 62:1143-1147; 63:1148-1158; Tr. 12/3, 316:2-8.

The Regulatory Department's proposed OB increases technical and professional services from $5.35M (FY2025) to $9.43M (FY2026), $10.00M (FY2027), and $10.60M (FY2028), reflecting continued reliance on specialized external expertise for the rate review, IRP, load forecasting improvement, project management across PREB and OMA initiatives, and staff augmentation for hard-to-fill roles. Exhibit 1.0, Table 6, 57:1047, 1050-1054; 58:1055-1056. These costs are developed using prior spend and forward-looking activity assessments and indexed by 6% inflation in FY2027-FY2028. *Id.*, 63:1184-1189.

While the Regulatory Department's long-term strategy is to internalize work, near-term overlap is unavoidable as new staff are trained. *Id.*, 64:1192-1193; 65:1194. Given Puerto Rico's limited local regulatory talent pool and the unique PREB regime, external support remains

necessary for infrequent, highly technical matters, even with internal hiring. *Id.*, 64:1192-1193; 65:1194-1200. Tr. 12/3, 492:16-25; 493:1-10; 494:7-13.

Regulatory's OB 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.*, 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, 65:1202-1211; 66:1223-1237. Mr. Figueroa testified that CAMS is necessary to replace the current manual spreadsheet process with an internal, organization-wide self-service repository that centralizes OMA provisions and the company's interpretations, enabling faster and more consistent compliance checks without issuing formal legal opinions. Tr. 12/3, 317:12-25; 318:1-15; 319:4-15.

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

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. Tr. 12/3, 346:6-14. 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.*, 337:7-15.

The CB reduces staffing and professional services below the OB to produce a "customer sensitive" budget, deferring eleven (11) positions and reducing professional services by $2.0M (FY2026), $2.3M (FY2027), and $2.5M (FY2028). Exhibit 1.0, Table 9, 68:1268-1278; Tr. 12/3, 308:4-13. 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. Tr. 12/3, 310:14-25; 311:1-5.

The record identifies specific consequences if budgets are not approved at Optimal levels, including: (i) 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, Tr. 12/3, 522:4-25; 525:2-15; (ii) heightened risk of missed deadlines where overlapping proceedings and RFIs compress resources—including PREB deadlines as well as OMA and government-related responses, Exhibit 1.0, 69:1286-1290; Tr. 12/3, 310:14-22; 311:11-25; 312:1-3; 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, Tr. 12/3, 314:14-25; 315:1-2; 494:7-13.

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.*, 476:1-25. 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 on needs. *Id.*, 477:2-11; 527:13-19. 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 its obligations. *Id.*, 526:24-25; 527:1-20.

Mr. Figueroa explained that LUMA is doing its best not to breach an obligation or an order, *Id.*, 482:6-12, 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. *Id.*, 309:10-25; 310:14-25; 311:1-5; *see also* 524:11-25; 525:1-14. 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.*, 492:12-25; 493:1-4.

In sum, the record demonstrates that LUMA's Regulatory Department faces an increased and increasingly complex workload across PREB proceedings, OMA compliance, government oversight, audits, and related processes. Mr. Figueroa's prefiled testimony ties the OB 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. LUMA requests that PREB approve Regulatory's OB 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 13.0:75-79. As stated by the Hearing Examiner, "that's a big job." Tr. 12/3, 8:23. 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 $2M on its FY2025 budget for FY2026 and an increase of less than $1M over the next two years (FY2027 and FY2028). Exhibit 13.0, Table 1, QQ. 17, 29, 31, 32. Over a three-year period, HSEQ seeks only $12.78M in FY2026, $13.18M in FY2027, and $13.61M in FY2028. *Id.*, Table 1.

Corporate Security is only requesting the funds 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 $7.98M. While this category remains the largest in each of FY2026 through FY2028, the requested amounts for each year are lower than the amounts approved for FY2025: $7.46M in FY2026, $7.68M in FY2027, and $7.92M in FY2028. This is due in large part to Corporate Security's cost measures and use of competitive bidding.

The second-largest category in the Corporate Security budget is 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.,* 73:7-25; 74:1-2; Exhibit 13.0, 9:156-171; 10:172-173.

The largest increase in costs is for technical and professional services, for which Corporate Security seeks $1.9M 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; Tr. 12/3, 51:10-13 (vegetation management); 25:9-22 (O&M needed for fence maintenance). These costs were established using historical expenditures, informed by competitive procurements. Exhibit 13.0:184-188.

Furthermore, proposed NFC costs are to replace and add electronic access control and CCTV to ensure compliance with industry standards. *Id.*:223-230. These security measures are essential, and their effectiveness is already proven based on the limited equipment Corporate Security has in place. 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.*:251-255. Proposed investments also save money in the long run, such as investments in cameras, as Ms. Fraley indicated in her live testimony. Tr. 12/3, 21:7-14, 22:25, 23:1-9.

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 12.0:72-74. Emergency Preparedness has a comprehensive plan for restoring essential services that involves emergency personnel coming together to address imminent threats and hazards. *Id.*:75-95. The central hub for Emergency Preparedness during an emergency is LUMA's Emergency Operations Center (the "LEOC"). *Id.*: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* Tr. 12/5, 158:13-21; LUMA Exhibit 12.0, 4:71-82; 5:83-102; 6:103-122; 7:123-136. Emergency Preparedness is seeking an overall budget of $2.40M in FY2026, which accounts for

a one-time cost to complete the Alternate LEOC. Exhibit 12.0, Table 1. Thereafter, the budget requests drop to $1.19M in FY2027 and $1.24M in FY2028, nominal increases from the approved $1.09M budget approved for FY2025. *Id.*, Table 1.

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

Completion of the Alternate LEOC is already in progress, awaiting the final funding for final execution. *Id.*, 176:2-6. 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 83-1941, that requires contingency plans. *Id.*, 158:11-21; *see also* LUMA Exhibit 12.0, 14:282-283 ("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 during a disaster. Tr. 12/5, 212:9-21. 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.*, 22:17-21 (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.*, 90:3-11 (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, 3:51-52. Communications furthers LUMA's commitment to transparency and provides customers with as much information as possible. *Id.*:52-54. The Communications functions are required by the OMA. Exhibit 14, 7-8:145-155; Exhibit 489 (sections 13.1(g) and IV of Annex I).

Communications develops content that is important to the customer, based on data gathered through the Voice of the Customer tool (a tool for gathering customer feedback) and JD Power surveys. Exhibit 14.0, 3:57-60. The information shared with customers includes rate changes (*i.e.*, fuel costs adjustments ("FCA") and rate review); service requests and locations to pay electricity bills; real-time updates regarding service interruptions and outages; and anticipated projects such as significant System upgrades. *Id.*:60-67; Tr. 12/03, 184:17-25; *Id.*, 185:1-9.

Communications is also responsible for developing organization-wide internal communications. Exhibit 14.0, 4:69-72. Finally, Communications engages external stakeholders, including elected officials, local governments and communities, private, professional, and non-profit organizations, and other interest groups. *Id.*:73-82.

Communications shares information with customers using multiple platforms, including social media, traditional media, MiLUMA application, newsletters, and SMS. *Id.*, 5:97-99; Tr. 12/03, 185:14-25; 186:1-2. Effective customer communication tools support LUMA's ability to provide reliable electric service at the lowest reasonable cost. Exhibit 14.0, 6:127-128. For example, rather than calling the call center, customers can use MiLUMA (LUMA's mobile application) to report outages and manage their accounts. *Id.:*128-131. Communicating with more people provides benefits, including in matters of life or death, for people who require power to

operate the equipment and machinery they need. Tr. 12/03, 283:1-25; 284:18-25; 285:1-25; 286:1-8.

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

The OB was developed using a bottom-up approach to meet the requirements of the OMA, Annex I, Section IV(D) and (E). *Id.* 8:166-167; 15:309-319. Communications first identified the existing costs that would allow it to maintain customer communications, including current staff and associated costs, such as IT applications and transportation. *Id.* 8:167-168; 9:169-170. Then, the Communications Department assessed LUMA's upcoming communication needs, programs, and projects, as well as customer input. *Id.,* 9:170-173.

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

The Communications Department needs to grow to proactively communicate with customers and develop communication materials for large-scale construction or replacement projects, including transformer and circuit breaker deployments, transmission pole replacements, and transmission line rebuilds. Exhibit 14.0, 10:197-201; Tr. 12/03, 207:20-25; 208:1-22. Increasing staff will allow matters to be communicated in a bigger way and potentially reach more people more often, in the most effective way. Tr. 12/03, 216:19-25; *Id.*, 217:1-16.

The Department is proposing a budget allocation for technical and professional services of $6.49M for FY2026, $6.93M for FY2027, and $7.40M for FY2028. Exhibit 14.0, Table 1. These costs were projected considering historical costs and competitive processes. *Id.,* 13:262-264.

Technical and professional services cover costs for external consultants and IT service agreements. *Id.,* 12:250-258; 13:259-261. 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.,* 12:250-254; Tr. 12/03, 185:11-18. The proposed costs will ensure that all customer sectors receive timely and relevant information. Exhibit 14.0, 14:279-281.

The FY2025 budget allocated to materials and supplies is $0.22M. *Id.,* Table 1. LUMA proposes reducing this budget allocation to $0.20Mfor FY2026, $0.21M for FY2027, and returning it to $0.22M for FY2028. *Id.* This budget section includes the costs for generic office supplies and equipment. *Id.,* 14:291-294.

LUMA proposes a budget allocation for miscellaneous expenses of $1.53M for FY2026, $1.61MM for FY2027, and $1.69Mfor FY2028. *Id.,* Table 1. This covers specialized materials required for distinct projects, events, or initiatives that are essential for the Department's continued service delivery. *Id.,* 14:296-298.

LUMA proposes a budget allocation for transportation, per diem, and mileage of $0.10M for FY2026, $0.11M for FY2027, and FY2028. *Id.,* Table 1. This supports, among other things, social responsibility and community engagement programs. Tr. 12/03, 172:8-25; 173:1-5.[6]

LUMA's costs included in the proposed budget do not include advertising and marketing activities that promote LUMA's reputation. Tr. 12/03, 164:1-25; 165:1-14. These activities to

[6] *Id.*

communicate more than is required by the OMA are funded with private funds (non-ratepayer funds) from the parent companies. *Id.* There is a protocol followed to make decisions on whether a project is paid from ratepayer funds or not. *Id.,* 165:15-23; 265:12-18. These efforts also include delivering relevant content to customers on how they interact with LUMA and how customer experience could be better. *Id.,* 266:3-8. One example of these projects is the documentary A La Luz de la Verdad, which was not paid from rate payers funds. *Id.,* 266:23-25; 267:1-8.

If the OB 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, 17:341-343, 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.,* 17:360-363; 18:364. Printed bills and communications would also be underfunded. *Id.,* 17:357-363; 18:364-366. Furthermore, events and materials that help spread information on, for example, financial assistance, would be reduced. *Id.,* 18:366-369.

The requested OB for the Communications Department is necessary, just, and reasonable. These expenditures are essential to meet obligations under the OMA, 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.

K. Legal, Land and Permits

1. Legal Department

Under the OMA,[7] 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

[7] Specifically, Section 5.12 and Annex I(H) of the OMA. *See* Exhibit 10.0 at 6-7:143-153.

customer grievances and bill objections. Exhibit 10.0, 4:76-85. 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.*:82-85; *see also* 5:111-119.

The Legal Department's staff currently totals thirteen positions, including the CLO, VP/General Counsel, in-house counsel, litigation counsel, and support roles. *Id.*, 4:87-90. Four attorney positions added in FY2024-FY2025 enabled the Department to take over customer complaint/bill objection matters formerly outsourced at a higher cost. *Id.*:90-93. Notwithstanding, the Department does not have sufficient staff to take on the volume of legal assignments that come its way, as the workload is already "extremely high". *Id.*, 6:131-132. This includes 266 active cases before PREB 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.*, 4:97-98; 5:104-109.[8] 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.*, 6:133-137.[9] Mr. Rotger testified that he determines caseloads based on his professional experience. *Id.*, 327:7-25; 328:1-2.

Thus, the Legal Department is requesting an Optimal O&M budget of approximately $9.81M for FY2026 (rising to $10.82M in FY2028). The primary O&M components are Staffing and Technical & Professional Services. Exhibit 10.0, 7-8:156-162, 171-172. 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

[8] *See* Exhibit 10.01, for quantification of caseload for FY2025.

[9] *See also* Tr. 12/3 at 328-329:1-25; p. 330:1-18.

internal research from the case-management/e-billing systems. *Id.*, 8-9:174-178. 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.*, 9-10:181-195. Mr. Rotger explained that bolstering in-house staff reduces reliance on external counsel and has already produced savings (~$1.5M). Tr. 12/3, 330:19-25; 331:1-14. Conversely, without adequate funding for staff and resources, the Legal Department will be unable to provide effective counsel across LUMA, and as workloads rise, it will be forced to outsource more work than forecasted, which could result in additional costs. Exhibit 10.0, 10:201-205.

Technical and 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.*, 10-11:207-218. The FY2026 increase from FY2025 within this category is driven primarily by necessary legal technology programs. *Id.*, 11:221-227.

Mr. Rotger expounded on the scope of these costs. 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. Tr. 12/3, 367:24-25; 368:1-25; 369:1-6. Second, LUMA explained the controls put in place to avoid duplicative billing across Legal, Regulatory, and Compliance. *Id.*, 335:25; 336:1-25; 337:7-15.

LUMA's witnesses 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. Tr. 12/3, 359:6-13; 360:21-25; 361:6-7. Mr. Rotger explained that the decision of which legal firm to engage depends on the matter, citing, for example, consultations on FEMA funding, which is a niche service. *Id.*, 355:8-11.

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. Exhibit 10.0, 12:254-263.

PREB should approve the Legal Department's OB, finding it consistent with just and reasonable performance by a prudent operator. *Id.*, 13:267-275. Strengthening LUMA's internal legal capabilities will allow LUMA to rely less on more costly external counsel. *Id.*, 10:198-199. Under the Constrained scenario, the total Legal Department budget would be reduced by about $1.98M in FY2026 (with similar reductions in FY2027-FY2028). Exhibit 10.0, 13-14:283-288. 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.*, 14:290-292, 296. Further cuts below the constrained level would reduce the Department's ability to represent and counsel LUMA efficiently. *Id.*, 15:303-320.

2. Land and Permits

As required by the provisions of the OMA,[10] 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

[10] Exhibit 10.02.

aboveground and underground T&D assets, including responding to public, banking, real estate, and engineering requests for easement certifications. Exhibit 10.0, 15-16:324-335; 17:351-361. 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.[11] *Id.*, 16-17:338-349.

For FY2026, under the optimal scenario, L&P is requesting O&M of $5.25M, increasing to $6.94Mby FY2028, reflecting a ramp from the FY2025 base ($3.38M) driven primarily by staffing needs and technical services. *Id*., 17-18:364-370. Staffing costs cover compensation for 42 current employees, seven vacant positions to be backfilled, and four planned FY2026 hires. *Id*., 18-19:378-392; Tr. 12/4, 266:22-25; 267:1-18. 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 10.0, 19:394-396. L&P currently lacks the capacity to meet this demand. *Id*., 19:396-397. Moreover, adding a new surveyor is a critical continuity measure, as LUMA currently has only one licensed surveyor who must certify up to 1,187 easements per fiscal year and update the cadaster. *Id.*, 19:397-400. 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.*, 19:403-405.

Technical and professional services costs 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

[11] Exhibit 10.03 and 10.04, respectively.

line drawings.[12] *Id.*, 20:407-415. The increase in this category is tied to the development and implementation of these systems, including necessary servers and licenses. *Id*., 20:417-419. 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*., 20:422-429.

Under the CB scenario, which prioritizes unavoidable staffing, total L&P funding would be reduced by approximately $370,000 (FY2026), $910,000 (FY2027), and $1.57M (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, 22:456-474; Tr. 12/4, 266:12-14. Defunding these systems introduces risks of delays to cadaster updates, with knock-on effects on the speed and accuracy of easement certifications and land rights administration. Exhibit 10.0, 23:476-487. 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, causing delays to customer projects and operational activities. *Id*., 21:435-441.

Proposed OB 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 OMA obligations. *Id*., 21:445-448. If PREB were to adopt the Constrained scenario, the evidence shows L&P can meet its core legal and contractual duties, but

[12] Mr. Rotger's prefiled testimony also includes costs for the Land and Permits Quality Management System (software to manage land rights and permits for operational and capital projects). 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. Tr. 12/4, 264:18-22; 265:1-7.

with delays, reduced efficiencies, and potential impacts on project schedules and federal reimbursement timelines.

L. Fleet

Fleet recommends that PREB approve its proposed OB for FY2026-2028. Its three-year budget is $279.65M, comprising $141.65Min O&M and $138.00Min NFC, with FY2026 at $88.80M ($42.80Min O&M and $46.00Min NFC). Exhibit 18.0, 16:322-325. The FY2027 and FY2028 totals are $93.53Mand $97.33M, 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.,* 16:323-328; 19:354-357. 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 OMA 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, 6:115-123.; *Id.,* 7:127-143; 8:144-148. 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. Tr. 12/4, 216-223; 225-251; 302-305; 307-320; 325; 329-337.

First, the OB 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, 3:56-61; 4:66-70; *Id.*, note 1; Tr. 12/4, 228:7-17. 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. Tr. 12/4, 311:9-20. LUMA has demonstrated that approval of the proposed OB can improve the SAIDI metric relative to the CB. *Id.*, 311:21-25; 312:2-6; 313:3-19.

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. Tr. 12/4, 316:3-25; 317:1-25; 318:1-25; 319:1-25; 320:1-4; Exhibit 18.0, 23:441-448; 24:449-452. This approach is consistent with prudent operations.

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. Tr. 12/4, 245:4-25; 334:3-14. 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, 25:472-476. 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.,* 23:430-436.

Third, refurbishment of legacy out-of-service units is neither cost-effective nor feasible at scale. 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. Tr. 12/4, 246:6-23; 247:1-25; 248:1-11. 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.*, 234:13-25; 235:1-24.

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.*, 217:10-25; 218:13-25; 219:1-25; 220:1. LUMA's planning experience indicates an excess of operational demand over available equipment during scheduling, leading to work deferrals and reassignments. *Id.*, 217:10-25; 218:5-12. 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.*, 220:2-22.

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, 31:593-599. This triage reduces annual NFC by roughly $31–$35M below optimal levels, but at the cost of delaying the remediated state by approximately three years. *Id.*, 31:599; 32:600-604; Exhibit 18.02. Adopting a constrained scenario increases risk exposure as assets age beyond their life expectancy, affecting reliability and safety outcomes for customers and workers. Tr. 12/4, 230:18-25; 231:1-10; Exhibit 18.0, 32:605-613.

M. Compliance

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),[13] to promote an organizational culture of ethical conduct and to exercise due diligence to

[13] 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. Exhibit 16.0, 4-6:94-127.

prevent, detect, and mitigate compliance risks, non-compliance, and misconduct. Exhibit 16.0, 3:62-66; 4:89-93. It monitors, supports, and promotes compliance with Commonwealth and federal anticorruption laws and the OMA,[14] and manages and enforces LUMA's Code of Ethics and related compliance policies, including conflicts of interest. *Id.*, 3-4:70-78. 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.*, 4:81-87.

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 $2.80M (FY2026), $2.94M (FY2027), and $3.49M (FY2028), approximately $0.9M above FY2025 for FY2026. *Id.*, 6-7:135-137; Exhibit 16.0, Table 1 (for budget breakdown by activity). The two primary cost components are Staffing and Technical and Professional Services. *Id.*, 7:148-149. Staffing includes compensation for the current four employees, three vacancies, and four planned specialists, including filling a Chief Compliance Officer vacancy and adding capacity to match the growing workload and accompanying risk. The rationale for staffing growth is organization-wide expansion, increasing complexity and volume of work, and the need to avoid a finding of an ineffective compliance program. *Id.*, 7-8:151-165.

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.*, 8:167-171. The increase from FY2025 to FY2026 is driven by rising workload and IT costs associated with company growth. *Id.*, 8:173-175. Similar

[14] *See* Exhibit 489, OMA, Art. 9.2.

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.*, 8-9:177-188.

Mr. Rotger emphasized 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. Tr. 12/3, 321:17-25; 322:1-11. 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,[15] and Compliance's role as appellate reviewer on RFP reconsiderations. *Id.*, 323:20-25; 324:1-16. The record also corroborates controls over external legal/consulting spend and functional differentiation of services, distinguishing applicability to the Department's needs. *Id.*, 334:9-25; 335:1-25; 336:11-15.

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, 9:192-195.

A CB scenario reduces the Department's total funding by ~$0.01M (FY2026), ~$0.01M (FY2027), and ~$0.02M (FY2028), primarily by lowering the salary increase factor to 3% instead

[15] *See* Exhibit 1078.

of 4%. *Id.*, 11:233-242. These reductions risk higher turnover, increased recruitment and training costs, operational disruptions, and loss of institutional knowledge and productivity. *Id.*, 12:249-252. Further reductions below the CB 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.*, 12-13:255-268.

N. Human Resources

The OB for the Human Resources Department ("HR Department") is $8.87M for FY2026, $8.66M for FY2027, and $9.15M for FY2028. Exhibit 9.0, Table 1, 8:164-170. The OB'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 OMA's requirement of performing all HR functions, including hiring and training, and ensuring compliance with applicable law. *Id.*, 7:141-149; 9:180-181; *see also*, 14:302-305; 15:306-307.

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

"The Department developed its OB using a bottom-up methodology based on strategic planning and alignment with organizational goals and needs." *Id.*, 8:172-174. The activities to be funded directly support LUMA's obligation under the OMA to perform all human resources functions, including hiring and training, and to ensure compliance with applicable law. *Id.*, 7:142-161.

The OB's objectives include hiring seven 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.*, 9:188-189; 11:226-236; 12:237-238. These training investments include internally designed modules, industry-recognized certifications, and continuing education to strengthen leadership and technical capabilities. *Id.*, 12:238-242.

LUMA's expansion drives the need for additional employees. The Talent and Acquisition & Workforce Planning subdepartment needs one additional employee to support the full spectrum of recruitment and onboarding activities. *Id.*, 6:123-127; 9:188-189. Further, the Organizational Development & Effectiveness subdepartment requires six additional employees to support the management of HR Services. *Id.*, 10:191-193.

Additionally, LUMA's subscription to additional tools to effectively attract, retain, and develop personnel grows and maintains a capable workforce. *Id.*, 11:226-227; 13:281-283. 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.*, 10:197-198; 14:291-293. Other subscriptions include HiredScore, which screens resumes for minimum requirements based on the position, advancing operational efficiency. *Id.*, 11:228-230. The Department is also planning to subscribe to the Workday module "Succession Plan" to support planning and developing potential future leaders and key personnel to fill critical roles. *Id.*, 11:230-233.

Investments in the OB are calibrated to LUMA's near-term mission: rebuilding a reliable and affordable T&D system, *Id.*, 1:281-283, anchoring a three-year plan for cultural and operational transformation, *Id.*, 4:71-76, and ensuring the right talent is in the right roles to execute critical work. *Id.*, 13:281-283.

The CB reduces essential staffing and defunds critical positions despite documented company growth.[16] *Id*., 16:333-334. Within the staffing category, the CB defunds three intern hourly positions, one manager salaried position, one director salaried position, and one specialist salaried position. *Id.*, 16:334; 17:335-336. Within the technical and professional services category, the CB eliminates funding for key automation, onboarding, process improvement, leadership development, and case management initiatives.[17] *Id.,* 17:336-340. It also reduces budgets for compensation market study, Indeed platform, Leadership Development Program, and Pre-Hire Check Process. *Id.*, 17:340-342. Within miscellaneous expense, the CB reduces funding for employee recognition and related internal communications and eliminates training for positions that are defunded. *Id.*, 17:342-345. Although the HR Department would be able to meet its contractual and legal duties under the CB, 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.*, 17:356-358; 18:358-359.

O. Customer Experience

Customer Experience recommends that PREB approve its proposed OB for FY2026-2028 to deliver prudent, customer-centric, and reliable service. The OB is approximately $191.3M in

[16] 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.

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

FY2026, $226.5M in FY2027, and $248.2M in FY2028. Exhibit 7.0, 20:415-419. The OB 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 $114.7M. *Id.,* 21:421-428; Tr. 12/1, 417:9-25; 418:1-25. LUMA's proposals for Customer Experience are grounded in (i) LUMA's contractual duties under the 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, 14:296-314; 15:315-326; 17:354-373; 18:374-378.

Customer Experience functions are explicitly mandated by Annex I of the 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, 14:299-314 and 15:315. PREB has also established performance metrics, complaint rates, and revenue-related metrics, which Customer Experience must staff and fund adequately to meet. *Id.,* 37:738-756; Exhibit 78.0, 5:115-118 and 6:119.

Customer Experience's revenue requirement is supported by the testimony of Sarah Hanley, Interim Senior Vice President of Customer Experience. Exhibits 7.0, 78; Transcripts 11/17; 12/1.

First, the OB 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, 22:441-450. 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 $114.7M. *Id.,* 21:421-428; Tr. 12/1, 417:9-25; 418:1-8; 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, 43:887-891.

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. Tr. 12/1, 68:1-14; 124:7-25; 125:1-15; 417:9-25; 418:1-8; Exhibit 7.0, 21:421-432; Exhibit 110. 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 CC&B program. *Id.*, 30:3-19; 67:15-24. Other technical and professional outsourced services include payment processing, bill rendering, and printing, which will never be absorbed in-house. *Id.*, 67:10-15.

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.*, 16:16-25; 17:1-15; 18:8-25; 19:1-4; 23:8-15; 24:14-25; 25:1-6, 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.*, 14:22-25 and 15:1-7. Also, LUMA expects an increase in customer calls and customer complaints due to the AMI rollout, which is why additional FTEs are needed. *Id.,* 16:4-15; 53:16-25; 54:1-25; 55:1-2.

Second, material, measurable improvements in Customer Service performance justify the OB. 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, 17:358-368. 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.*, 17:369-373; 18:374-378. Ms. Hanley's hearing testimony further supports 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." Tr. 12/1, 57:18-24; 97:13-25; 98:1-18; 329:15-22.

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 CB would degrade first-contact resolution timelines and reduce the quality of customer insights, as the record explains. *Id.*, p.2; Tr. 12/1, 109:18-25; 110:1-16; 158:13-25; 159:1-20.

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, 3:62-69; 4:72-91; Tr. 12/1, 249:7-25; 250:1-6. Documented results to date include over 4.69 million outbound calls, more than 120,000 payment plans, approximately $1.642B in collections, and over 27,000 disconnections, supported by improved dunning and automated severance processes embedded in CC&B. Exhibit 78.0, 6:124-130; 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. Tr. 12/1, 259:2-16; Exhibit 78.01, p.2-3. Ms. Hanley explained that while precise forecasting of incremental financial impacts from new initiatives 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. Tr. 12/1, 259:17-25; 260:1-25; 261:1-4.

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. Tr. 12/1, 274:20-25; 275:1-25; 276:1-21; 341:4-12; Exhibit 78.0, 21:470-478.

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.*, 263:23-25; 432:12-25; 433:1-25. 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, 25:562-578; 26:579-585.

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, 29:663-670; 30:671-677. 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.*, 4:72-91. 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 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. Tr. 12/1, 188:1-25.

Ms. Hanley cautioned that incremental changes to the current rate design (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, 5:97-103; 35:778-790. 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.*, 33:748-756; 34:757-777. 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 cost about half a million dollars. Tr. 12/1, 12:8-19. She anticipates PREB will order LUMA to adopt two or three riders after this proceeding. *Id.*, 12:20-25.

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 lowering O&M run costs per interaction over time. Exhibit 7.03, p.1; Tr. 12/1, 141:5-25; 142:10-18; 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, 36:801-814. If the CB were adopted, the interim EV TOU pilot would be eliminated. 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. Approval of the OB ensures continued progress toward a modern, reliable, and customer-centric electric service in Puerto Rico.

P. Third Party Attachments costs and revenues

The OMA 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 OB 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.

PREB should determine that: LUMA's Third Party Attachments ("TPAs") program activities (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 the TPA costs of approximately $8.0M and up to $8.7M. Exhibit 5.0, 40:870-874; 41:875-879; 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, 20:407-415. Lack of funding would entail that L&P would have insufficient resources to efficiently process permits associated with operational activities, including telecommunications. *Id.*, 21:438-441.

As for the Customer Experience Department's relationship with TPAs, Ms. Hanley 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, 24:482-488; 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.*

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. Tr. 11/17, 22:19-25; 23:1-4; 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. Tr. 11/17, 23:12-25. 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.*, 50:1-18; Exhibit 105.

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.*, 61:7-23; 68:2-6. 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.*, 45:4-25.

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.*, 68:2-25; 69:1-14; Exhibits 690, 692, 741. Mr. Rotger testified that LUMA can renegotiate to cover costs and, where appropriate, achieve rates above cost under the applicable formula and negotiations. *Id.*, 70:6-10; 71:4-10.

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 $2.4M 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." Tr. 11/17, 583:5-25; 584:1-22. There was discussion of an early revenue projection (as reflected in LUMA's Schedule B-7) that reflected a conservative assumption (about $0.4M), but Mr. Rotger testified that a materially higher annual run-rate is expected, representing a conservative estimate of roughly $3.5M per year once the new formula-based rates are in place. Tr. 11/17, 586:25; 587:1-25; 588:12-13; Exhibit 105.

For the OIPC, Mr. Jaime Sanabria submitted pre-filed testimony suggesting that LUMA has under-collected this revenue. Exhibit 53, 16:280-281; 17:282-303; 18:304-312. 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. Tr. 12/09, 318:16-24; 319:1-10.[18] Moreover, as he admitted on the witness stand, Mr. Sanabria did not produce a calculation showing under-collection or missed revenues, *Id.*, 319:25; 320:1-3; 321:16-25; 322:1, nor did he perform an attachment count, a variance analysis among attachers, a reconciliation of rates, nor an assessment of rates charged by PREPA historically, *Id.*, 322:3-23. Nor did Mr. Sanabria produce a proposal to reach a particular recovery rate applicable to TPAs. *Id.*, 323:20-25; 324:1-10.

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. Tr. 11/17, 63:2-22. 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.*, 79:22-25; 80:1-25; 81:1. 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.*, 599:24-25; 600:1-10.

Exhibit 681 provides invoice and collection details by telecommunications counterparty, illustrating current performance and the work remaining to normalize collections. For example,

[18] The rough transcript does not reflect an accurate account of the testimony. *See* Evidentiary Hearing Live Transmission, 12/9, 1:02:21 – 1:02:35. The correct exchange is:
Q: And you already testified to having served various roles at Ecoeléctica, LP, right?
A: Yes.
Q: During your tenure at Ecoeléctrica, you did not manage a distribution pole network, right?
A: Correct.
Q: And you did not collect pole attachment fees, correct?
A: We didn't have any, correct."

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, demonstrates that audit, contracting, and billing work must be resourced now to drive revenue optimization later.

PREB should approve LUMA's FY2026 revenue requirement for TPA-related O&M within Capital Programs, as well as the associated L&P 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 11.0, 5:93-98. 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.* 5:99-109. 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.*, 5:110-112; 6:113-114. Cybersecurity protects both IT and OT systems, securing public utility assets and private customer information to maintain confidentiality, integrity, and availability. *Id.*, 6:115-120.

The IT/OT Department faces two major challenges over the next three fiscal years: [redacted]. Exhibit 11.0, 14:286-302. 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.*, 14:302-304.

The IT/OT Department is requesting that PREB approve the requested OB of $105.03M for FY2026, $120.87M for FY2027, and $128.68M for FY2028. *Id.*, Table 2, p. 17. The proposed costs are just and reasonable. *Id.*, 43:907-909. The IT/OT Department developed its FY2026-FY2028 OB 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.*, 17:335-346.

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

IT/OT is proposing a professional and technical services budget of $53.55M for FY2026, $71.56M for FY2027, and $84.47M for FY2028. *Id.*, Table 2, as revised with Exhibit 1066.[19]. These costs include long-term service agreements (i.e., system licenses, software maintenance,

[19] 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.

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 compliance. *Id.,* 18:359-365, 19:366-382, 20:383-393. These costs are increasing because LUMA is adding essential applications and systems needed to maintain core business operations and grid reliability 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.,* 20:406-407, 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.* 21:424-430, 22:431-432.

IT/OT is proposing staffing costs of $15.71M for FY2026, $16.71M for FY2027 and $17.93M for FY2028. *Id.,* Table 2. This budget includes 119 existing budgeted roles. *Id.,* 22:434-437. 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.* 22:449-451; 23:452-456. These hires are critical to reduce reliance on consultants, address historical underfunding, and build internal capacity. *Id.* 456-460. Over time, these hires will reduce costly dependence on outside services. *Id.,* 26:533-537.

The FY2025 NFC Budget was $6.9M. *Id.,* p. 28, Table 6. LUMA is proposing to increase this budget to $35.13M in FY2026, $31.97M in FY2027, and $25.64M in FY2028. *Id.* Through

the NFC budget, IT/OT implements the Cybersecurity, Enablement, Asset Management, and Collaboration and Analytics programs. *Id.,* 11:220-223.

[redacted].

The Enablement Program NFC budget (FY2026 $6.09M, FY2027 $4.03M and FY28 $1.90M) 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.,* 31:639-642; *Id.,* Table 6, p. 28.

The Asset Management Program NFC funding (FY2026 $18.10M, FY2027 $20.90M and FY2028 $18.66M) 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.,* 33:687-689; *Id.,* Table 6, p. 28.

Lastly, the Collaboration and Analytics Program NFC budget (FY2026 $7.76M, FY2027 $6.69M and FY2028 $4.71M) will be dedicated to improving how LUMA manages enterprise data, automates processes, and enables decision-making across the organization. *Id.,* 39:817-819. This includes correcting gaps of underinvestment across the organization. *Id.*:819-821.

Service contract costs are estimated with industry guidance—of between 15% to 25% of the original implementation or license cost. Tr. 12/19, 48:8-22; 49:1-25; 63:16-25; 64:1-12. LUMA

applied a conservative industry standard and decided not to apply 30% that is the upper echelon of the industry standard. *Id.*, 56:5-17.

Some projects that subsequently require IT support are initially funded through the budgets of other departments. *Id.*, 51:14-19. The amounts reflected in the service agreements budget therefore represent the level of ongoing support actually required by those business units rather than a flat percentage applied to a single IT cost pool. *Id.*, 50:1-12. These agreements are all competitively procured. Tr. 12/02, 72:10-21; 73:4-9; 77:5-12; *see also* Exhibit 307.1.

Reducing the OB increases operational risk by delaying incident resolution, extending system downtime, weakening cybersecurity posture (*i.e.*, [redacted]. Exhibit 11.0, 46:986-989, 47:990-992. A reduction would ultimately create risks to performance, reliability, and long-term operational resilience, including deferring or reducing key programs such as Enterprise Document Management, IoT platform deployment, [redacted], and critical cybersecurity measures, and limiting investments in process automation and data integration. *Id.,* 47:995-997, 47:1000-1013, 48:1014-1016.

Reducing the Collaboration and Analytics Program will require deferring upgrades and tools, which slightly increases cybersecurity exposure and risks gradual performance degradation. *Id.,* 48:1017-1020. In turn, reducing the Asset Management Program will require postponing real-time monitoring capabilities for substations and sites, which undermines outage response (impacting reliability), prolongs restoration efforts (including during storms), heightens safety risks for field crews, and delays modernization of grid visibility by up to eighteen months. *Id.,* 48:1034-1038; 49:1039-1047; *see also* Tr. 12/02, 137:23-25; 138:1-18. [redacted]

[redacted]. Tr. 12/02 (confidential session), 180:6-24; 181:18-23.

[redacted]. *Id.* (confidential session), 288:13-22. This is a real threat; [redacted]. *Id.* (confidential session), 289:7-20. [redacted]. Exhibit 11.0, 49:1050-1062; Tr. 12/02 (confidential session), 297:8-24. 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. Tr. 12/02, 116:11-23.

III. PREB should approve LUMA's Outage Event Reserve Account ("OERA") funding.

In accordance with the OMA, 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 $30M. *Id.,* Sec. 7.5(d)(ii); *see also* Exhibit 77.0, 6:118-120. LUMA shall draw funds

from the OERA to pay costs associated with Outage Event,[20] which expenses are defined as Outage Event Costs.[21] 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 OMA to replenish the account so as to maintain $30M. *Id.,* Sec. 7.5(d)(ii).

LUMA used OERA funds to cover Outage Event Costs. Exhibit 2, 19:358-360. The OERA had been funded in the past. *Id.,* 18:353-355. However, PREPA has not replenished it since November 2023. *Id.,* 19:356-358; *see also* Tr. 12/05, 340:6-14; *Id.*, 341:2-7. Although there is a contractual requirement clearly established in Section 7.5(d) of the OMA, PREPA has failed to replenish the OERA by a total amount of $239M. Exhibit 1.0, 77:1409-1410. The $239M is the sum of $30M to replenish the OERA to the required OMA-funding level (*i.e.,* $30M) and $209M 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.,* 75:1410-1417; *see also* Exhibit 1.05; *see also* Exhibit 2.0, 19:360-367.

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, 79:1450-1456. 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.,* 79:1459-1461; *see also id.*, 83:1524-1526. This lack of funds places the customer and the T&D System at risk. *Id.,* 83:1545; 84:1546-1547.

Currently, there is no rate mechanism in place to replenish the OERA. Exhibit 77.0, 9:187-189. The revenue requirement has to be sufficient so that PREPA has the cash on hand to keep the

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

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

OERA fully funded. Tr. 12/05, 328:7-16. 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 $30M minimum balance for the OERA. *Id.,* 456:17-25; 457:1-2; *see also* Exhibit 77.0, 5:106-108. In plain words, the rider is the vehicle by which money would flow from customers to the OERA. Tr. 12/05, 458:18-25; 459:1-19. Eligible costs to be recovered through this rider must include those allowed in Section 7.5(d) of the OMA and the LGA OMA. Exhibit 77.0, 9:184-187; *see also* Tr. 12/05, 456:17-25; 457:1-2.

The persistent shortfall of the OERA has placed undue strain on LUMA's liquidity and operational stability. Exhibit 1.0, 86:1597-1598. 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.,* 83:1527-1537; 87:1614; *see also* Exhibit 2.0, 19:339-342. Further, not all emergency events qualify for FEMA or other external emergency funding. Exhibit 1.0, 83:1538-1545. But, assuming that an event does qualify, the operator must first incur the expense, and then seek reimbursement. *Id.,* 83:1542-1544. Furthermore, the option of seeking emergency rates when an emergency occurs is neither practical nor feasible. *Id.,* 84:1561-1563. 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.*

LUMA seeks to recover approximately $239M 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.,* 77:1409-1417; Tr. 12/05, 459:22-25; 460:1-12. This amount is to be recovered over the period of two years. Exhibit 77, 7:135-149. Of this amount, $30M is to replenish

the OERA to the level required by the OMA, and $209M 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, 85:1567-1586; *see also* Tr. 12/05, 459:22-25, 460:1-12, 467:2-9. 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, 87:1624-1626. Thus, the payment of the accumulated balance is not only a matter of contractual compliance. *Id.,* 87:1627-1628.

The OMA establishes clear mechanisms to ensure transparency and regulatory compliance. *Id.,* 501:17-25, 502:1-7. 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 business days following each month end during which funds were withdrawn from the OERA detailing account activity. *Id.* For each Outage Event, the OMA 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. Tr. 12/05, 501:17-25; 502:1-7. 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 OMA, 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[22] and cannot be recovered as T&D Pass-through Expenditures,[23] 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 $120M to address part of PREPA's past and current underfunding of the OERA ($30M to restore the OERA required funding level and $90M for restoration of prior underfunding). July 31 Order, p. 23[24]. On July 31, 2025, PREB denied this request. *Id.* On that same date and order, PREB established the Emergency Reserve Account, a system-wide restricted account funded at $15M, to provide liquidity for extraordinary, high-impact reliability events that exceed the normal operating budgets of LUMA and Genera. *Id.* The 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, 10:208-212. As stated by PREB, the "[Emergency Reserve Account] 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.

Recovery of $239M to replenish the OERA and reimburse past Outage Event Costs is necessary, just, and reasonable. This amount is required to comply with the OMA and to restore the financial stability of the T&D System. The OERA is the only dedicated source of immediately

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

[23] *Id*., "T&D Pass-through Expenditures."

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

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 $30M balance for all of the periods it was not funded and reimburse $209M in actual outage restoration costs incurred during major events such as Hurricanes Fiona and Ernesto. These costs were prudently incurred to 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 $239M as part of permanent rates.

This is not retroactive ratemaking. 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, 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),[25] 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."[26] 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 Supreme Court in *Landgraf v. USI Film Prods.*, 511 US 244, 247 (1994), encouraged courts to rely on "familiar considerations of fair notice, reasonable reliance, and settled expectations [for] sound guidance." *Id.* 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.

Here, PREPA is not altering the rates for energy sold or past consumption. The instant rate increase is not being applied retroactively; thus, the application of the new rates does not alter the legal consequences for past conduct. 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, any new rates to recover the legacy debt costs would be retroactive ratemaking, which it is not.

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

[25] *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).
[26] *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*").

instances."[27] 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.[28] For example, it has been held that "[t]he next time a storm of this magnitude 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."[29] 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 $300M 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."[30]

IV. Recordkeeping

Regarding alignment, accounting remediation, and transition to the Uniform System of Accounts ("UsoA") established by FERC, Mr. Smith explains that while income statements post-

[27] *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") (citation omitted); *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).

[28] *Narragansett Elec. Co.,* 415 A.2d, at 179 (RI 1980) ("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.").

[29] *Id.*

[30] "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.*, 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".

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, 55:1124-1135. 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.*:1135-1144. 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, 38:22-25; 39:1-24; 49:9-12. He explained that the lack of balance sheet information also impedes FERC transition work at this time. *Id.*, 39:4-9.

The record also rebuts vague assertions about LUMA's documentation and reconciliations and confirms the appropriateness of funding to complete remediation. Mr. Smith testified that LUMA consistently performs and documents account reconciliations. Transcript 12/10, 61:7. 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.*, 62:15-25; 63:1-9. 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.*, 66:13-20; 67:4-11; 143:13-24; 144:1-25; 145:1-5.

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.*, 115:15-25; 116:1-10; *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.*, 116:16-25; 117:1-2.

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. Transcript 12/10, 77:15-25; 78:1-11.

V. Budget Amendments and Reporting

A. Request to align PREB's budget oversight with the 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 OMA, 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, 88:1653-1656; Exhibit 2.0, 84:1758-1759, 85:1760-1766.

The 5% threshold originates in the OMA and applies at the level of the three OMA-defined budgets (Operating, NFC, 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"). Tr. 11/24, 95:17-25, Tr. 11/24, 96:1-25; *see also* Exhibit 489, OMA, 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 at 10:228-248 (revised December 2025); Exhibit 2.0, 86:1772-1786.

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 OMA's provision granting LUMA flexibility to reallocate, accelerate, or postpone expenditures. Exhibit 1.0, 89:1659-1668; Exhibit 2.0, 86:1172-1786; Exhibit 3.0, 10:228-236; *see also* Exhibit 489, OMA, Section 7.3(c).

LUMA requests that the PREB align its process to the OMA and removal of the line-item overlay and maintenance of the 5% at the overall budget level. Tr. 11/24, 96:19-25, Tr. 11/24, 97:1-25. 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, 86:1772-1794, 87:1795-1797. 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 the hearing when asked whether the presence of post-spend enforcement in other jurisdictions changed his opinion about line-item oversight. Exhibit 3.0, 10:237, 11:238-248; Tr. 11/24, 151:25, Tr. 11/24, 152:3-7.

Flexibility is necessary. Exhibit 1.0, 89:1659-1668; Exhibit 2.0, 87:1807-1817, 88:1818-1824. Mr. Smith testified that the current preapproval and amendment process "materially hinders" managerial decisions and, on average, took thirty-six days for PREB responses in FY2024, delaying needed work on a fragile system. Exhibit 2.0, 88:1830-1840, 89:1841-1849. Mr. Smith explained that delaying work pending amendment approval commonly means 30-45 days of lost

time. Tr. 11/24, 248:11-19, Tr. 11/24, 251:2-12. 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.*, 248:1-25, *Id.*, 249:1-2. 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. Tr. 11/24, 142:19-25, *Id.*, 143:1-23, *Id.*, 79:12-25, *Id.*, 80:1-11. 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. Tr. 11/24, 77:7-21. As Mr. Figueroa clarified, LUMA is not seeking to disregard established budget priorities; it seeks flexibility from an administrative and process standpoint. *Id.* 79:2-9, *Id.*, 80:1-11. Finally, performance history supports granting flexibility: Mr. Smith affirmatively testified that LUMA has "always" hit its annual budgets within roughly a 1% variance. Tr. 11/24, 224:2-4.

LUMA requests that PREB adopt LUMA's annual budget proposal, reverting to the 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, 89:1845-1849; Tr. 11/24, 248:11-25; 249:1-2. Moreover, PREB will remain burdened by numerous after-the-fact amendments to the budget docket that add administrative costs without delivering incremental oversight benefits.

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

Relatedly, the OMA requires a reporting cadence that entails annual budget reports within 120 days of the fiscal year end and quarterly reports within 45 days. Exhibit 489, OMA Annex I, Section VI(B); Exhibit, 11:253-255. 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, 7:148-159; *see also* Exhibit 2.0, 84:1754-1757.

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, 12:273-279, 13:280-289. 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.*: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. Tr. 11/24, 253:2-10. 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.*, 254:9-12, *Id.*, 255:4-9. 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. Tr. 11/24, 70:24-25, Tr. 11/24, 271:4-8.

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. Tr. 11/24, 283:5-15. 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, 12:275-279, 13:280-282.

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 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, 3:142-162, 4:163-173. 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, 17:373-379.

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, 6:214-226. 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.*, 5:194-207, 6:208-226.

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, 7:240-250, 8:251-252. 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, 7:230-250, 8:251-252. Indeed, when pressed at the evidentiary hearing, ICPO's expert witness, Mr. 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. Tr. 11/24, 371:10-19.

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 PREB'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. Tr. 11/24, 150:3-12.

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 OMA, not on the fourth quarter or efficiency-reporting questions presented here. Tr. 11/24, 104:22-25, 105:1-25,106:1-2. LUMA's witnesses acknowledged the PREB'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.*, 186:1-25.

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; PREB 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 and power purchase cost adjustment "PPCA" riders). The ARR also includes costs funded by the riders, specifically those related 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 SUBA riders.

1. Optimal Revenue Requirement

PREPA's Optimal ARR is set forth on Schedule B-1-Optimal. For Test Year 2026, the Optimal ARR, Adjusted to Match Pass-Through Revenue and Expenses, is $5,688,270,100. *Id.,* Schedule B-1-Optimal. When the CILT and SUBA subsidy costs of $279,076,694 are added, the total ARR is $5,967,346,794. *Id*. The total base rate revenue requirement is $2,896,493,133. *Id*. Schedule B-1 shows that the major components of the ARR for FY2026 include the base rate revenue requirement of approximately $2.896B and Fuel and Purchased Power costs of

approximately $2.437B. *Id.* The ARR also includes other costs proposed to be funded through riders, including the EE and Demand Response program costs of approximately $75.3M, the OERA costs of $120M and $30M and the Pension costs of approximately $307.5M.

PREPA's Optimal ARR for Test Year 2027, Adjusted to Match Pass-Through Revenue and Expenses, is $5,923,098,266. *Id*. When the CILT and SUBA subsidy costs of $279,076,694 are added, the total ARR is $6,202,174,960. *Id*. The total base rate revenue requirement is $3,181,848,236. *Id.*

The major components of the ARR for FY2027 include the base rate revenue requirement of approximately $3.182B and the FCA and PPCA costs of approximately $2.364B. *Id.* The ARR also includes other costs proposed to be funded through riders, including the Energy Efficiency and Demand Response program costs of approximately $103.3M, the OERA costs of $120M and $30M and the Pension costs of approximately $298.7M. *Id.*

PREPA's Optimal ARR for Test Year 2028, Adjusted to Match Pass-Through Revenue and Expenses, is $6,040,847,592. *Id.* When the CILT and SUBA subsidy costs of $279,076,694 are added, the total ARR is $6,319,924,286. *Id.* The total base rate revenue requirement is $3,447,619,593. *Id.*

The major components of the ARR for FY2028 include the base rate revenue requirement of approximately $3.448B and the Fuel and Purchased Power costs of approximately $2.313B. *Id.* The ARR also includes other costs proposed to be funded through riders, including the Energy Efficiency and Demand Response program costs of approximately $116.6M, the OERA costs of $120M and $30M and the Pension costs of approximately $298.4M. *Id.*

2. Constrained Revenue Requirement

PREPA's Constrained ARR is set forth on Schedule B-1 Constrained. Exhibit 1106. The Constrained ARR for Test Year 2026, Adjusted to Match Pass-Through Revenue and Expenses, is

$5,107,210,121. *Id.*, Schedule B-1 Constrained. When the CILT and SUBA subsidy costs of $279,076,694 are added, the total ARR is $5,386,286,815. *Id.* The total base rate revenue requirement is $2,315,432,655. *Id.* The major components of the ARR for FY2026 include the base rate revenue requirement of approximately $2.315B and the Fuel and Purchased Power costs of approximately $2.437B. *Id*. The ARR also includes other costs proposed to be funded through riders, including the Energy Efficiency and Demand Response program costs of approximately $75.3M, the OERA costs of $120M and $30M and the Pension costs of approximately $307.5M. *Id.*

PREPA's Constrained ARR for Test Year 2027, Adjusted to Match Pass-Through Revenue and Expenses, is $5,265,247,503. *Id.* When the CILT and SUBA subsidy costs of $279,076,694 are added, the total ARR is $5,415,275,563. *Id.* The total base rate revenue requirement is $2,523,997,473. *Id.*

The major components of the Constrained ARR for FY2027 include the base rate revenue requirement of approximately $2.524B) and the Fuel and Purchased Power costs of approximately $2.364B. *Id.* The ARR also includes other costs proposed to be funded through riders, including the Energy Efficiency and Demand Response program costs of approximately $103.3M, the OERA costs of $120M and $30M and the Pension costs of approximately $298.4M. *Id.*

PREPA's Constrained ARR for Test Year 2028, Adjusted to Match Pass-Through Revenue and Expenses, is $5,302,817,073. *Id*. When the CILT and SUBA subsidy costs of $279,076,694 are added, the total ARR is $5,415,275,563. *Id*. The total base rate revenue requirement is $2,606,089,690. *Id*.

The major components of the ARR for FY2028 include the base rate revenue requirement of approximately $2.606B and the Fuel and Purchased Power costs of approximately $2.313B.

The ARR also includes other costs proposed to be funded through riders, including the EE and Demand Response program costs of approximately $220.1M, the OERA costs of $30M and the Pension costs of approximately $298.4M. *Id*.

Genera has also set forth a hybrid approach. The impacts of Genera's hybrid approach are set forth in Exhibit 1106, 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 the 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.

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, 5-6:107-119. 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.*, 6:120-130. The OIPC and PREB 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, 12:251-266; 13:279-288.

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. Exhibit 78, 12-16:265-358. As part of this corrective effort, LUMA executed one-time accounting write-offs of legacy PREPA balances—approximately $77M in FY2024 and $339M 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, 8:157-179. 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.*, 11:231-243.

At the same time, LUMA has implemented industry-standard collections and revenue protection practices, achieving more than $1.6B 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, 6-7:120-154. The hearing record confirms the legacy nature of many uncollectible balances and the need for ongoing cleanup 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. Tr. 12/9, 176:12-24; 177:1-23.

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, 6-7:124-138. 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, 7:140-156.

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, 8:157-179, 9:187-197. The extraordinary write-offs—approximately $77M in FY2024 and $339M 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.*, 8:169-173,11:231-243. 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. Tr. 12/9, 183:2-25.

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 significantly low to moderate income customer base, legacy data limitations, and periods of government-imposed disconnection moratoria that materially affect collectability. Exhibit 79, 12:251-266, 14:295-305. 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, 9-10:193-217.

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 $1.6B 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 $400M 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, 6:131-139. 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, 10-11:218-248. 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 cleanup with current bad debt and suggestion that higher allowances undermine collection incentives are contradicted by the record. LUMA's proposal explicitly separates the one-time clean-up of legacy balances from the prospective bad-debt factor. Exhibit 79, 8:157-179, 10-11:210-230. 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. Tr. 12/9, 258:25, 259:1-23. The record establishes that LUMA's proposed 2.97% bad debt factor is the only figure grounded in audited experience, consistent with the PREB'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, 6:125-139.

VIII. PREB should approve PREPA's systemwide margin.

LUMA's filing includes the proposed margin of $178M 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, 46:934-35. Net income is the amount of revenue in excess of PREPA's spending for each test year. *Id.*:935-36. As indicated by Mr. Smith, the authorized margin is an important lender satisfying criteria. *Id.*: 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.* 46-47:939-41.

Mr. Smith also 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 15:321-326. 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. *Id.* 327-336.

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 handling unanticipated expenses above the actual costs included in the revenue requirement. *Id.*:478-80. Mr. Smith also points out 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.*: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.[31] 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 $5B revenue requirement, a 2% margin, would be $100M. Exhibit 79, 22:488-93. 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.*:491-98.[32] 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, 16:353-55.

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 receives revenue from customers, which results in a margin of approximately 12.5% of operating expenses for working capital.[33] Moreover, the working capital targets for municipal governments, which is

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[31] 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.

[32] *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. 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.

[33] *See supra* n. 35.

a recommended best practice by the Government Finance Officers Association ("GFOA"), is closer to 17-20% of operating expenses.[34] Therefore, on a $2.6B optimal base rate (not including fuel) operating expense budget (Exhibit 1106, Annex 1, Schedule B-4), the recommended practice would result in a margin of over $525M for utility with a 45-day lag. 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. Tr. 12/9 288:17-25, *Id.* 289:1-5.

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.* 22:16-20. She refers to the storm account, the 2% reserve account, and a federal funded reserve account. *Id.* 28:7-11. 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.* 38:11-14. She indicated also that the accounts must "provides money that is usable and beyond other revenue requirement expenditures." *Id.* 23:19-22. However, she was unaware of whether the storm reserve account was currently funded. *Id.* 27:10-17. She agreed that in scenarios where these accounts were not funded, there would not be a lot of working capital. *Id.* 27:18-25, *Id.* 28:1-13. 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.* 28:16-22, *Id.* 37:11-17.

[34] "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. …" *See* https://www.masc.sc/uptown/12-2020/setting-right-fund-balance#:~:text=City%20and%20town%20officials%20often,cash%20flow%20and%20risk%20management.

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 $5B annually for the operating expenditure system needs of PREPA, Genera, and LUMA. These accounts, even if approved by PREB and fully funded, are not sufficient to secure the 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.* 265:11-20.

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.* 28. However, 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. Instead, they recommend using the Modified DSCR ratemaking model for purposes of determining PREPA's base rate revenue requirement for permanent rates. *Id.*: 48.

Nonetheless, Mr. Ralph Smith acknowledged that every utility needs working capital. Tr. 12/9, 98:9-15. 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.* 101:15-22.

It is thus clear that both Tierney and the PREB consultants agree that there is a need for additional cash. The reserve accounts here do not provide sufficient working capital. In the event that PREB disallows the working capital based on a debt-service-coverage ratio metric, 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. 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—which must come in part from an industry-standard margin. *Id.*, 263:11-25; 264:1.

IX. PREB should adopt the reconciliation methodology proposed by LUMA witness Shannon.

As noted by LUMA witness Mr. Sam Shannon ("Mr. 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 PREB determines the permanent rate. Exhibit 20, 42:953-959. The reconciliation would be implemented based on a credit or surcharge imposed on broad customer classes and will be achieved through a credit 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.*:960-962. LUMA's witness Shannon prepared an exhibit with an illustrative calculation of the reconciliation. Exhibit 70.01.

PREB consultant 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

includes 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.

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: 47. In his Surrebuttal testimony, Mr. 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, 13:398-407. 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*.: 412-414. He explained that variance in utility spending and variations in customer consumption are normal parts of the utility business. *Id*.: 415-420.

Mr. Shannon also explained how the true-up or reconciliation will involve three different periods because the provisional rate only applies to part of the test year. *Id.* 14:426-434. 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 PREB. *Id.* 14-15:435-445. 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 explained 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.*, 15:446-452; Tr. 12/11, 16:11-30:2. 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, 15:460-462.

X. Practicability

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

PREB issued a provisional rate order that distinguished two concepts: practicability and affordability. Tr. 12/11, 221:11-25; 222:1-14. 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; Tr. 12/11, 222:2-8. 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. Tr. 12/11, 221:19-24.

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.*, 417:10-15.

B. Rate design and revenue allocation are the proper avenues to address concerns about affordability.

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.* 356:12-17. The rates proposed in LUMA's OB 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.* 417:22. 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. Tr. 12/11, 418:1-24. 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 that there is no standard formula to evaluate the income thresholds for an average customer or household. *Id.* 419:6-25, 420:1-10.

C. Affordability is not a useful measurement of practicability.

The Hearing Examiner emphasized that the statutory relevance of the PREB's consideration of affordability lies in assuring the 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", p. 2, (Sept. 8, 2025). 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 PREB 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 is decoupled from the rate.

The existing research on the impact of increased electricity rates in Puerto Rico reveals 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, 17:213-217; Exhibit 72.02, p.3, 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.* 19:251-257.

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.* 20:262-268, 21:269-270.

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.* 13:156-159. 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.*:161-163. As a result, "Puerto Rico's centralized service provision limits consumer responsiveness to price changes." *Id.*: 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 support for that figure is questionable at best. FOMB has never set a firm limit on household income for electricity. Rather, the 6% figure is a rule of thumb to assess customer burden, 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%, but this is inaccurate. *See id.*[35] 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 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, 38:577-582. Under the OB model that relies on a $0.37/kWh rate, the average burden would reach 6.9%, only "slightly exceeding the threshold." *Id.* 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.* 39:596-597.

[35] 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." Tr. 12/11 at 345:8-25, 346:1-15.

These averages also "overstate the impact on the most vulnerable customers," once again skewing the data. *Id.* 38:583. "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.* 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.* 586-587. Dr. Cao admits that his affordability calculations failed to account for these subsidies. Exhibit 54, p.7, FN 6; Tr. 12/11, 350:10-25, 351:1-25; 352:1-25, 353:1-5. 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, 38:590-594. "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.*, 53:862-266. Even as households adopt a hybrid approach, the available retail credits provide "a strong incentive to remain connected" to the grid. *Id.*: 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.*, 54:882-885.

Similar trends are seen with commercial and industrial customers. *Id.* 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.*, 39:611-613. 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.* 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.* 39:616, 40:617-618. "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.* 41:623-627.

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.*, 52:851-854. 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." Tr. 12/19, 32:8-16. 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, 29:16, 30:1-2.

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

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, 42:632-637. Notably, Dr. Cao's conclusions rely on the "Input-Output model" and incorporate data that "was last updated in 2013, meaning it does not reflect over a decade of economic, technological, and structural changes." *Id.* 652-654. The use of outdated data for this model fundamentally undermines the value of the conclusions. *Id.* 43:669-672, 44:673-682. "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.* 45:698-700.

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 $2.7B of funds LUMA has deployed, $2.2B (81%) has been federally sourced with billions more in obligated and submitted projects awaiting obligation. Tr. 12/18, 386:1-8; Tr. 12/19, 392:14-17. LUMA has established a federal funding team in the Finance Department led by a VP-level manager, responsible for evaluating all potential funding sources, submitting projects for obligation and reimbursement, and coordinating activities, including working with specialized outside contractors. Tr. 11/13, 60:10-14 (Meléndez). LUMA has also diligently improved the speed at which reimbursements are sought and is requesting funds for software to aid in accelerating the process. Tr. 12/18, 406:24-25, 407:1-15 (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 mere 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 objectively 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.

The Bondholders' criticism also seems to fundamentally misunderstand the FEMA funding process. For example, 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.

Exhibit 79, 23:510-522, 24:523-525. 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.* 24:537-539.

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, 25:570-573 (Meléndez); Tr. 12/19, 328:9-25 (Suzette Díaz: "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 Puerto Rico's unique circumstances and the consequences of PREPA's bankruptcy. As Mr. Smith explained, "our single biggest obstacle to performing work today is [lack of] money." Tr. 12/18, 404:2-3. Federal funds are reimbursed. That means there must be working capital available to complete the project first. Exhibit 79, 24:527-528 (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, 25:481-496, 26:497. 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, 5:546-556; 32:708-712. 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. Exhibit 74.0:552-556; *see also* Exhibit 79, 26:574-576 ("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, 34:765-767, 35:777-778. 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.*, 33:727-739. 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.… 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, 39:866-876.

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. Tr. 12/18, 309:20-25; 310:1-25; 311:1-3 (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. There are many tangible benefits. First, having sufficient capital permits critical work to be performed now and later submitted—what is known as "work completed" reimbursement.

Exhibit 81, 7:105-115, 8:116-118; Tr. 11/13, 58:12-25; 59:1-17. 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, 18:353-374 (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.

Exhibit 5.0, 50:970-978.

Third, having access to sufficient capital permits LUMA to achieve synergies by performing non-reimbursable NFC projects alongside federally funded projects. *Id*. 48:940-941, 49:949-951; Exhibit 79, 36:796-798 ("NFC budgets therefore cover scopes that are non-federally eligible, ensuring operational continuity."), *Id.* 50:1110-1111 ("[N]on-federal capital expenditures serve an essential and complementary role, rather than representing missed opportunities for federal funding."). As Mr. 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, 32:645-658, 33:659.

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 OB 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, p.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. Tr. 12/18, 400:20-25, 401:1-4.

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 several crucial T&D projects from the federal pipeline that the Bureau has ordered LUMA to complete. LUMA was not consulted, had no input on deactivation, and has no control over reactivation. Tr. 12/18, 325:15-25, 326:1-9. 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. Tr. 12/18, 401:8-15. As Mr. Smith 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 …. So, the

> PREB being able to outline certainty around that, I think would be … very, very helpful.

Id. 402:1-13, 403:1-5.

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. Tr. 12/18, 386:1-25.

WHEREFORE, LUMA respectfully requests that the PREB **take notice** of the arguments set forth in this brief; **approve** LUMA's proposed OB; **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 26th 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; mmcgill@gibsondunn.com; lshelfer@gibsondunn.com; howard.hawkins@cwt.com; mark.ellenberg@cwt.com; casey.servais@cwt.com; bill.natbony@cwt.com; thomas.curtin@cwt.com; ***Co-counsel for Syncora Guarantee, Inc.***, escalera@reichardescalera.com; arizmendis@reichardescalera.com; riverac@reichardescalera.com; susheelkirpalani@quinnemanuel.com; erickay@quinnemanuel.com; ***Co-counsel for the PREPA Ad Hoc Group***, dmonserrate@msglawpr.com; fgierbolini@msglawpr.com; rschell@msglawpr.com; eric.brunstad@dechert.com; Stephen.zide@dechert.com; david.herman@dechert.com; michael.doluisio@dechert.com; stuart.steinberg@dechert.com; ***Sistema de Retiro de los Empleados de la Autoridad de Energía Eléctrica,*** nancy@emmanuelli.law; rafael.ortiz.mendoza@gmail.com; rolando@emmanuelli.law; monica@emmanuelli.law; cristian@emmanuelli.law; lgnq2021@gmail.com; ***Official Committee of Unsecured Creditors of PREPA***, jcasillas@cstlawpr.com; jnieves@cstlawpr.com; ***Solar and Energy Storage Association of Puerto Rico,*** Cfl@mcvpr.com; apc@mcvpr.com; javrua@sesapr.org; mrios@arroyorioslaw.com; ccordero@arroyorioslaw.com; ***Wal-Mart Puerto Rico, Inc.,*** Cfl@mcvpr.com; apc@mcvpr.com***; Solar United Neighbors***, ramonluisnieves@rlnlegal.com; ***Mr. Victor González,*** victorluisgonzalez@yahoo.com; and ***the Energy Bureau's Consultants*****,** Josh.Llamas@fticonsulting.com; Anu.Sen@fticonsulting.com; Ellen.Smith@fticonsulting.com; Intisarul.Islam@weil.com; jorge@maxetaenergy.com; rafael@maxetaenergy.com; RSmithLA@aol.com; msdady@gmail.com; mcranston29@gmail.com; dawn.bisdorf@gmail.com; ahopkins@synapse-energy.com; clane@synapse-energy.com; guy@maxetaenergy.com; Julia@londoneconomics.com; Brian@londoneconomics.com; luke@londoneconomics.com; kbailey@acciongroup.com; hjudd@acciongroup.com; zachary.ming@ethree.com; PREBconsultants@acciongroup.com; carl.pechman@keylogic.com; bernard.neenan@keylogic.com; tara.hamilton@ethree.com; aryeh.goldparker@ethree.com; roger@maxetaenergy.com; Shadi@acciongroup.com; Gerard.Gil@ankura.com; Jorge.SanMiguel@ankura.com; Lucas.Porter@ankura.com; gerardo_cosme@solartekpr.net; jrinconlopez@guidehouse.com; kara.smith@weil.com; varoon.sachdev@whitecase.com; zack.schrieber@cwt.com; Isaac.Stevens@dechert.com; James.Moser@dechert.com; Kayla.Yoon@dechert.com; juan@londoneconomics.com; arrivera@nuenergypr.com; ahopkins@synapse-energy.com

DLA Piper (Puerto Rico) LLC
Calle de la Tanca #500, Suite 401
San Juan, PR 00901-1969
Tel. 787-945-9122 / 9103
Fax 939-697-6092 / 6063

/s/ Margarita Mercado Echegaray
Margarita Mercado Echegaray
RUA 16,266
margarita.mercado@us.dlapiper.com

/s/ Jan M. Albino López
Jan M. Albino López
RUA 22,891
jan.albinolopez@us.dlapiper.com

Pro Hac Vice

/s/ Andrea J. Chambers
Andrea J. Chambers
DC-405613
Andrea.Chambers@us.dlapiper.com

DLA Piper LLP (US)
500 Eighth Street, NW
Washington, DC 20004
United States of America
Tel. +1 202.799.4440

/s/ Brett Solberg
Brett Solberg
TX-24070651
brett.solberg@us.dlapiper.com

DLA Piper LLP (US)
845 Texas Avenue Suite 3800
Houston, Texas 77002-2946
United States
Tel. +1 713.299.6590

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/s/ Margarita Mercado Echegaray