

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

NEPR

Received:

Feb 17, 2026

8:25 PM

IN RE:

**PUERTO RICO ELECTRIC POWER
AUTHORITY RATE REVIEW**

CASE NO.: NEPR-AP-2023-0003

**SUBJECT: LUMA's Reply to Revenue
Requirement Briefs**

LUMA'S REPLY TO REVENUE REQUIREMENT BRIEFS

TABLE OF CONTENTS

	PAGE
I. Bondholders' arguments must be viewed through the lens of their bias	1
II. Bondholders propose an incorrect standard.....	2
III. Transmission and Distribution.....	5
A. VM.....	5
B. Transmission.....	6
1. Transmission Priority Pole Replacements	6
2. Transmission Line Rebuilds.....	8
C. Substations	10
1. Substation Reliability.....	10
2. Substation Rebuilds	11
D. Distribution	11
1. Distribution Pole and Conductor Repairs	11
2. Distribution Line Rebuild	12
3. Distribution Grid Reliability.....	13
4. New Business Connections.....	13
5. Distribution Streetlighting	13
E. Energy Control Center	14
F. Enabling.....	14
1. Asset Data Integrity.....	14
2. Materials Management.....	15
3. Safety and Quality Control	17
4. Compliance and Studies.....	18
5. Fleet.....	19
G. Support Services	21
H. T&D Operating Costs	24
I. Executability	25
A. Bondholders Misstate/Misinterpret the Evidence.....	25
B. LUMA's Capital Plan is Executable	27
IV. Budget Processes and Efficiencies.....	28
V. Customer Service	30
VI. Multi-Utility Costos.....	32

A.	Communications	32
B.	Regulatory, Legal, Title III.....	33
1.	LUMA Regulatory	33
2.	Title III Costs	34
3.	LUMA Legal.....	35
C.	Workers and Contractors.....	36
1.	Operations.....	36
2.	Finance.....	37
D.	Materials and Equipment	38
a.	Tools.....	38
E.	Facilities and Utilities and Rents	38
F.	ITOT	39
VII.	Emergency Reserve Account and Response Plan.....	42
A.	Emergency Reserve Account	42
B.	Emergency Response Plan.....	44
VIII.	ICPO’s challenge to Distribution System Improvements	44
IX.	Revenue Requirement.....	45
A.	Margin.....	45
B.	Bad Debt	47
X.	Federal Funds.....	50
A.	Capital Projects Are Necessary	50
B.	FEMA Eligibility and Reimbursement	50
C.	The “Hopefulness” Chart.....	51
D.	Other Funding	51

**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 Reply to Revenue
Requirement Briefs**

LUMA’S REPLY TO REVENUE REQUIREMENT BRIEFS

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. Bondholders’ arguments must be viewed through the lens of their bias.

Bondholders demand adherence to a standard nearer to perfect than just-and-reasonable. Their many arguments are largely unhelpful to the Puerto Rico Energy Bureau (“PREB”) because the standard they apply is so unrealistic. Running even a world-class utility involves thousands of judgment calls by the professionals in charge. No utility provides the level of detailed justification that Bondholders require. Nor would it be reasonable to expect them to do so.

It’s not just the grid that is beaten, battered, and torn—or nonexistent. The systems for gathering and analyzing data that would permit the many “quantitative analyses” that Bondholders demand do not exist because they have not been funded. The appropriate response is not withholding the funds for the systems that would provide the data. That’s lunacy. The remedy for neglect is not more neglect.

Also, let's be plain about Bondholders' motivation. Their efforts here are to further their own interests, not the ratepayers. Unlike all of the other petitioners and intervenors here, their interest in Puerto Rico is self-limited and entirely self-serving. Once they get paid, they leave. They are seeking any excuse to keep rates artificially low and maintain headroom between new rates and the maximum theoretical ceiling that ratepayers can afford. That difference is where Bondholders get paid. More money for the System means less money for Bondholders. Self-interest, of course, is natural and expected. No one should be fooled by the veneer of altruism Bondholders present. Everything they say must be viewed through the lens of their bias.

II. Bondholders propose an incorrect standard.¹

Regulated utilities are entitled to a reasonable opportunity to recover their prudently-incurred costs. This principle was established in *Federal Power Commission et al v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) and is consistent with Section 6.25 of Act 57-2014. Bondholders have not presented affirmative evidence that the costs the utility is requesting are imprudent or unrelated to providing utility service.² In fact, Bondholders have not produced an alternative just-and-reasonable cost-of-service or revenue requirement for the utility. Instead, they merely had their attorneys second-guess the judgment calls of utility professionals. Because

¹ LUMA objects statements on page 3 of the Bondholders' Revenue Requirement Brief ("BHBrief.") that rely on PREPA's 2023 Fiscal Plan. That document is not an exhibit nor was admitted through administrative notice. LUMA also requests that PREB strike the statement on page 3 of BHBrief that the Financial Oversight and Management Board ("FOMB") allegedly required operators to provide new and higher expense projections. That irrelevant statement is contradicted by the 2025 Fiscal Plan, the very document that Bondholders cite for support. On page 86, the Fiscal Plan states that FOMB requested costs projections based on needs. Exhibit 1.01.

² See *West Ohio Gas Co. v. Public Utilities Commission*, 294 U.S. 63, (1935), ("[g]ood faith is to be presumed on the part of the managers of a business."). It has been held that "affirmative evidence [must be] offered challenging the reasonableness of the operating expenses incurred, on the ground that they are exorbitant, unnecessary, wasteful, extravagant, or incurred in the abuse of discretion or in bad faith." *Ala. Pub. Serv. Comm'n v. S. Bell Tel. & Tel. Co.*, 253 Ala. 1, 23-24 (1949) (also stating presumption of good faith).

Bondholders do not live here, they do not have to live with the consequences of their own incorrect suggestions.

Bondholders also propose an unsupported standard: that the utility must exhaust outside sources of funding and demonstrate that no such alternative sources are available before recovering just-and-reasonable costs through rates. That is not the law; nor is it reasonable or prudent. Moreover, Bondholders misconstrue the nature of a rate case: a process mandated by law requiring that the Puerto Rico Electric Power Authority’s (“PREPA”) rates allow “**recover[y] [of] all operating and maintenance costs**, capital investments, financing costs, statutory costs, as well as any other cost lawfully incurred in the provision of electric power services and that, . . . [PREB deems] prudent, reasonable, and consistent with the sound fiscal and operating practices which help provide a reliable service at the lowest possible cost; [and] . . . (ii) allow electric power companies to **perform maintenance works and prudent capital investments as are necessary** to provide electric power service” Article 6.25(b), Act 57-2014, 22 LPR § 1054x (emphasis added). *That* is the law.

Act 57-2014 **does not provide** that cost-recovery through rates is conditioned on a determination that federal funds are not available, nor is there regulatory authority setting requirements or standards for an electric power company to base revenue requirement petitions on decisions of third parties—oftentimes future and thus, uncertain—whether certain projects or costs may be funded by the Federal or Commonwealth governments. More pointedly, PREB lacks a regulation with intelligible criteria to tie the prudent cost-recovery statutory mandate to the availability of funding sources outside rates.

PREB’s Regulation 8543, Chapter III, which governs rate review proceedings, reinforces this conclusion. It adopts the just and reasonable standard set forth in Act 57-2014, without

requiring exhaustion of federal funding as a prerequisite to rate approval. It is hornbook law that administrative agencies must faithfully apply their own duly adopted regulations. *See Ayala Hernández v. Consejo*, 190 DPR 547, 568 (2014). Bondholders may not request that PREB deviate from its regulatory framework to impose novel requirements.

The pre-filing requirements of this rate case **do not** establish that ratepayer funds are secondary or subsidiary sources of funds, that reasonable costs may not be recovered if there is a potential that a project may be federally-funded, or that LUMA's proposed NFC costs would be adjudged through the prism of a requirement that the utility must first exhaust outside government funding before requesting cost-recovery through rates. The Provisional Rate Order, which was issued **after LUMA filed the rate review petition**, is not a final decision. July 31st Order, 6. PREB's statements on maximizing federal funds do not arise out of statutory or filing requirements nor establish the steadfast rule that Bondholders propose. LUMA maximizes federal funds and will exhaust that funding source. However, cost recovery cannot be denied on the basis of expectations regarding future project obligations or Federal Emergency Management Agency ("FEMA") reimbursements.³

Procedural and substantive due process guarantees require that administrative agencies issue rulings consistent with applicable law and grant parties reasonable notice of expectations and requirements. *See Asoc. de Farmacias v. Depto. de Salud*, 156 DPR 105, 117, 131-137 (2005) (regulations must provide adequate guidelines so parties affected by administrative actions are

³ The proposed standard is contrary to PREB's established practice in budget approval proceedings. In Case NEPR-MI-2021-0004, PREB has considered whether LUMA's outlined activities are positioned to maximize utilization of available federal funding and whether expenditure prioritization seeks to obtain the maximum permissible amount of federal funding. PREB also adopted reporting requirements and consistently approved federal funding allocations as requested, without requiring LUMA to demonstrate that federal funding is unavailable as a precondition to approving NFC investments.

duly informed). Requiring LUMA to satisfy a novel evidentiary prerequisite mid-proceeding would create the type of unfair surprise and administrative arbitrariness that due process forbids.

Bondholders' proposed standard deprives the utility of funding that the law says the System can recover from ratepayers. If PREB defers recovery of needed capital investments and operational costs to after FEMA, the Department of Energy ("DoE"), the Commonwealth, or other government actors make eligibility determinations, it would abdicate its statutory duty to ensure that the utility recovers just-and-reasonable costs.

III. Transmission and Distribution

A. VM

Bondholders contend that LUMA "cannot execute" its proposed VM spending levels and point to purported institutional inexperience and implementation constraints. The record compels the opposite conclusion. Four years of vendor-specific costs and productivity data, competitively structured contracts, and uncontested testimony establish that LUMA possesses both the operational capacity and procurement discipline to deliver VM work at scale, and that Constrained Budget ("CB") deferrals, not execution risk, pose the true threat to reliability and federal cost recovery.

LUMA submitted comprehensive, vendor-specific actual miles and spend data, segregated by quarter and voltage level for FY2023 through FY2025, demonstrating observed average dollars-per-mile outcomes that corroborate the reasonableness of contracted unit costs. Exhibits 557, 557.1, 557.2, 557.3. These datasets anchor LUMA's budgets in years of observed results and per-mile benchmarking monitored through productivity metrics, quality inspections, and work reallocation protocols when performance lags. Tr. 11/14, 459:16, 460:1-25, 461:1-24, 462:1-8.

LUMA's VM contracts were competitively structured and evaluated for best value. *Id.*, 373:3-21, 377:15-25, 378:1-9.

Mr. Burgemeister unequivocally testified that there is no problem with vendor availability. Tr. 11/12, 24:21-25, 25:1-10. LUMA's challenge is a *lack of money*, not capacity. *Id.* LUMA maintains contracts with on-island and supplemental vendors, providing an agile workforce that scales with funding. *Id.*, 31:23-25, 32:1-2; Exhibit 165.

B. Transmission

1. Transmission Priority Pole Replacements

Bondholders, who lack any expertise in operating a Transmission and Distribution System ("T&D System"), invite PREB to override the utility's experience and expertise without any counterproposal or evidence that LUMA's projections are unreasonable. LUMA's projections and assessments are supported by Mr. Pedro Meléndez ("Mr. Meléndez"), an engineer with more than 20 years of experience, and by over 1,500 professionals within LUMA who have led the transformation of the T&D System. Exhibit 5.0, 1:84-88, 2:101-115.

Bondholders ignore hearing testimony stating that: significant portions of the lines have been assessed; determinations regarding replacements and the need to fund those with NFC are based on assessments and technical analyses; and costs are informed by experience replacing more than 20,000 poles. Tr. 11/12, 150:5-16, 152:1-13, 157:12-25, 158:1-10, 166:2-19, 232:9-14. The fact that initial assessments during the front-end-transition period, before LUMA operated the T&D System, were later refined, does not justify rejecting LUMA's expertise. To the contrary, it counsels decisively in favor of relying on LUMA's expert and experienced judgment, including that of Mr. Kevin Burgemeister ("Mr. Burgemeister"), who explained that assessments made during front-end-transition entailed a quick overview. *Id.*, 479:1-12.

Bondholders cite no authority that LUMA should have filed assessments and technical analyses. In any event, the record establishes that those analyses were done. No party filed countervailing evidence to suggest that other or different assessments are needed to authorize LUMA's proposed costs, nor did Bondholders challenge LUMA's experience and expertise.

Secondly, Bondholders incorrectly claim that LUMA made *ad hoc* cost adjustments. BHBrief, 14. As discussed in LUMA's Revenue Requirement Brief ("LUMA'sBrief"), 7, 18, cost estimates are a bottom-up aggregation of engineering/design costs, materials, and construction costs. What Bondholders claim are *ad hoc* adjustments, are, in fact, the application of professional judgment, informed by actual experience and past costs. Tr. 11/12, 156:6-14; Exhibit 136.

Also unsupported is the proposition that the budget was lumped into broader program-wide categories. BHBrief, 14. Bondholders base that statement on a question by Mr. Roger Schiffman to Mr. Meléndez regarding a program on transmission line rebuilds (line 4000), asking why, in Exhibit 2.05, line 128, there is no assigned budget for FY27 and FY28. Mr. Meléndez testified that financial forecasts of projects depend on information available at each stage of a project and that project stages do not necessarily match the fiscal year calendar. Thus, it is not possible to match every budget line with each stage of the project. Tr. 11/12, 187:8-19,191:1-7. Mr. Meléndez did not testify that projects were omitted, but that due to realities of project execution and inherent uncertainties on timelines, LUMA cannot project costs beyond FY2026 with specificity. *Id.*, 189:18-25, 190:1-9.

Third, Bondholders err in arguing that the record does not support the request for ratepayer funding if projects could be eligible for federal funding. As discussed on page 19 of LUMA'sBrief, NFC is needed to meet urgent needs.

Fourth, it is a mistake to argue that Program costs are inconsistent with LUMA's workpapers, Exhibit 2.03, and the Revised Revenue Requirement. The mistake lies in forgetting that Mr. Meléndez sponsors a portion of the program costs, with the remainder borne by Operations. The full program costs for both Departments are shown in Exhibits 2.03, 5.15, 6.15, and 1106.

Finally, on page 17, Bondholders misapprehend Mr. Burgermeister's testimony to argue that it is an oversight not to quantify O&M savings related to federally-funded programs. Bondholders do not cite any authority to support their claim of "oversight." Further, their proposition is incorrect. Mr. Burgemeister testified that LUMA expects to experience savings down the road, and that LUMA **did consider** cost-savings but determined they would not make a difference. Tr. 11/12, 323:8-14, 324:1-14.

2. Transmission Line Rebuilds

Bondholders' attacks on both NFC and operations and maintenance ("O&M") costs for this Program are similarly unavailing. They ignore the evidence, including pre-filed and live testimonies of Mr. Meléndez and Mr. Burgemeister, as discussed in section III(B)(1) *supra*, regarding assessments of the T&D System and technical analyses that support cost estimations and prioritization of transmission investments. *See e.g.*, Tr. 11/12, 149:20-25, 150:1-4, 155:4-21. This uncontested evidence is not a "vague claim" as Bondholders contend. In fact, their use of the term "claim" is misplaced. LUMA's budget is based on information gathered through experience and expertise operating the T&D System; experience and expertise that Bondholders lack and did not procure through expert testimony or otherwise.

Bondholders' suggestion that capital should only be spent when something has failed is absurd. It shows plainly Bondholders' intent to deprive Puerto Rico of the service that Act 57-2014

and Act 17-2019 mandate. In any event, Bondholders' arguments here are not bolstered by *evidence*. Bondholders' lawyers are not experts, and they do not even try to align their arguments with the law.

Bondholders condemn the T&D System to a degraded state that, as the record shows, is unsustainable. As Mr. Meléndez testified, “[a] structure standing does not mean it’s compliant...”. Tr. 11/12, 287:5-7. Moreover, hardening provides needed resiliency, *id.*, 297:3-6, and remediation efforts address incipient failure modes, Exhibit 137. *See also* Exhibit 144.1, rows 53-72 (information on needs of each of project).

Bondholders challenge Mr. Meléndez’s explanation that the new 115kv underground paths for San Juan would replace out-of-service lines because it is allegedly inconsistent with statements on record that costs for Capital Programs involve components that have not failed. As Mr. Meléndez testified, the project will build a new path to replace lines that are out of service and would be a response to an out-of-service line. Tr. 11/12, 301:6-15. That is perfectly prudent and consistent with the work that Capital Programs performs.

Finally, the record refutes the contention that PREB should deny funding for the Vieques microgrid, a project that Bondholders surprisingly couch as unnecessary for grid restoration. First, this is a PREPA- and PREB-approved, federally funded project. Determinations of need have been made in other proceedings and settings. Second, the record amply supports that this microgrid project is necessary to extend reliability benefits to customers on the island of Vieques, as found in other localities in PR. Tr. 11/12, 258:2-22, 260:2-21, 281:12-17; Exhibit 5.0, 17:411-412, 18:413-414; Exhibit 74.0, 43:887-895, 44:896-897. Further, the Dos Bocas federally-funded project, which Bondholders also protest, is justified to bring resiliency benefits. Exhibit 74.0, 44:908-913.

C. Substations

1. Substation Reliability

Bondholders challenge these proposed costs, oversimplifying LUMA's proposal as one seeking to replace equipment it deems "too old." First, as discussed in LUMA's Brief 19-21, these programs involve prudent and needed costs not simply because something is old, but because LUMA identified the need to replace damaged or **obsolete** equipment and upgrade equipment to improve reliability, which is a statutory requirement of Act 57-2014 and Act 17-2019 and a right borne by customers in PR, Sections 6.21(a), 6.25, Act 57-2014, 22 LPRA §§ 1054t, 1054x (2025); Sections 1.5(1)(a),(10)(a), 1.6(1) and 1.10, Act 17-2019, 22 LPRA § 1141d, 1141e, 1141i (2025). *See* Exhibit 144.1, rows 94-139. To the extent that Bondholders ground their claims on what ratepayers should or should not pay, Bondholders do not represent ratepayers. Bondholders are here for themselves alone.

Second, Bondholders incorrectly state that projects within this Program lack budget estimates. BHBrief, 21. LUMA submitted detailed budget projections. Exhibits 5.0, 2.05, and 144.1. As explained above in connection with transmission pole replacements, for some projects, given uncertainties on project status, projection years beyond FY2026 do not include cost estimates.

Third, LUMA's revised revenue requirement did not increase proposed costs. As explained in Exhibits 5.15 and 6.15, both Capital Program and Operations have proposed NFC costs. The updated revenue requirement spreadsheet referenced by Bondholders, consolidates those costs and therefore includes combined annual totals.

Finally, Mr. Meléndez’s rebuttal testimony, Exhibit 74.0, 37:763-767, 38:768-773, establishes the need for ratepayer funds to cover 25% of the costs of Guánica and Maunabo Transformer replacements to address urgent system stabilization needs.

2. Substation Rebuilds

PREB must reject Bondholders’ unsupported and conclusory contention that if substation equipment is working, funding for needed upgrades should be denied. As LUMA explained in its Brief, 21-22, proposed costs for this Program are supported by the testimony of Mr. Meléndez and his and LUMA’s expertise, which Bondholders have not challenged with any admissible evidence. Even if Bondholders *want* federal funding for these projects, they did not establish that these projects meet eligibility requirements. LUMA’s proposal, based on its experience and judgment, is the only proposal that is supported by the record.

D. Distribution

1. Distribution Pole and Conductor Repairs

The pre-filed testimony of Mr. Meléndez, in conjunction with information included in Exhibits 2.05 and 144.1, supports LUMA’s assessment of the work to be performed and shows that proposed costs are just and reasonable. As Bondholders admit, Exhibits 74.16(a) and 74.17 provide details on the work to be performed and cost projections, including pole replacements and corrective maintenance. As explained in those documents and in Exhibit 5.0, projections are supported by LUMA’s experience and informed judgment on needs, costs, and executability.

Moreover, Bondholders overlook Exhibit 157, which includes a breakdown of poles and other components to be replaced or repaired, including an estimated cost of \$35,000 per pole by cost category. Exhibit 157, 7-8, includes information on preventive and corrective maintenance to

be done, among others, in 10,400 primary poles. Importantly, Bondholders did not challenge the criticality of these projects or the need.

Finally, Bondholders' sole argument that this Program is not executable is based on an inapposite portion of Mr. Meléndez's cross-examination. In response to questions about the allocation of funds between the federally-funded budget and NFC, Tr. 11/13, 325:20-24, 326:1-22, not regarding Program executability broadly, Mr. Meléndez explained that Program costs over the rate period were designed to ramp up the federally-funded budget. That exchange on allocation of funds does not carry any probative weight on project executability. On the contrary, it supports LUMA's careful and expert judgment on needed work and budgeting.

2. Distribution Line Rebuild

First, Bondholders' claim that LUMA did not submit information to assess the budgetary request on a sub-program basis, is a smoke screen. As the record shows, LUMA's budgets are composed of portfolios, programs, and individual projects within those programs. *See e.g.*, Exhibits 2.05, 74.17, 144.1.

On page 25, Bondholders argue that LUMA included placeholder cost data for projects within this Program. That is incorrect. Exhibit 5.0, Tables 5 and 6, include overall program costs and cost estimates; and Exhibits 74.17 and 144.1 provide cost breakdowns and explanations of work to be performed, as well as explanations of project-level needs. The only reference in Exhibit 5.0 to a placeholder on costs is for Distribution Upgrades, namely, costs to interconnect Distributed Energy Resources and new customers. However, several exhibits that Bondholders neglect to mention provide historical information on those costs: Exhibits 142 (estimated feeder upgrade costs by asset type), 659, and 659.1 (historical costs of interconnecting new customers).

Bondholders provide no evidence or reference to industry standards to show that LUMA's educated cost assumptions are insufficient or different from those a prudent utility would incur.

3. Distribution Grid Reliability

The record amply supports the requested funding for needed investments to improve grid resiliency, including targeting worst performing feeders, as LUMA explained on pages 30-31 of its Brief. *See also* Exhibit 74.17. The record, particularly Exhibit 143, shows that the projected cost per feeder of \$210,000 is informed by historical project costs adjusted for executability. Bondholders did not present any evidence, much less expert evidence, that LUMA's experience in projecting these costs is faulty, nor that the sworn testimony and attestations by an expert and engineer, Mr. Meléndez, are insufficient or should be rejected.

4. New Business Connections

Bondholders are plainly mistaken in arguing that the record lacks support for LUMA's explanation that cost estimations are grounded on historical data. Exhibits 659 and 659.1 provide available historical costs for the past five years, including customer contributions (FY2021-FY2025) and rate-base costs (FY2022-FY2025), which evidence Bondholders did not contest.

5. Distribution Streetlighting

Bondholders protest that there is no evidence to support Mr. Meléndez's testimony on the work to be performed and historical costs to support cost estimates. BHBrief, 28. However, information on historical work is found in Exhibits 750 and 752. Also, Mr. Meléndez's pre-filed and hearing testimony that cost estimations are based on historical data and failure rates are uncontested. Exhibit 5.0, Tr. 11/13, 335:4-12, 20-25, 336:11-25, 337:1-5, 11-17. Bondholders' plea that these projects should be federally funded is not possible at this time: these projects are deactivated, not by LUMA, and thus, are no longer in the FEMA queue. Tr. 11/13, 347:1-8. These

are needed costs to comply with regulatory mandates and serve reliability goals that must be funded through rates. *Id.*, 344:6-25, 346:20-22.

E. Energy Control Center

Bondholders oppose this federally-funded project. They ignore that this is a PREB-approved project⁴. Any challenge to FEMA and PREB approvals is outside the scope of this proceeding. Moreover, Mr. Burgemeister amply testified about this ongoing project, including that having one control center with a backup that accords with industry standards, and there is no duplication, thereby refuting claims of alleged inefficiencies. Tr. 11/12, 333:9-12, 334:6-24, 343:1-23, 344:20-25, 345:2-8. Bondholders improperly ignore the uncontested testimony of Mr. Meléndez, Exhibit 74.0, 44:898-907, explaining that this is an essential project for grid stability, safety, and efficiency for decades to come. Bondholders also presented no evidence of what so-called quantitative analyses might be needed.

F. Enabling

1. Asset Data Integrity

Bondholders claim Asset Data Integrity costs are ambiguous. They err. The record amply supports both ongoing work on the Geographical Information System (“GIS”) to enable accurate modeling and support operations and planning. Exhibit 144.1, Exhibit 830. As Mr. Meléndez testified, work includes: integrating data on all assets that are in the field, customer meters, and transmission lines. Tr. 11/14, 242:25, 243:1-4. GIS is now functional for the deployment of assets, but LUMA needs to validate and update data and enable integration with the Energy Management Control Center. *Id.*, 243:12-25, 244:1-13, 245:3-12. Mr. Meléndez explained that LUMA is updating asset data due to data insufficiency. *Id.*, 244:2-4. The fact that there are two GIS

⁴ LUMA objects to the reference at page 29 of BH’s Brief to a 2024 LUMA filing in Case NEPR-MI-2021-0002, that is not an exhibit admitted into evidence in this proceeding. That reference must be stricken.

ecosystems, as Ms. Allen explained, does not render this Program ambiguous; rather, it explains the nature of the two GIS ecosystems that LUMA manages to validate asset data and the work that requires funding: LUMA integrates data from the legacy system into the cloud-based system, validates data in the new system, and validates data in the legacy system. *Id.* 246:19-25, 247:1-25, 248:1-5, 249:15-20, 23-25, 250:1-25, 251:1. It bears noting that Bondholders disregard information on record explaining ongoing efforts and benefits of improving GIS. Exhibit 830.

2. Materials Management

Bondholders' challenge to the Materials Management budget, arguing that LUMA provided "no breakdown," that the Program is not necessary because it does not "jeopardize" federal funds, and that supply-chain and staffing constraints render spending uneconomic, mischaracterizes the record and overlooks the centrality of materials management to day-to-day operations, emergency response, regulatory compliance, and safe field work. BHBrief, 30-31.

First, the evidence establishes detailed cost breakdowns. Exhibit 15.03 identifies concrete activities and priorities, including: (i) implementation of a mobile portal/access to Asset Suite for warehousing; (ii) continued deployment of spill containment—mobile and site-specific—to mitigate environmental risk; (iii) replacement of aged racking and materials-handling equipment for safety; (iv) logistics management tools and GPS to track and dispatch logistics assets; and (v) reconfiguration and modernization of Asset Suite inventory controls, barcoding, and KPI-based audit processes. Exhibit 15.03. Ms. Mariana Pérez ("Ms. Pérez") confirmed the scope of the initiative—including barcoding, pallets, loaders, and oil containment structures. Tr. 11/14, 256:4-25,258:1-16. Moreover, Exhibit 2.05 provides a breakdown of costs:

		FY26 NFC Total		
		FY26 NFC Total	2027	2028
Program Brief Name	Project Name			
Materials Management	OPMAT8 NME WOIFIEqOILC(Large)	\$ 521,640	\$ 542,506	\$ 564,206
Materials Management	TAShelix Mobile Platf.Implem.	\$ 1,501,076	\$ 325,919	\$ 130,956
Materials Management	Warehouse Racks	\$ 575,000	\$ 598,000	\$ 621,920
Materials Management	Respooling Cable Machine	\$ 529,829	\$ -	\$ -
Materials Management	Pallet Jack and Loader Attachment	\$ 53,730	\$ -	\$ -

Second, the Program is not a discretionary add-on; it entails a targeted set of corrections and upgrades to address documented inherited deficiencies, so that LUMA can meet contractual standards and prudent utility practice. Exhibit 15.0, p. 6, ll. 124-127, p. 7, ll. 128-145; Exhibit 15.03.

Bondholders focus on whether the Program “jeopardizes” federal funding, but the relevant standard is whether the expenditures are just, reasonable, and consistent with prudent operation and governing obligations. The mobile access to Asset Suite is “critical for tracking material for federally funded programs,” thereby strengthening auditable controls and compliance. Even if the absence of these upgrades would not, *per se*, “jeopardize” funding, they clearly promote accurate, efficient, and compliant execution of federally supported work. See Exhibit 15.0, 7:133-138,27:579-583,28:615,29:616-620. The Program’s stated focus is to make materials tracking for federally funded programs “critical” and reliable through mobile Asset Suite access and controls, and enhance compliance readiness via documented processes, KPIs, and audits. Exhibit 15.0, 7:129-142. That an upgrade enhances accuracy, timeliness, and oversight—without itself being a legal precondition to funding—does not diminish its prudence. *Id.*, 5:92-101.

Third, the activities are documented as recurring or in progress, with demonstrable progress (for example, Wi-Fi coverage already achieved at warehouses), showing execution discipline and incremental delivery rather than speculative expansion. Exhibit 15.0, 13: 256-265, Table 1.

3. Safety and Quality Control

Although Bondholders mention the Tools Repair & Management Program, they do not challenge its scope nor the proposed costs. Their convoluted attacks center on proposed safety costs sponsored by Mr. Michael Granata (“Mr. Granata”) for the Health, Safety, Quality and Environment Department (“HSEQ”). According to Bondholders, LUMA has experienced safety accidents and failures, but cannot quantify how many accidents would be avoided, and training costs should not be approved because safety issues have not been linked to a lack of training. BHBrief., 31-32. The record refutes these contentions.

As LUMA discussed in its Brief, LUMA’s OB seeks to avoid all accidents and fatalities, is grounded on expert judgment on training levels needed for worker safety, and on uncontested evidence of need: LUMA has one safety advisor for over 1,500 field employees, while the industry benchmark is to have one for 100-150 employees. LUMA’s Brief, 42-43. Mr. Granata’s testimony establishes that ratepayer investments in training and safety are key to preventing accidents, particularly for field workers and those working at high elevations. Exhibit 8.0, Tr. 11/14, 270:1-6, 275:3-20.

Bondholders could not resist citing Mr. Granata’s statement on LUMA’s “immaturity” as an organization. They conveniently omit his explanation, choosing instead to argue that Mr. Granata conceded that LUMA has failed in basic electric safety areas. That is incorrect. Mr. Granata, a subject-matter expert with over 35 years of experience focusing on occupational health, safety, and security, Exhibit 8.0, 1:15-19, explained his comments related to the poor safety culture of its predecessor and LUMA’s relative youth as an organization. At the time of the hearing, LUMA was in its fourth year of operations and was upskilling many on-island line workers; a workforce that was beginning to gain experience in electrical safety. Tr. 11/14, 327:4-25, 328:1-15. Those

remarks support the need for additional appropriate funding for training and safety. They do not suggest that LUMA failed in maintaining safety standards or operational proficiency.

Finally, Bondholders' questions on quantification are answered by Mr. Granata's pre-filed testimony on the safety-related performance metrics that LUMA must meet and the stated goal that "no person will be harmed by T&D System activities or at PREPA's facilities." Exhibit 8.0, 6:133-137.

4. Compliance and Studies

Bondholders appear to challenge some of the proposed costs for Compliance and Studies, but fail to identify the challenged costs with specificity. They did not place PREB in a position to deny these costs in whole or in part.

Bondholders take out of context a portion of Mr. Meléndez's testimony and wrongly: (1) propose that the testimony is vague; and (2) extrapolate that said testimony involves all of the studies of this Program. When the full scope of the testimony is reviewed, starting with at least page 19 of the November 14th transcript, it arises that the interrogatory was about different studies, including Tranche 1 and Tranche 2, and planning for future integration of renewables. Mr. Meléndez explained that LUMA requires information regarding potential projects to model their impact. Tr. 11/14, 19: 1-25, 20:1-25, 21:1-25, 22:1-25, 23:1-25, 24:1-8. That makes sense because the project information does not reside with LUMA. Far from testifying vaguely, Mr. Meléndez offered information on several types of studies to be funded, including the particularities of transmission planning studies, *id.*, *see also id.* 25:6-25, 26:1-25, 27:1-25, 28:1-25, 29:1-10, and explained the challenges of modeling for transmission planning given contingencies related to the state of the T&D System. *Id.*, 27:2-25, 28:1-25, 29:1-10.

Contrary to Bondholders' argument, this Program does not include costs for filing the Transmission Plan in April 2026. Exhibit 1088. Finally, Bondholders protest costs for dynamic studies, arguing that timelines and benefits are uncertain. Bondholders neglected to consider that LUMA is currently doing and has done those studies. Tr. 11/14, 181:17-24, 183:2-3. Mr. Meléndez explained that LUMA needs additional information to improve these studies. *Id.*, 181:17-22. He did not say that all studies are contingent on that information.

Bondholders' "vagueness" argument is unsupported and ignores the weight of the evidence supporting this Program and the studies to be funded, as further explained in Exhibits 5.02, 144.1, *see also* Exhibits 141 and 142; LUMA's Brief, 32; Tr. 12/04, 413:4-25, 414:1-19.

5. Fleet

Bondholders' criticisms of Fleet's revenue requirement rest on selective readings and mischaracterizations of the evidentiary record. PREB should reject their invitation to defer or disallow core fleet funding and should approve the Fleet budgets. LUMA's Br. 74-76.

First, Mr. Burgemeister's testimony details the post-commencement condition of the inherited fleet—90% beyond industry-standard expected life at the outset—and the remediation already achieved, including reducing over-life assets to 57% while maintaining 94-96% availability under constrained funding, but warns that further aging will reverse gains without planned replacement and O&M support. Exhibit 18.0, 3:55-61, 4:66-70, 15:301-303, 26:501-511, 27:512-534, 28:535-536. Safety and legal compliance (DOT/NTSP, OSHA/ANSI) require regimented inspections, testing (including dielectric tests), and recordkeeping—activities that are funded in the requested O&M and are not optional. *Id.*, 4:71-83. These facts directly contradict the Bondholders' implication that fleet funding is discretionary or unsupported.

Bondholders single out the \$46 million annual NFC for vehicle acquisitions as “unnecessary,” but the record shows this is the core of a 10-year replacement profile that phases in replacements while adding units required for fielding sufficient crews; failure to fund increases downtime, corrective maintenance, and storm response risks, undermining SAIDI and customer outcomes. Exhibit 18.0, 24:466-470, 25:471-487, 26:488-511, 27:512-521.

Second, LUMA provided concrete, bottom-up support. The T&D Fleet Program Brief documents program scope, active gaps, compliance milestones achieved, and how constrained scenarios would affect the timeline and risks. Exhibit 18.02.

Third, Bondholders incorrectly claim that LUMA priced the fleet with “MSRP” and therefore overstated costs. Mr. Burgermeister clarified that MSRP was used for certain heavy-duty categories as a conservative placeholder, whereas direct purchases used historical acquisition prices from competitive bidding, adjusted for inflation. Exhibit 18.0, 25:472-476. The record confirms that LUMA procures via RFP and achieves market- and volume-based discounts, so MSRP is not the actual price paid. Tr. 12/4, 245:4-25, 334:3-14. This is a reasonable and conventional approach in budgeting, not a flaw.

Fourth, executability concerns are addressed through proven tools and demonstrated performance. The record shows LUMA has executed substantial progress even under constrained budgets—over 540 units purchased since commencement, including >70 bucket trucks and >30 digger derricks—while maintaining 94-96% availability; moreover, the plan uses RPO to accelerate unit availability and convert rentals to ownership on a sliding-credit basis, directly mitigating procurement lead-time risk. Tr., 12/4, 230:9-16, 243:17-25, 244:1-13; Exhibit 18.0, 25:478-487, 26:488-491. The Program also prioritizes purchasing bottleneck units (bucket trucks

and/or digger derricks), the absence of which limits the number of deployable crews. Tr. 12/4, 217:10-21, 218:7-25, 219:1-25, 220:1-22, 329:5-19.

Fifth, deferral and “repair instead of replace” are not costless and increase risk. The testimony explains that with 57% beyond useful life (and rising, absent funding), repair backlogs, downtime, and safety risks will escalate, eroding availability and elongating outage restorations; the program’s lifecycle approach is designed to minimize the total cost of service over time and improve SAIDI with the right equipment at the right time. LUMA’s Brief 74-75.

Sixth, where Bondholders cite cross to suggest the absence of formal “shortage quantification,” the broader record supplies: (i) a fleet condition census and expected life analyses; (ii) bottom-up volumes by class and year; (iii) competitive procurement and RPO pathways; and (iv) direct ties to THE Puerto Rico Transmission and Distribution System Operations and Maintenance Agreement (“OMA”) and statutory compliance—all of which meet the “just and reasonable” and “lowest reasonable cost” standards when viewed holistically as PREB must. Exhibit 18.0, 16:329-333, 17:334-340, 24:466-470, 25:471-487, 26:488-491, 29:555-568, 30:569-570.

Bondholders also label \$46 million as “unnecessary” by juxtaposing fleet availability metrics against funding asks, but the testimony explains that maintaining 94-96% availability under constrained funding is not indefinitely sustainable as the fleet ages and warranties end, and that planned replacements are needed to sustain and improve reliability and safety rather than merely hold the line. Exhibit 18.0, 3:55-61, 4:66-70, 27:512-532.

G. Support Services

Both Bondholders and the Independent Consumer Protection Office (“ICPO”) inaccurately depict LUMA’s Third-Party Attachment (“TPA”) program as an imprudent expense

that unfairly burdens ratepayers. The issues they raise were addressed in LUMA's Brief, 88-92. Their arguments ignore the record evidence establishing that (1) the TPA costs at issue are transitory investments necessary to build a functional program where none existed, (2) LUMA is contractually obligated under OMA to manage TPAs, and (3) collections from third parties will offset and reduce costs borne by customers.

Intervenors conveniently ignore that LUMA's TPA-related costs arise directly from its contractual obligations under the T&DOMA. *See* Exhibit 489, Annex I, Section II(A); Tr. 11/17, 57:13-15. Intervenors cannot credibly demand that LUMA fulfill these obligations while simultaneously objecting to the costs of doing so. That runs counter to Act 57's reasonable cost-recovery mandate.

Bondholders characterize the TPA program as a "deadweight loss" to ratepayers, fundamentally misunderstanding the nature of the costs. As Mr. Meléndez explained, these costs are associated with building essential infrastructure, and not perpetual operating expenses. *Id.*, 52:21-25, 53:1-9. Mr. Meléndez testified that these costs will "fad[e] away once we have a full inventory." *Id.*, 53:8-9.

LUMA inherited a program in disarray. There was no accurate pole inventory, no standardized contracts, no consistent billing, and no systematic enforcement against unauthorized attachers. *Id.*, 68:20-25, 79:17-25, 80:1-10, 582:6-9; Exhibits 690, 692. LUMA must now invest to build the systems necessary to generate the revenue that the Intervenors claim should be collected. Collections improve when systems and staffing are implemented, and that requires funding.

Intervenors simultaneously criticize LUMA for under-collecting TPA revenues while opposing the very investments required to improve collections. TPA costs cover essential activities,

including 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. Tr. 11/17, 50:5-18; Exhibit 105. To deny funding while demanding improved collections is to demand results without permitting the means to achieve them.

ICPO's witness, Mr. Sanabria, **offered no credible alternative** and admitted he "did not produce a calculation showing under-collection or missed revenues, did not perform an attachment count, conducted no variance analysis among attachers, no reconciliation of rates, and no assessment of rates charged by PREPA historically. Tr. 12/9, 319:25, 320:1-3, 321:16-25, 322:1-23.

Contrary to the suggestion that ratepayers alone bear TPA costs, the record establishes the existence of a reconciliation mechanism. 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. Tr. 11/17, 45:8-24. That is just and reasonable. LUMA has already collected \$2.4 million as of November 2025, with settlements finalized for at least one carrier covering FY2022-FY2025, and negotiations with other major carriers are "very advanced." *Id.*, 583:18-25, 584:1-14, 585:5-14.

Moreover, LUMA is actively pursuing enforcement, including back-billing for unauthorized attachments and instituting contractual penalties. *Id.*, 80:1-9, 82:15-24, 83:1-10. Bondholders' suggestion that LUMA has improperly decided "not to pursue a more-aggressive strategy against unauthorized attachers" ignores the regulatory framework under Regulation 9090 and the practical realities of enforcement in a jurisdiction where telecommunications is deemed an essential service. *Id.*, 68:2-6, 70:6-10, 599:24-25, 600:1-10.

H. T&D Operating Costs

Bondholders set forth generalized claims on pages 36 and 37 that Operating costs are not prudent or reasonable, repeating that (1) the budgets are not executable; (2) objecting to alleged over-reliance on ratepayer funds; and (3) because, allegedly, LUMA employed unreliable methodologies. Since no new evidence is cited for points 1 and 2, there is no need to belabor those points here. Regarding LUMA's bottom-up methodology, Bondholders mistakenly argue that only Mr. Burgemeister testified with generalities about that exercise. The record refutes that contention. LUMA's witnesses supporting Department costs, explained their budget processes in their pre-filed testimonies. Moreover, LUMA's CFO, Mr. Andrew Smith, also testified about LUMA's bottom-up exercise for the Optimal Budget ("OB"). Exhibit 2.0, 30:599-601, 31:604-621, 32:622-632. In any event, Bondholders do not cite one piece of evidence to establish that LUMA's budgeting methodology is unsound or contrary to prudent utility practices.

Secondly, the only critique by Bondholders of operating costs pertains to maintenance costs, arguing that it is inconsistent for LUMA to anchor maintenance needs to System degradation, while requesting a higher O&M budget for preventive rather than corrective maintenance. This is a gross misunderstanding of the budget and of Mr. Burgemeister's testimony. Mr. Burgemeister explained that, as stated in Table 3 of Exhibit 6.0, corrective maintenance costs mostly involve NFC; not O&M. Tr. 11/17, 116: 22-25, 117:1; *see also* Exhibit 6.0, Table 3, Note 1. It is therefore wrong to judge corrective maintenance spending levels just by considering O&M costs.

Further, the record is replete with explanations why maintenance is critical, as discussed in LUMA's Brief, 4-6, 11-12. *See e.g.* Tr. 11/17, 91:6-14. The record supports projections of maintenance costs based on an industry-average corrective-maintenance rate, adjusted to reflect LUMA's experience over the past 4 years and informed by engineering judgment. *Id.*, 93:7-25, 94,

1:-24, 95: 1-24, 96: 1-25, 97:1-19. Mr. Burgemeister also provided data on failure rates and established that those estimates are conservative. *Id.*, 96:1-25, 97:1-19. There is no contrary evidence.

Finally, Bondholders demand reduced reliance on seconded employees. LUMA’s Brief, pages 8-11, addressed matters of the pending FEMA appeal and explained how COR3 found the challenged costs reasonable. Bondholders’ claim of conflicts of interest ignores that the OMA permits LUMA to use a seconded workforce to provide Operations and Maintenance (“O&M”) services. The suggestion that secondment agreements allow private entities to secure funds without competition is not supported by the citations offered and must be rejected. In any event, the fact that the OMA is the product of a competitive procurement process addresses any such concerns.

The claim that through seconded employees, parent companies avoid terminating employees and shift costs to LUMA, lacks record support and is improperly grounded on hypothetical questions by counsel; not on facts or evidence. Similarly, the contention that these secondees’ tenures at LUMA give parent companies unfair bidding advantages, is speculative and lacks record support.

I. Executability

Bondholders’ critique of LUMA’s executability evidence is insufficient to overcome it. Their own “evidence” is mere speculation. Their solution—to react to uncertainty by underfunding the System—goes nowhere and does nothing. Withholding food is not the cure for starvation.

A. Bondholders Misstate/Misinterpret the Evidence.

Bondholders make a number of initial misstatements or misinterpretations of the evidence.

Bondholders’ Criticism	Response
LUMA did not “substantiate” its assessment of executability. BHBrief, 43.	Bondholders’ criticism is untethered to any standard. They do not explain what LUMA

	<p>should have done or why it was required. For the reasons already briefed, LUMA has met its burden.</p>
<p>Shearman did “no analysis of project executability” <i>Id.</i></p>	<p>This statement is misleading. Shearman, who has spent 40+ years consulting with utilities on six continents, conducted an extensive, detailed <i>program</i> analysis examining all 14 capital programs, not a specific project-by-project analysis.</p> <p>“At that level I did make those inquiries and I did satisfy myself that they had done the planning to be able to execute those projects in each one of the 14 areas.”</p> <p>Tr. 11/17, 440:1-5. Over several weeks, Shearman conducted 21 interviews, and examined hundreds of documents. Exhibits. 75.5, 75.6. There was no need to go project-by-project.</p>
<p>Shearman’s data was wrong, “cherry-picked” or otherwise unreliable. <i>Id.</i> 43-44.</p>	<p>Bondholders misunderstand or misstate the point that Shearman was trying to make. He was illustrating that data provides numerous examples of large-scale ramp-ups of capital spend at other utilities—sometimes in operations, sometimes elsewhere. Tr. 11/17, 394:3-14, 397:10-13. (“If you want to answer the question, what’s possible, which was my purpose, then you would look for which group had the highest growth rate, and use that.”). He did not conduct a systematic analysis of all public data because that would have been a waste of time. Bondholders’ comment about “<i>Daubert</i>” is thus irrelevant. In any event, the data speaks for themselves. The point is many utilities have ramped up just like LUMA proposes.</p>

B. LUMA’s Capital Plan is Executable.

Contrary to Bondholders’ assertions, the planned ramp-up here is *easier*, not harder, due to LUMA’s historically low capital spend. Shearman 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....” Tr. 11/17, 512:22-25, 513:1. Bondholders’ other arguments focus on federal funding, not NFC. As previously briefed, historical execution on federally funded projects has been lower due to a list of issues outside LUMA’s control. To complete NFC projects, “[w]e need money.” Tr. 12/18, 404:2-8.

Bondholders also assert that “LUMA has acknowledged it cannot execute.” BHBrief, 45. This is a gross mischaracterization. As Bondholders said, LUMA did have a last-minute reduction to its request for certain IT contracts. As Ms. Allen explained, the contracts were removed from the budget due to a lack of cash and internal discussions about priorities. Tr. 12/19, 23:2-5. This testimony demonstrates LUMA’s forthright acknowledgment of executability concerns, where they exist, and its adjustment of the budget accordingly. It does not signal some bizarre, nefarious scheme to overcollect.

Further, Bondholders again conflate NFC with federal funds spending. This was already addressed. As to the supply chain, LUMA has already placed many long-lead items on order. Tr. 11/17, 284:9-11, 16-22; 286:4-7; 287:2-4; 11/13, 113:2-13. Further, labor constraints are easier to address on capital projects than on day-to-day linework because the work will be performed by contractors. Ex. 74.0, 52:1071-1089, 53:1090-1096, 54:1133-1134, 55: 1135. It will be challenging, of course, to hire project managers, engineers, etc., but it must be done.

Lastly, “overcollection” makes no sense here. The System needs more than \$21 billion of capital work. *Id.*, 20:410-412, 21:413-415. There are numerous shovel-ready NFC projects

awaiting funding. *Id.*, 26:507-520; Exhibit 75, p.63. The mechanisms Bondholders propose to remedy a failure to properly fund the System now, like an emergency rate increase later, are wholly insufficient.

IV. Budget Processes and Efficiencies

Bondholders contend that LUMA “failed to make any concrete showing” that seeking PREB approval for reallocations would impair operations. BHBrief, 63. Mr. Smith testified that the current preapproval and amendment process “materially hinders” managerial decisions, and that PREB’s responses averaged thirty-six days in FY2024, delaying needed work on a fragile system. Exhibit 2.0, 88:1830-1840, 89:1841-1849; Tr. 11/24, 258:21-25, 259:1-4, 261:11-21.

Bondholders’ comparison to Genera is inapposite. The interrelated nature of the T&D System presents sequencing realities in which changes in one project may require adjustments in others without altering PREB’s priorities, Tr. 11/24, 81:23-25, 82:1-12, a dynamic that differs fundamentally from generation operations.

Bondholders’ concern regarding after-the-fact enforcement ignores that such oversight is precisely how standard U.S. regulation operates. *See* LUMA’sBrief, 106-108. Under LUMA’s proposal, PREB would retain all existing after-the-fact tools, including contract enforcement and the authority to impose fines, while eliminating administrative burdens that add costs without delivering incremental oversight benefits.

Bondholders’ assertion that LUMA “has not complied” with efficiency reporting expectations overlooks substantial evidence of compliance, including extensive quarterly and annual reporting and detailed metrics demonstrating tangible customer benefits from collections, theft mitigation, and metering. Exhibit 76.0, 3:142-162, 4:163-173.

LUMA's witnesses explained that, in aggregate, hundreds of operational initiatives improve efficiency, but the cost-benefit of tracking every discrete item is unfavorable; the better course is to collaboratively identify a subset susceptible to reliable quantification and build methods around it. *Id.*, 328:5-25, 329:1-25, 330:1. Meanwhile, ICPO's witness, Mr. Sanabria, did not provide a clear rule for quantifying efficiencies, underscoring that the proper technique and scope for quantification remain to be operationalized through the regulatory process. *Id.*, 364:25, 365:1-14.

ICPO's "no quantification = no rate credit" approach misapplies PREB's directives and would harm consumers by discouraging efficient investments. ICPO ignores record evidence that meter remediation yields measurable incremental billed revenues per device and that LUMA has quantified progress through tens of thousands of meter replacements and/or installs—precisely the type of directional data to inform future monetization once scaled. LUMA's Brief, 111; Exhibit 76.0, 7:243-250, 8:251-252. ICPO's demand for immediate, comprehensive monetization disregards the PREB's recognition that some benefits require near-term costs and data stabilization. Tr. 11/24, 296:1-11.

Testimony reflects that PREPA is not subject to the same standalone efficiency-quantification mandate, underscoring that LUMA has been uniquely tasked yet has provided broad, multi-docket reporting and measurable progress. *Id.*, 389:22-25, 390:1-10.

The record supports LUMA's position that early-stage programs should not be forced into premature dollar offsets. The pragmatic path forward is to focus on quantifiable areas and collaborate on scope; revisit which efficiency components are currently susceptible to reliable quantification, and jointly define the appropriate techniques and metrics to avoid unproductive

disputes over areas where a credible counterfactual is difficult to establish. *Id.*, 317:17-25, 318:1-25, 319:1-21.

V. Customer Service

Bondholders' objections to TPOs overlook that the apparent growth is predominantly attributable to Energy Efficiency ("EE") and Demand Response ("DR") programs recovered through riders—not through base rates—and that LUMA has documented processes, metrics, and risk-based justifications that align with prudent utility practice and contractual and policy mandates. Exhibit 7.0, 28:562-571.

Bondholders' suggestion that LUMA failed to consider in-house performance misstates the record. Payment processing, bill rendering, and/or printing are not practical in-house functions. Tr. 12/1 65:10-15. The CC&B support skill set—especially for an instance with over 2,800 customizations—takes “decades” to develop; it is infeasible to substitute internal resources within the rate period without risking billing continuity and data integrity. *Id.*, 11:21-22 65:11-24. LUMA is pursuing competitive strategies to minimize costs where feasible, including a new RFP to consolidate digital payment processing, which is expected to mitigate costs amid rising transaction volumes as disconnections normalize and collections normalize. *Id.*, 14:14-25, 15:1-3, 342:8-18.

Similarly, the claim of a “high markup” by the bill print vendor is unsupported. The \$14 million annual print-and-rendering cost reflects end-to-end rendering and printing of 1.5 million customer bills using flat data files, as CC&B is not print-ready. The vendor both renders electronic images for e-bill customers and mails paper bills—services competitively procured at commencement. Tr. 12/1 46:4-16, 84:1-7. The 56 cents figure reflects postage and physical paper per mailed bill; it does not encompass rendering, electronic image production, file management, and mailing operations that comprise the \$14 million total. *Id.*, 82:5-18, 21-24, 83:1-2. The result

is a coherent, competitively sourced service package addressing an unavoidable function, not an unjustified “markup.”

PREB should also disregard objections to the Loss Recovery Program. Contrary to the assertion that no objective metrics exist, LUMA’s activities include monthly, quarterly, and annual measurement of billing and collections-related non-technical losses; field inspections; stakeholder engagement; staffing and equipment; and ongoing monitoring tied to the AMI rollout and back-office controls, as reflected in the program brief. Exhibit 7.01. The record includes achieved and in-progress milestones, indicating a structured plan to deter theft, remediate meter violations, and maintain back-office and field resources to keep non-technical losses “low, close to zero,” with stakeholder involvement to support criminal enforcement where appropriate. *Id.* These activities are part of a broader compliance and revenue-protection framework that Customer Experience oversees, including revenue collection, DSO reduction, and problem management, aligning with prudent utility operations and LUMA’s contractual and statutory obligations. Exhibit 7.0, 9:187-199.

Furthermore, the Voice of the Customer program (“VoC”) addresses safety, quality, and customer effort with defined deliverables and recognized benchmarks. LUMA’s program brief for VoC sets forth the following defined scope: survey mechanisms (including J.D. Power), speech and/or text analytics, QA scorecards, and KPI-driven training and process improvements to reduce customer effort and improve first-contact resolution and service quality. Exhibit 7.0, 11:241-249, 12:250; Exhibit 7.04.

Ms. Hanley’s testimony details the VoC loop: customer input and QA findings are analyzed and handed to the process team, and then training, creating a “full feedback loop”; added staffing in the OB increases the number of quality reviews and improves the loop’s effectiveness. Tr. 12/1

159:5-25, 160:1-25. She also confirmed baseline progress on first-contact resolution: reporting began in October 2025 and stood at about 63% at that time, with baselining and targets to follow. *Id.*, 147:17-25, 148:1-22.

Regarding Bondholders' claim that LUMA's failure stems from PREPA's poor J.D. Power rankings relative to other utilities, participation in J.D. Power surveys is part of LUMA's obligations, and the program is integrated into LUMA's metric framework and performance oversight. Exhibit 7.0, 18:386-389; Tr. 12/1 160:24-25, 161:1-21. In addition, J.D. Power's methodology "completely changed this last quarter" to a more sentiment-based system; scores are being recalculated, and comparisons must be converted and made on a like-for-like basis. Tr. 12/1 106:5-15, 135:4-15. Benchmarking is by region and utility size; LUMA is compared to like-sized utilities in its designated region, rather than the entire national field. *Id.*, 163:2-12. Methodological changes at J.D. Power, cohort-based benchmarking, and documented improvement trajectory provide multiple lines of rebuttal to the argument that LUMA's performance is "especially egregious" compared to PREPA. Exhibit 7.0 15:327-332, 16:334-337.

VI. Multi-Utility Costs

A. Communications

Although subheading V(A) of Bondholders' Brief alludes to Compliance, there is no substantive discussion of that Department's costs. Thus, those costs remain unchallenged.

Bondholders' objections to the proposed costs of the Communications Department are conclusory opinions that the Department should be able to operate under the CB, ignoring the uncontested evidence on the repercussions the said budget will have on LUMA's ability to inform customers. Exhibit 14.0, 17:357-363, 18:364-372. Also, the need and reasonableness of five new employees for this Department are uncontested, *id.*, 10:194:21, 11:215-237, 12:238-248, and

discussed in LUMA's Brief, 65-68. Regarding Bondholders' counter-narratives, the proposed budget does not include those costs, and those efforts benefit customers by delivering relevant content. LUMA's Brief, 67-68.

B. Regulatory, Legal, Title III

1. LUMA Regulatory

Rather than engaging with the substance of LUMA's demonstrated needs, Bondholders selectively excerpt hearing testimony to construct a misleading narrative that PREB must reject. Bondholders place significant weight on testimony that LUMA's current regulatory responsibilities "have been handled appropriately" and contend that this "concession alone" defeats LUMA's funding request. This argument inverts the proper standard and ignores the record. Mr. Figueroa testified that while LUMA is "doing [its] best not to breach an obligation or an order," Tr. 12/3, 513:15-25, the requested staffing is necessary to ensure "the quality of the work" that LUMA presents, minimize "the possibility of errors or mistakes," and allow team members to "have workloads that allow them to better perform their work." *Id.*, 326:11-24. LUMA has already been forced to request extensions for regulatory filings because current staffing cannot keep pace with demand. *Id.*, 336:18-25. LUMA also sought and obtained PREB approval to defer commencement of the IRP proceeding until after the rate case hearings concluded, due to limited resources. *Id.*, 558:2-8.

Bondholders also argue that LUMA's rationale for increasing headcount, thereby internalizing work currently handled by contractors, is "contradicted" because the technical and professional services budget "nearly doubles" while simultaneously proposing new hires. This misunderstands LUMA's explanation and ignores the concept of avoided costs.

Mr. Figueroa explained that the increase in internal resources does not mean LUMA “need[s] less consulting services”. Rather, “by having more internal resources there’s less work that needs to be outsourced to external consultants,” and the budget reflects “avoided cost by having a higher number of internal resources.” *Id.*, 524:9-25, 525:1.

Bondholders’ opposition to the Department’s TPOS funding request rests entirely on the absence of a formal “cost-benefit analysis”.⁵ This criticism conflates accounting formalism with prudent management. While no “cost-benefit analysis” in the narrow sense was performed, the Regulatory Department’s leaders, who are best positioned to understand departmental needs, assessed current and expected workload to inform staffing and outsourcing determinations. *Id.*, pp. 60-61. This is how prudent utility management operates.

2. Title III Costs

The Bondholders’ claim that LUMA’s requested Title III costs are “grossly inflated” largely misunderstands the nature and purpose of those expenditures. The evidentiary record establishes that LUMA’s participation in the Title III proceedings serves critical operational and contractual purposes that persist irrespective of any stay on court deadlines. One of the conditions precedent to service commencement under the OMA is that PREPA’s confirmed plan of adjustment be LUMA’s reasonably acceptable plan, requiring constant engagement with Title III. Tr. 12/3, 392:18-25, 393:1.⁶ Moreover, LUMA bears direct operational and implementation responsibilities for any charges that may be assessed on customers, necessitating ongoing participation to ensure

⁵ The record contains detailed testimony linking each of the 33 proposed Regulatory hires to specific subdepartment responsibilities, docketed work, OMA obligations, and cross-agency coordination demands. LUMA’s Brief, 57.

⁶ See Article 6, Puerto Rico T&D System Supplemental Terms Agreement.

that, when implemented, the plan can be placed on bills and charged to customers within the contemplated timeline. *Id.*, 393:2-13.

Bondholders' strange assertion that LUMA is motivated only by a "financial interest" ignores that LUMA's Title III participation benefits ratepayers. LUMA has been called into the Title III proceeding for depositions of its representatives and has been required to provide comments on legal documents, engage in discussions with various parties, and respond to requests from the FOMB and PREPA relating to supporting the Title III proceedings—activities that extend well beyond mere "representation before the court as if [LUMA] were a party." *Id.*, 390:3-20. Mr. Rotger-Sabat confirmed that litigation involving disputes under the OMA arising within the Title III court is separately funded by the parent companies, not ratepayers, demonstrating that LUMA has properly distinguished between costs appropriately charged to ratepayers and those that are not. *Id.*, 395: 25, 396: 1-16.

3. LUMA Legal

Bondholders criticize the Legal Department's OB on the ground that Mr. Rotger "simply relied on his experience" rather than "objective criteria" to support the request for six new employees. This averment is incorrect. The Department's request is grounded in documented workload growth: 266 active cases before PREB as of June 2025, rising from approximately 70 to 80 cases per litigation counsel, and projected increases in in-house consultations from 25 to 35-40 matters per attorney. Exhibit 10.0, 4:97-98; 5:104-109.8; 6:133-137.9; Exhibit 10.01; Tr. 12/3, 328-329:1-25; 330:1-18. Mr. Rotger testified that bolstering in-house staff has already produced approximately \$1.5 million in savings by reducing reliance on external counsel. Tr. 12/3, 330:19-25; 331:1-14. Strengthening LUMA's internal legal capabilities will allow LUMA to rely less on more costly external counsel, yielding further savings. The consequences of underfunding were

detailed in LUMA's Brief, 70. Experienced department heads are best positioned to assess the needed resources. Mr. Rotger's experience in the practice of law for over thirty-two years, including as Attorney General of Puerto Rico, *id.*, 1:22-23, was not challenged.

Bondholders' contention that LUMA never analyzed whether the Department's costs "benefit ratepayers" is belied by Mr. Rotger's prefiled testimony, which expressly addresses how some of the Legal Department's expenditures directly benefit customers. Exhibit 10.0, 10:198-199, 11-12:229-252.

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. Beyond a mere statement in projected legal costs for this rate case, Bondholders point to no evidence to challenge LUMA's projections.

C. Workers and Contractors

1. Operations

Bondholders contend that PREB should reject TPOs costs of the Operations Department, arguing that quantification of potential benefits or assessments of in-house versus outsourcing alternatives is needed. Bond. Br. 71. Bondholders, however, presented no evidence to support that alleged need nor a measurable standard that could establish that the proposed costs are unreasonable. As Mr. Burgemeister testified, Operations' OB was developed using a rigorous bottom-up budgeting approach that first defined total System needs and then adjusted those needs to reflect the work required to achieve system stability. Exhibit 6.0, 20:389-397.

PREB should credit Mr. Burgemeister's testimony and the costs developed by his team. Mr. Burgemeister is an eminently qualified expert with approximately 25 years of professional

experience in the utility industry. Exhibit. 6.0, 2:24-33. Moreover, Exhibit 399.1 catalogues each of the Department's professional and technical service vendors—from Siemens' critical technology and expertise for gas insulated systems, to pressure vessel inspections, underground locate services, fiber repair, and transformer dissolved gas analysis—with corresponding budgeted amounts and detailed descriptions of the specific operational need each vendor addresses, demonstrating the Department's careful evaluation of each proposed expenditure. Mr. Burgemeister's expert judgment, analysis, and supporting methodology remain uncontested. Bondholders offered no evidence to the contrary.

2. Finance

Bondholders' objections to LUMA's Finance Department TPOs costs ignore that approximately 90% of the Department's FY2026 technical and professional services OB is devoted to the Oracle ERP project, a modernization initiative that Mr. Smith testified is both prudent and necessary because the current Oracle EBS is not functioning as an integrated ERP and reaches end-of-life in 2032. Tr. 12/4, 190:6-13, 21-25, 191:1-3, 192:12-16. The evidence demonstrates that LUMA charted a responsible implementation path: first mapping and improving processes in FY2026, then selecting and implementing technology, with a roughly 36-month horizon culminating in FY2027-FY2028. *Id.* 193:1-17. Once this modernization work is completed, outsourced technical and professional spend should decline around 2029 as internal capacity replaces consultants for steady-state operations,⁷ thus refuting any suggestion of perpetual reliance on external labor. *See* Exhibit 2.0, 75:1550-1552.

The suggestion that deferral is appropriate because Oracle ERP will not reach end of life until 2032 reflects a fundamental misunderstanding of enterprise resource planning

⁷ Tr. 12/4, 188:15-25; *see also* Exhibit 2.0, 75:1562-1566; 76:1567-1589; 77:1590-1594.

implementation. Without ERP modernization, LUMA would remain on an older, expensive-to-maintain system lacking modern functionality, increasing long-term cost and operational risk, and perpetuating manual controls inconsistent with prudent financial management and PREB's own objectives for accurate, timely, and reliable information. *Id.*, 80:1669-1672, 81:1673-1674.

D. Materials and Equipment

a. Tools

Bondholders contest this annual budget request, arguing that LUMA neither studied nor quantified the risks of the CB. They did not, however, prove the need for such a study. The record remains uncontested that the OB is the budget that will allow LUMA to acquire live substation and line tools, perform dielectric testing as required, maintain standard equipment inventories by crew and work type, and purchase equipment essential to commissioning and maintaining high-voltage substation equipment. Exhibit 6.0, 44:865-867, 45:868-869. Exhibit 722.1, in turn, includes detailed cost information on substations, test equipment, and tools, and establishes that the materials are critical. Finally, the uncontested testimony of Mr. Burgemeister outlines the risks of approving the reduced CB, including delays in the commissioning and maintenance of major substation equipment that may affect in-service dates. Exhibit 6.0, 59: 1138-1140. With respect to specialized tools, risks include extended response times during service restoration due to the unavailability of appropriate tools for otherwise qualified personnel. *Id.*, 1140-1143. Bondholders offer no evidence to support the CB over the OP.

E. Facilities and Utilities and Rents

Bondholders challenge costs for ergonomic chairs sponsored by the Facilities Department, arguing that LUMA's witness, Miguel Sosa ("Mr. Sosa"), Director of Facilities, offered a non-responsive answer to a question on prioritization. The questioner neither followed up nor chose to

clarify. That was counsel's choice. The weight of the record, however, supports the bottoms-up budgeting process by Facilities and the uncontested justification to fund chairs for employees: health and productivity. Exhibit 17.0, 15:322-331, 16:332-355, 17:356-378, 18:379-400, 19:401-411, , 29: 567.

Regarding utilities and rents, Bondholders' only concern is that LUMA is using government buildings without cost and is also proposing funding for rentals, but did not quantify if the use of government buildings may offset proposed rents. They fail to consider Mr. Sosa's testimony regarding the need to extend LUMA's reach to support operations. Tr. 12/04, 351:12-25, 352:1-15. Both the Government and the rental properties are needed to support operations throughout Puerto Rico. *Id.*, 352:8-15.

F. ITOT

Bondholders' IT/OT critique rests on three core assertions—that LUMA (i) failed to tie its request to regulatory/contractual obligations, (ii) offered speculative or unsubstantiated O&M and NFC justifications, and (iii) undermined its credibility through corrections to Exhibit 906.1 shortly before cross. The record shows the opposite. LUMA presented a needs-based, bottom-up IT/OT plan grounded in the T&DOMA and energy policy, benchmarked to industry standards, and focused on reliability, cybersecurity, and the sustained operation of more than 200 business-critical systems. LUMA's Brief, 92-97.

The O&M costs of service agreements and VSRCs reflect prudent, non-duplicative support of deployed and business-driven systems. Long-term and specialized services are built from a contract-level bottom-up forecast, with competitive procurement and vendor quotes, to maintain deployed platforms ([REDACTED]), ensure renewals, and stabilize multi-year pricing. Exhibit 11.0, 18:358-365, 19:366-382, 20:383-384. These are the

quintessential “keep-the-lights-on” costs for systems already supporting customers and grid operations.

VSRCs are a standard approach for forecasting Year-2+ support for business-driven initiatives. The methodology Ms. Allen described—and later clarified—involves estimating “running costs” for initiatives implemented and funded in Year 1 by the originating business unit; from Year 2 forward, those support/maintenance costs transition to IT/OT. Exhibit 1016. The high-level proxy of approximately 15% of initial implementation costs (conservative within the 15-30% industry range) is a recognized, fit-for-purpose practice to ensure O&M budgets capture the future support load for cross-enterprise initiatives. *Id.*

The refinement of the VSRC costs has not inflated the revenue requirement request. After iterative review, LUMA updated Exhibit 906.1 via Exhibit 1066, cutting roughly \$30 million of VSRC estimates (FY27–FY28), reflecting executability and staging judgments within the rate period. Tr. 12/19, 17:4-24, 18:1-25, 19:1-2. That correction resulted in a net reduction in the revenue requirement. *Id.*, 32:3-17. This is the hallmark of prudent budgeting, not evidence of overstatement.

The updated VSRC rows in Exhibit 1066 remain additive within the O&M totals and represent aggregated Year-2+ support across multiple initiatives, as Ms. Allen testified, further broken out in an internal roadmap working paper used to manage portfolio “running costs.” Tr. 12/19, 80:1-25, 81:1-16. The existence of a portfolio-level working schedule corroborates—not undermines—the reasonableness of the VSRC approach.

The service-agreement listings in the workpapers show precisely the contract-level detail that Bondholders say is missing: counts and dollar values by vendor and function (IT/OT and Cyber), across FY26–FY28, consistent with Ms. Allen’s pre-filed testimony. Exhibit 11.0, 18:358-

365, Table 3. These spreadsheets evidence the bottom-up, contract-by-contract method and the additivity of contract categories.

Staffing and professional services help build internal capability, thereby reducing reliance on external services over time. The plan adds 166 hires (158 in FY2026), including 112 for enterprise delivery teams, to execute active business-driven technology initiatives across 84 projects and to systematically transition support from vendors to internal teams. Exhibit 11.0, 22:450-451, 23:452-456. [REDACTED]

[REDACTED]. Ms. Allen explains that TPO reductions will occur over time as internal capability matures; immediate reductions are unrealistic until knowledge transfer and stabilization are complete. Exhibit 11.0, 26:522-525, 27:542-546.

Bondholders claim that Ms. Allen admitted that LUMA could sustain day-to-day operations and perform essential cybersecurity monitoring despite layoffs that reduced her headcount by 10-12 employees. [REDACTED]

[REDACTED] Thus, while the lean team can sustain basic operations post-layoffs, additional specialized staffing is needed to implement and maintain new, digitized systems and deliver the project pipeline.

Second, NFC costs are targeted, front-loaded investments to remedy end-of-life risks, modernize tools, and strengthen regulatory reporting. LUMA proposes specific, scoped cybersecurity projects [REDACTED]

[REDACTED]

[REDACTED] The testimony explains the risk growth and intercept rates to justify investment levels and timing. *Id.*, 14:295-304.

Bondholders argue LUMA “never quantified” benefits or “risks of reduction.” The record shows specific risk narratives and operational linkages, including the reliability and cybersecurity consequences of deferral, and identifies how investments reduce long-term O&M through planned lifecycle and automation—classic prudence factors in utility decision-making. Exhibit 11.0, 48:1032-1038, 49:1039-1062.

As for Exhibit 906.2 “Q.96” constrained-budget anomalies, [REDACTED]

[REDACTED]. Anomalies within a large multi-program spreadsheet—flagged contemporaneously and subject to correction—do not erase the detailed, program-level need and prudence evidence elsewhere in the record.

VII. Emergency Reserve Account and Response Plan

A. Emergency Reserve Account

Bondholders’ assertion that “[t]he record shows there is already more than sufficient emergency funding across an array of sources ... including emergency rates” BHBrief, 82, is wholly conclusory, unsupported, and irresponsible in light of the realities faced by the People of Puerto Rico.

Bondholders assert the existence of emergency funding, yet the record shows the opposite. The Outage Event Reserve Account (“OERA”), which was created to fund Outage Event Costs,

including unplanned outage restoration, has not been funded by PREPA. Exhibit 1.0, 77:1409-1410; Exhibit 1.05; Exhibit 2.0, 18:353-355. Failure to properly fund the OERA places the System, and thus the customers, at direct risk. Exhibit 1.0, 83:1545, 84:1546-1547.

The mandatory nature of the OERA, the required funding level, the permitted uses, and the applicable oversight mechanisms are expressly set forth in the OMA. Exhibit 489, Sec. 7.5(d). Bondholders' views or preferences regarding this contractually required account have no legal significance and should not be considered by PREB.

Regarding FEMA funding and emergency rates, LUMA has already provided unrebutted record evidence and arguments demonstrating that these sources are neither practical nor feasible, nor financially responsible mechanisms for timely emergency response. *See* LUMA's Brief, 99.

Bondholders also refer to the existence of a Commonwealth emergency fund. However, no party produced evidence that these funds have ever been made available to LUMA for purposes of emergency restoration following an outage. The theoretical availability of external funding does not satisfy PREPA's contractual obligation to fund the OERA.

Bondholders then attempt to create confusion by claiming that LUMA seeks both the OERA and the Emergency Reserve Account created by PREB for fiscal year 2026 ("PREB-ERA"). BHBrief, 80-81. The Bondholders' own cited evidence disproves their argument. LUMA testified that the PREB-ERA would not be necessary if the OERA were properly funded. *Id.*, 80. LUMA does not request that the PREB-ERA become permanent and agrees with PREB that replenishment of operator emergency reserves must be addressed in this proceeding. Exhibit 77.0, 10:208-212.

Regarding LUMA's request to recover \$209M that LUMA was compelled to expend from the Operational Account to cover Outage Event Costs Bondholders speculate that such recovery "may" violate the prohibition on retroactive ratemaking. LUMA categorically rejects that

suggestion and any claim that recovering these funds constitutes double-counting or implicates retroactive ratemaking principles. LUMA's Brief, 101-104.

B. Emergency Response Plan

Bondholders selectively cite portions of testimony to suggest that the CB for LUMA's emergency response plan is sufficient. Bondholders omit the material qualifications and tradeoffs that LUMA expressly placed on several of those confirmations.

For example, although LUMA affirmed that the CB is sufficient to support vegetation control ahead of hurricane season, LUMA also clarified that compliance under the CB would occur at a significantly slower pace. Tr. 12/5, 19:1-21. Similarly, with respect to reducing response times and providing more granular estimated restoration times, the CB would not permit the acquisition and integration of all required software applications necessary to meet PREB's performance and improvement standards. *Id.* 26:15-21, 115:18-24, 116:1-5. These constraints collectively delay emergency restoration processes and hinder LUMA's ability to meet PREB's performance expectations. *Id.* 311:12-25, 312:1-3.

VIII. ICPO's challenge to Distribution System Improvements

LUMA agrees with ICPO that upgrades to the T&D System should be funded equitably. That is LUMA's budgetary proposal. ICPO errs in arguing that the Distribution System Improvements costs are legally deficient. LUMA's proposal to include network upgrades in NFC costs is consistent with its obligations under OMA to operate within the safe thermal loading levels, provide acceptable voltage performance, and ensure safe and reliable operations. Exhibit 489, *see e.g.* Annex I(A)(C)(D).

LUMA has a duty to upgrade the T&D System, regardless of whether updates are required due to the impact of DER, given that the T&D System is aged and was not designed to interconnect

with those systems automatically. Exhibit 142; Tr. 12/04, 414:21-25, 415:1. As Mr. Meléndez explained, most feeder upgrades are needed because the system is old, fragile, and does not meet code. Tr. 12/04, 418:15-19, 430:11-14. Upgrades are needed to serve customers, avoid infrastructure failing due to overloads, and address voltage problems. Exhibit 142, Tr. 11/13; 105:7-23.

LUMA agrees that Joint Resolution 05-2026 did not repeal Section 9(c) of Act 114-2007, providing that a requesting company shall pay for feeder upgrades for DER systems up to 25 kV whose interconnection exceeds the feeder's capacity. However, Joint Resolution 05-2026 requires PREB to approve a new interconnection regulation addressing how these costs will be determined and distributed in the future.

IX. Revenue Requirement

A. Margin

Bondholders assert that requiring a margin is unnecessary when there are no anticipated expenditures for debt to be financed by the margin, and that a margin would not serve its stated purpose of providing lenders with confidence. BHBrief, 88-90. The ability to pay for debt financing is not the only reason for approving the margin for PREPA. Rather, Mr. Smith testified that regardless of debt service, a financially sound utility must demonstrate its operations generate sufficient cash to cover operating expenses, maintain system assets, and fund essential capital improvements. Exhibit 2.0, 17:317-326. Also, Bondholders' position that having a margin is not useful to give lenders confidence prior to emerging from bankruptcy directly contravenes their position that including a rider for legacy debt right away is important to show a positive signal to lenders "*in anticipation of the future in which there will be emergence from bankruptcy.*" Tr. 12/9, 441:8-10.

Bondholders also assert that the proposed margin lacks evidentiary support. BHBrief, 88-90. This is not correct; LUMA provided evidentiary support for the DSCR-based calculation based on the PREB requirements for a margin based on DSCR and the debt-service amount assumptions that PREPA provided. Exhibit 2.0, 44:891 through 46:921. BHs contend that the legacy debt amounts are unsupported because they originated with PREPA. BHBrief, 89. PREPA is part of the utility; therefore, the fact that the debt amount originated with PREPA does not render it unsupported. Even PREB's consultants acknowledged at the hearing that a margin such as 2% might be reasonable, depending upon what other amounts the PREB approved. Tr. 12/9, 102:12-15.

Bondholders assert that even as a working-capital facility, LUMA's proposed margin would duplicate various sources serving the same purpose. As explained in LUMA's Brief, these sources are not providing working capital at this time. LUMA's Brief, 98. Again, Bondholders argue out of both sides of their mouths, as they are also opposing the funding of the outage reserve account in this case. BHBrief, 80-82. Second, they argue that the emergency reserve account, if approved, would provide additional cushion, however, LUMA has pointed out that the emergency reserve account is not funded, and even if it were funded, the PREB has indicated it will only provide \$15 million of funding to cover the expenses of all three operators of the system, it is a temporary provisional rate amount, and it only covers emergency expenses. LUMA's Brief, 101. Third, they assert that the Federally Funded Capital Improvement Account is available, but they acknowledge that this amount can only be accessed to pursue certain federally-funded projects; it does not serve as working capital for non-federally funded capital projects or expenses. BHBrief, 106-107.

Finally, Bondholders note that LUMA has requested \$32 million for a 2% on LUMA's portion of the revenue requirement. They argue that LUMA stated it served the same purpose as

the margin. BHBrief, 81-82; n. 64. Incorrect. LUMA indicated that this is a 2% margin on LUMA's revenue requirement, and not a 2% margin on the system revenue requirement or ARR, which is the \$178 million system margin requested in the filing. Tr. 12/9, 67:5-11. Moreover, the margin will not increase the budgeted amounts or the contractual amounts paid to the operators. Rather, it would reduce PREPA's difficulties in meeting its financial obligations. Exhibit 79.0, 16:349-355.

B. Bad Debt

PREB should approve LUMA's bad-debt proposal of a 2.97% factor, which aligns with PREB's established methodology, audited data, and operating realities, and is necessary to avoid liquidity shortfalls that could compromise reliable service. The contrary position advanced by Bondholders and ICPO rests on selective or inappropriate benchmarks, misinterpretation of accounting distinctions, and inattention to the unique conditions governing collections, and lacks evidentiary support.

The record establishes a critical distinction between: (i) prospective bad-debt expense used for ratemaking and (ii) discrete write-offs of specific, often-aged accounts, typically removed from books long after the underlying revenues were billed. Tr. 12/9, 151:16-25, 152:1-4, 153:2-25, 154:1-25, 155:1-25. Bad-debt expense estimates the current-year rate of uncollectibles from billed revenues under the then-current conditions, whereas write-offs are accounting events related to the balance sheet that recognize that certain overdue balances are permanently uncollectible and may occur months after the expense period, particularly in legacy clean-up contexts. *Id.*, 153:2-25, 154:1-25, 155:1-25. The rate-year bad-debt factor must be forward-looking and should not be depressed by extraordinary, nonrecurring write-offs associated with the remediation of historical receivables. *Id.*, 198:24-25, 199:1-22; Exhibit 79.0, 9:195-197.

LUMA’s proposal tracks the PREB-approved percentage used in 2017 and is supported by audited experience and current operating conditions. Exhibit 79.0, 6:124-130. Audited ratios of approximately 1.95% (FY2021) and 3.52% (FY2022), normalized to exclude extraordinary legacy write-offs in FY2024–FY2025, yield an adjusted multi-year average near 2.97%, providing a conservative, data-grounded estimate for present conditions. *Id.*, 6:131-134, 7:135-138; Exhibits 1.08, 80.0, 7:147-151. LUMA’s methodology is consistent and transparent: separate legacy write-offs from prospective bad debt, normalize audited experience, and apply the established 2.97% precedent to current operations. Exhibit 80.0 6:120-124.

ICPO claims that LUMA “artificially increased” the bad debt factor to 9% by including legacy write-offs, and that its “normalized average” lacks a consistent methodology. LUMA witness Mr. Smith explained that the “9%” arose only when transparently displaying the total accounting effect of extraordinary, one-time write-offs of PREPA’s legacy receivables during FY2024 and FY2025; it was never proposed as the operative bad debt factor for rate recovery. Exhibit 79.0, 10:218-223, 11:233-240.

Proposals to cap the bad-debt factor at 1.5% mischaracterize the administrative record and conflate non-recurring write-offs with operating-period uncollectibles. The FY2024–FY2025 write-offs—approximately \$77 million and \$339 million, respectively—reflect an extraordinary clean-up of legacy PREPA balances against the allowance for doubtful accounts; they are not evidence of a sustainable 1.5% uncollectible rate under current conditions. Exhibit 79.0, 8:159-175; Exhibit 80.0, 5:114-115, 6:116-124. The “historic” 1.5% level cited by Bondholders and ICPO presupposes conditions not currently present, such as mature customer systems, uninterrupted disconnection authority, fully normalized billing data, and a customer base with fewer structural affordability constraints. Exhibit 79.0, 12:255-266, 14:295-301. Even PREB’s

expert witness, Mr. Ralph Smith, recognized Puerto Rico's unique environment, undermining the direct import of mainland benchmark ranges to set a 1.5% cap here. Tr. 12/9, 205:8-12, 210:21-24, 216:13-25, 226:11-25.

Bondholders allege that LUMA's expert witness, Mr. Marzán, agreed that excluding the full amount of the extraordinary write-offs in 2024 and 2025 yields exactly the 1.5% previously budgeted. Not so. Properly understood, the record shows: (1) Mr. Marzán confirmed only that, if one removes the extraordinary legacy write-off entries from FY2024 and FY2025, the residual "bad debt" line equals the 1.5% budgeted placeholder—not that 1.5% reflects audited, data-driven uncollectibles for those years; (2) the 2.86% multi-year average is a normalization anchored in audited data and excludes one-time legacy clean-ups; and (3) LUMA's candor about data limitations concerned legacy PREPA systems and the incompleteness of unaudited interim figures, not the validity of using audited experience and established regulatory precedent to maintain a 2.97% factor prospectively. Tr. 12/9 139:17-25, 140:1-6, 141:1-7, 301:6-11; Exhibit 80.0, 6:120-124. Mr. Marzán's testimony that subtracting extraordinary 2024–2025 write-offs yields "exactly" 1.5% merely confirms arithmetic consistency with a budget placeholder; it does not establish 1.5% as the correct forward-looking allowance. *Id.*

Finally, references to the 1.5% factor in recent budgets or provisional rates were made without a complete, permanent record and should not be elevated to a permanent cap in a base rate proceeding. The permanent phase has now developed the necessary distinctions between legacy write-offs and operating bad-debt expense, confirming that a forward-looking factor of 2.97% is supported. PREB's provisional order anticipated a fuller record and does not preclude adoption of the properly supported 2.97% factor here.

X. Federal Funds

A. Capital Projects Are Necessary

Bondholders contend that certain capital requests are unnecessary and unreviewed. They use LUMA's request for chairs as an example. LUMA needs chairs if its new employees are going to sit down. Tr. 12/18, 242:19-25, 243:1-9. Further, Bondholders' cited evidence shows that LUMA's staff went project-by-project to confirm necessity. *Id.*, 238:10-25, 239:1-10.

B. FEMA Eligibility and Reimbursement

Bondholders accuse Mr. Meléndez of misunderstanding federal eligibility—at one point calling his testimony “false.” BHBrief, 15. Bondholders take Mr. Meléndez's testimony out of context. In the excerpt they cite first, he was providing a hypothetical in which a line segment not impacted by the disaster was not eligible even though its replacement would “actually benefit ultimately the reliability of the grid.” Tr. 11/12, 174:4-9. That is *true* under the Stafford Act—not false. He later again correctly acknowledged that, if a related undamaged line segment must be replaced to restore the system's function, it may be covered. *Id.* 311:7-19.

Next, Bondholders claim “the problem [with reimbursement] lies with LUMA.” BHBrief, 16. This accusation is unsupported nonsense. They also claim that Meléndez “agreed, if LUMA were to secure federal funds faster—which it could and should do—there would be less need for ratepayer funds.” *Id.* (citing Tr. 11/12, 280:1-281:19). Incorrect. What Mr. Meléndez actually said was: “I would **not** agree 100% of what you're stating, given that the needs for the system is over \$22 billion and there is not enough grant.... So we're still going to need funds from ratepayers.” Tr. 11/12, 303:25, 304: 1-6. He also said nothing about LUMA failing to obtain timely reimbursements or to utilize federal funds expeditiously.

C. The “Hopefulness” Chart

Bondholders claim the “Hopefulness” chart shows LUMA is improperly requesting ratepayer funds. BHBrief, 100-101. That conclusory statement lacks support. As to Bondholders’ specific complaints, Mr. Meléndez testified that NFC is needed for “Number 1s” due to criticality and prioritization. Tr. 12/18, 329:10-25, 330:1-25, 331:1-13. NFC funds are needed *immediately* to stabilize the grid. The “Number 1s” are projects with the most stability benefit to the most people, and they should be done now.⁸ *Id.* 333:19-25, 334:1-3. Although it is impossible to know exactly when the allocated funds will be exhausted, the total amount of federal funds is insufficient to fund all needed capital projects. Thus, some projects will inevitably be borne by ratepayers. With that in mind, and given the extended timeline of federal funding, it makes sense to use NFC funding on the most critical items now and then request reimbursement later. *Id.*, 329:10-25, 330:1-25, 331:1-13. If reimbursement is received, the funds may be refunded or used for other critical projects. Failing to act now means the grid will degrade at between 4-5% per year. *Id.* 331:15-25, 332:1-8.

D. Other Funding

Bondholders ignore the challenges of utilizing FEMA funds, which were explained at length in the record and summarized in LUMA’s brief. No other response is needed. As to DOE money, of the \$157 million allocated to LUMA for capital projects, a subset aligns with NFC, but the large majority does not overlap. Tr. 12/18, 181:12-25, 182:1-22. The limited overlap does not eliminate the need for NFC funds for those projects, given their criticality. *Id.*, 183:6-26, 184: 1-25, 185:1-24. If DOE reimbursement is received, LUMA urges the PREB to reinvest that money

⁸ Accordingly, many “1s” should perhaps have been classified as “2s” in this document. This document, as everyone recalls, had to be created during in the middle of the hearing by an already overstretched team. It was not part of LUMA’s revenue request submission. Errors, while unfortunate, are unavoidable in such circumstances.

into the System. *Id.*, 186:17-25, 187:1-15. As to HUD funding, Bondholders state the same as LUMA: the funds are being pursued. Crucially, they are not here now, and they do not affect the revenue requirement.

As to “Commonwealth funding,” Bondholders first misquote Mr. Smith. LUMA proposed to COR3 that screenshots be used as proof of tax payment as a workaround, rather than waiting months for Hacienda to issue a formal receipt. COR3 rejected that sensible proposal. *Id.*, 310:4-14. On reimbursement, as both Genera and LUMA witnesses acknowledged, Genera’s paperwork is simpler because Genera buys large, assembled items, whereas LUMA has to buy all the parts and assemble them in the field. *Id.*, 313:1-23; Tr. 12/19, 388:4-25, 389:1-6.

As to the other potential sources of funding, if funds are available, they will be used to help rebuild the grid. Potential, speculative sources of funds that may (or may not) be available do not reduce the System’s revenue requirement. DOE funding for line segment 8700, if received, will free up other cash to address additional critical stability issues.⁹ Further, the availability of outside funding or the lack thereof is *not* part of the just-and-reasonable standard. Bondholders again demand adherence to a standard that does not exist. *See e.g.*, BHBrief, 22, 25, 27. LUMA does not need to “prove” that no outside funds are available. Outside help, while very welcome, is neither presumed nor required. We should begin here as we mean to continue—by doing our best to stand on our own two feet.

Lastly, as to Bondholders’ suggestions for “classification,” the tail should not wag the dog. NFC spending should be driven by the *needs of the System*. Also, Bondholders are not the expert grid operators. They are in no position to dictate which needs are critical. All they want to do is ensure they get paid. All projects for which LUMA requests NFC are necessary at this time.

⁹ As Mr. Meléndez testified, line 8700 may be eligible for FEMA funding too, but needs NFC funds now because its rebuild is critical. Tr. 11/13, 19:13-25, 20:1-4.

WHEREFORE, LUMA respectfully requests that the PREB **take notice** of the arguments set forth in the foregoing brief; and **grant** the request for relief included in *LUMA's Revenue Requirement Brief*.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 17th day of February, 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 served onto the following mailing list: mvalle@gmlex.net; alexis.rivera@prepa.pr.gov; jmartinez@gmlex.net; jgonzalez@gmlex.net; nzayas@gmlex.net; Gerard.Gil@ankura.com; Jorge.SanMiguel@ankura.com; Lucas.Porter@ankura.com; mdiconza@omm.com; golivera@omm.com; pfriedman@omm.com; msyassin@omm.com; regulatory@genera-pr.com; legal@genera-pr.com; mvazquez@vvlawpr.com; gvilanova@vvlawpr.com; dbilloch@vvlawpr.com; ratecase@genera-pr.com; jfr@sbglaw.com; hrivera@jrsp.pr.gov; gerardo_cosme@solartekpr.net; contratistas@jrsp.pr.gov; victorluisgonzalez@yahoo.com; Cfl@mcvpr.com; nancy@emmanuelli.law; jrinconlopez@guidehouse.com; Josh.Llamas@fticonsulting.com; Anu.Sen@fticonsulting.com; Ellen.Smith@fticonsulting.com; Intisarul.Islam@weil.com; alexis.ramsey@weil.com; kara.smith@weil.com; rafael.ortiz.mendoza@gmail.com; rolando@emmanuelli.law; monica@emmanuelli.law; cristian@emmanuelli.law; luis@emmanuelli.law; varoon.sachdev@whitecase.com; javrua@sesapr.org; agraitfe@agraitlawpr.com; jpouroman@outlook.com; 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; lindsay.greenbaum@analysisgroup.com; harrison.holtz@analysisgroup.com; charles.wu@analysisgroup.com; Brian.Gorin@analysisgroup.com; Bhumika.Sharma@analysisgroup.com; Rachel.Anderson@analysisgroup.com; lramos@ramoscruzlegal.com; tlauria@whitecase.com; gkurtz@whitecase.com; ccolumbres@whitecase.com; isaac.glassman@whitecase.com; tmacwright@whitecase.com; jcunningham@whitecase.com; mshepherd@whitecase.com; jgreen@whitecase.com; hburgos@cabprlaw.com; dperez@cabprlaw.com; howard.hawkins@cwt.com; mark.ellenberg@cwt.com; casey.servais@cwt.com; bill.natbony@cwt.com; zack.schrieber@cwt.com; thomas.curtin@cwt.com; escalera@reichardescalera.com; riverac@reichardescalera.com; susheelkirpalani@quinnemanuel.com; erickay@quinnemanuel.com; dmonserrate@msglawpr.com; fgierbolini@msglawpr.com; rschell@msglawpr.com; eric.brunstad@dechert.com; Stephen.zide@dechert.com; David.herman@dechert.com; Isaac.Stevens@dechert.com; James.Moser@dechert.com; michael.doluisio@dechert.com; Kayla.Yoon@dechert.com; mfb@tcm.law; lft@tcm.law; arosenberg@paulweiss.com; pbrachman@paulweiss.com; swintner@paulweiss.com; kzeituni@paulweiss.com; Julia@londoneconomics.com; Brian@londoneconomics.com; luke@londoneconomics.com; juan@londoneconomics.com; mmcgrill@gibsondunn.com; LShelfer@gibsondunn.com; jcasillas@cstlawpr.com; jnieves@cstlawpr.com; pedrojimenez@paulhastings.com; ericstolze@paulhastings.com; arrivera@nuenergypr.com; apc@mcvpr.com; ramonluisnieves@rlnlegal.com; kbailey@acciongroup.com;

shempling@scotthemplinglaw.com; rsmithla@aol.com; guy@maxetaenergy.com;
jorge@maxetaenergy.com; rafael@maxetaenergy.com; dawn.bisdorf@gmail.com;
msdady@gmail.com; mcranston29@gmail.com; ahopkins@synapse-energy.com;
clane@synapse-energy.com; kbailey@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; MWhited@synapse-energy.com.



DLA Piper (Puerto Rico) LLC
B-7 Tabonuco Street, Suite 1501
Guaynabo, Puerto Rico 00968-3028
Teléfono: (787) 945-9122
Facsimil: (939) 697-6092

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

/s/ Yahaira De la Rosa Algarín
Yahaira De la Rosa Algarín
RUA 18,061
yahaira.delarosa@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

CERTIFICATE OF COMPLIANCE WITH WORD-COUNT LIMIT

LUMA hereby **CERTIFIES** that this document has **14,065** words, excluding the caption, table of contents, signature blocks, and service information, in compliance with the word limit imposed by the *Hearing Examiner's Order on Exhibits, Miscellaneous Post-Hearing Matters, and Legal Issues*, issued on December 22, 2025.

/s/ Margarita Mercado Echegaray