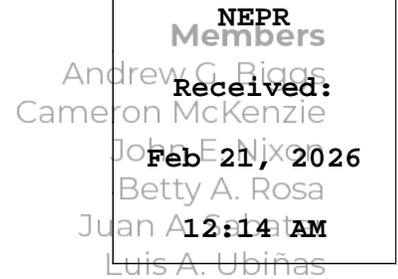




Arthur J. Gonzalez
Chair



Robert F. Mujica Jr.
Executive Director

BY ELECTRONIC MAIL

March 25, 2025

Mr. Orlando C. Rivera Berríos
Director
Office of Management and Budget

Ms. Mary C. Zapata Acosta
Executive Director
Puerto Rico Electric Power Authority

Dear Mr. Rivera Berríos and Ms. Zapata Acosta,

We write in response to your March 19, 2025, and March 24, 2025, letters regarding a “Proposed Budget Amendment Resolution to Maximize Government of Puerto Rico Resources and Authorize Appropriations to the General Fund for an Increase in the General Fund Budget Fiscal Year 2025” and “PREPA Employee Retirement System (ERS) – Urgent Bridge Funding.”

The Puerto Rico Electric Power Authority (“PREPA”) had informed the Government and the Oversight Board that PREPA’s pension funds are now exhausted, and stated in its March 24, 2025, letter it requires \$146 million in funding to cover pension payments from April 2025 to September 2025.

Meanwhile, the Office of Management and Budget requests an increase in the General Fund Budget for the current Fiscal Year 2025 in the amount of \$73,765,215 to finance pension payments for PREPA ERS from April to June 2025. On March 24, 2025, the Executive Branch filed with the Legislative Assembly a budget resolution providing for such increase. This budget resolution does not comply with the statutory budget process under PROMESA Section 202(a).¹

¹ See House Joint Resolution 85, Administration bill A-024, filed on March 24, 2025, before the Puerto Rico House of Representatives.

This is a critical moment for PREPA's retirement system. The benefits of PREPA's retired employees are an important obligation that PREPA has neglected for too long. PREPA did not make the contributions necessary to keep the retirement system solvent long before PROMESA was enacted. PREPA now owes its retirement system more than \$4 billion in current and future obligations. The need for a **permanent solution** to PREPA's pension funding shortfall is unavoidable and urgent.

On December 2023, the Oversight Board approved a loan agreement among the Commonwealth, PREPA and the Oversight Board in the amount of \$300 million to provide funding for PREPA pension obligations from December 2023 to December 2024. Later, the Oversight Board learned that by December 2024 the available funds to make pension payments would have been depleted. For that reason, the Oversight Board approved the use of ~\$74 million of PREPA's available cash to prevent a financial crisis that could have left retirees and their families without benefits starting in January 2025.

Yet, no permanent funding solution was implemented or conceived. Instead, the additional pension funds approved by the Oversight Board will yet again be exhausted by April 2025. Increasing the General Fund budget by about \$74 million to finance pension expenses is another short-term stop-gap measure rather than a real, long-term solution.

PREPA, as the entity responsible for pension administration, has at its disposal two remedies to provide retirees with sustainable funding for their pension benefits.

- Act 57-2014 provides PREPA with a **short-term solution**. Particularly, Section 6.25 (d) establishes that “at the request of an electric power company, the Bureau may authorize an electric power service rate adjustment due to emergency or temporary events. Such request must be accompanied by all the documentation and information available that, in the judgment of the electric power company requesting it, warrants the temporary rate adjustment.” (Emphasis supplied).

PREPA must use this mechanism to ensure it has sufficient funds to make pension payments in the short term. On March 24, 2025, the Puerto Rico Energy Bureau (“PREB”) issued a Resolution and Order (the “March 24 R&O”) in which it reached the same conclusion and ordered PREPA to expeditiously file a petition seeking a temporary rate adjustment to ensure the continuity of PREPA's pension payment starting April 2025. Moreover, the March 24 R&O stated that “Act 57-2014 provides one viable mechanism to address this funding shortfall: a temporary rate adjustment. This mechanism is specifically designed to address emergency or temporary situations in an expedited manner.”

- To ensure **long-term pension funding**, PREPA must follow the requirements established by PREB in its February 12, 2025, Resolution and Order in Case No. NEPR-AP-2023-0003 (Subj. “Order Establishing Scope and Procedures for Rate Case”).²

² Resolution and Order, Case No: NEPR-AP-2023-0003, In Re: Puerto Rico Electric Power Authority Rate Review, February 12, 2025. Through this docket, PREB will set new rates for a three-year period beginning July 1, 2025.

Mr. Rivera Berríos
Ms. Zapata Acosta
March 25, 2025
Page: 3

As part of this proceeding, PREPA was tasked with providing the pension costs and all supporting documents for the established period. Therefore, PREPA must ensure that the information it provides to PREB is not only accurate, but that also reflects the true needs of the pension system. Only then will PREPA achieve a true long-term solution to the pension funding.

In its March 24 letter, PREPA outlines a step in the right direction. PREPA says it “stands ready” to file a motion in the current rate review process commenced by PREB to incorporate a provisional rates adjustment.

Given the urgency of the matter, the Oversight Board conditionally approves the use of ~\$50 million of Commonwealth funds to fund PREPA’s April 2025 and May 2025 pension payments, **contingent on PREPA filing a petition for a temporary rate adjustment** pursuant to Section 6.25(d) of Act 57-2014. Such a petition shall cover the period of June 1, 2025, to June 30, 2025. PREPA can file a temporary rate adjustment petition pursuant to Article 6.25(d) of Act 57-2014 even though LUMA Energy is representing PREPA before PREB since pension funding is a PREPA rather than a LUMA obligation.

This approval is also contingent on PREPA providing LUMA with all the pension costs information, data and documents required as part of PREB’s ongoing rate review process pursuant to PREB’s February 12, 2025, Resolution and Order in Case No. NEPR-AP-2023-0003. The temporary rate adjustment must be filed no later than March 28, 2025, and the pension cost information must be submitted to LUMA no later than April 15, 2025.³

The Oversight Board is cognizant of the importance of providing retirees with their well-deserved pension payments and looks forward to continuing working with you for the benefit of the people of Puerto Rico.

Sincerely,



Robert F. Mujica, Jr.
Executive Director

CC: Mr. Josué Colón Ortiz
Mr. Juan Saca
Mr. Edison Avilés Deliz

³ LUMA, the operator of PREPA’s transmission and distribution system, is contractually responsible for preparing rate review filings and submitting them to PREB.