

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

IN RE: REVIEW OF THE PUERTO RICO
ELECTRIC POWER AUTHORITY'S 10-YEAR
INFRASTRUCTURE PLAN – DECEMBER
2020

CASE NO.: NEPR-MI-2021-0002

SUBJECT: Resolution and Order for
Request for Approval to Submit to COR3
and FEMA the SOW to Convert Palo Seco
Units 3 & 4 to Operate with Natural Gas as
Primary Fuel

RESOLUTION AND ORDER

I. Relevant Background

On January 9, 2026, Genera PR LLC (“Genera”) filed before the Energy Bureau of the Puerto Rico Public Service Regulatory Board (“Energy Bureau”) a request seeking approval of the proposed scope of work related to the conversion of Palo Seco thermal generation units #3 and #4¹ to operate with natural gas as the primary fuel, while maintaining Fuel Oil No. 6 (also known as Bunker C, “FO6”) as a backup fuel (“Proposed Fuel Swap”).² The requested approval is intended to authorize the submission of such Scope of Work to the Federal Emergency Management Agency (“FEMA”) under the Public Assistance Program Alternative Procedures authorized pursuant to Section 428 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (“Section 428”). As part of the January 9 Motion, Genera included, as Attachment A, the *Palo Seco Power Plant Gasification Project ISOW* (“SOW”) and, as Attachment B, the Estimated Average Monthly Savings.

Subsequently, by communication dated January 27, 2026, representatives of Genera requested that an informal technical meeting be held with representatives of the Energy Bureau, including its staff, consultants, and/or Commissioners, for the purpose of discussing certain technical and operational aspects associated with the Proposed Fuel Swap. After a preliminary review, the Energy Bureau delegated to members of its staff and consultants the initial evaluation of the matters to be discussed during the requested technical meeting. The meeting was scheduled for February 3, 2026, as proposed by Genera.³

In preparation for the meeting, on January 29, 2026, the Energy Bureau’s staff issued a communication requesting that Genera provide certain information and submit clarifying responses regarding the Proposed Fuel Swap (“ROI-1”). Given the proximity of the proposed meeting date, it was anticipated that the requested information might not be fully available prior to the meeting. Accordingly, and in the interest of advancing the clarification process and promoting administrative efficiency, the Energy Bureau determined that the meeting should proceed as scheduled so that the parties could discuss the available information and identify any outstanding issues requiring further clarification.

The meeting was held on February 3, 2026, and was attended by several representatives of Genera and the Energy Bureau (“February 3 Meeting”). During the meeting, Genera provided additional explanations regarding certain aspects of the proposed projects and informed the Energy Bureau that certain circumstances had changed subsequent to the filing of the Proposed Fuel Swap. As a result, Genera indicated that modifications to its previously

¹ Individually, “Palo Seco Unit 3” and “Palo Seco Unit 4,” and collectively, “Palo Seco Units 3 and 4”

² See *Motion Requesting Leave to Submit for Approval to COR3 and FEMA the SOW to Convert Palo Seco Units 3 & 4 to Operate with Natural Gas as Primary Fuel* filed by Genera on January 9, 20236 (“January 9 Motion”).

³ It was clarified that any statements, positions, or comments made by personnel attending or participating in such informal technical meetings on behalf of the Energy Bureau, including Commissioners, if any participate, shall not be construed as final decisions of the Energy Bureau. It was further emphasized that final decisions may only be adopted by the Commissioners acting in accordance with the applicable legal and statutory provisions governing the Energy Bureau’s decision-making authority.

submitted proposals would be necessary in order for the projects to be evaluated under current conditions, noting that some of these matters remain under internal evaluation. Also, during the meeting, Genera provided to the Energy Bureau copy of the *No. 6 Fuel Oil Purchase Contract Aguirre, Costa Sur, San Juan and Palo Seco Steam Plants*, Contract Number 110832 ("FO6 Purchase Contract"); draft responses to certain requests for information; and photographs of certain equipment identified as currently stored at the Palo Seco facilities that could potentially be utilized in connection with the Proposed Fuel Swap.

On February 6, 2026, the Energy Bureau issued a Resolution and Order informing the parties of the status of its evaluation of the Proposed Fuel Swap and stating that, as a result of the information provided by Genera during the February 3 Meeting, the Energy Bureau acknowledges that the anticipated project modifications may materially affect the scope of its evaluation. Therefore, it will await the filing of the revised proposals and supporting information before proceeding, after which it will evaluate them promptly and in accordance with its statutory responsibilities.

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On February 9, 2026, Genera submitted to the Energy Bureau an updating request for the Palo Seco Units 3 and 4 fuel swap ("Updated Proposed Fuel Swap"). The Updated Proposed Fuel Swap included as Attachment A, a Revised SOW ("Updated SOW") and as Attachment B, a FEMA Funds Reapportionment ("Funds Reapportionment"). On February 20, 2026, Genera sent a communication to the Energy Bureau in which it submitted responses and data concerning ROI-1 ("Responses to ROI-1").

On March 2, 2026, the Energy Bureau requested that Genera provide certain additional clarifications and pertinent documentation necessary to complete the evaluation of the Updated Proposed Fuel Swap ("ROI-2"). In response to the ROI-2, on March 3, 2026, Genera submitted a letter containing its responses to ROI-2 ("Response to ROI-2") and included the following Excel format documents:

- 3.3.26 Attachment A – PS 3 & 4 Heat Rate Cap Factor Hours ("ROI-2-Attachment A")
- 3.3.26 Attachment B – PS 3 & 4 KPIs_FY 24-25 (RFI PREB)_Rough ("ROI-2 Attachment B")
- 3.3.26 Attachment C – PS 3 & 4 KPIs_FY 25-26 (RFI PREB)_Rough ("ROI-2-Attachment C")
- Title V Permit for Palo Seco ("Title V Permit")

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H. Scope of Palo Seco Units 3 and 4 Fuel Swap

A. *Generation Units Conversion for Dual-Fuel Use*

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Natural gas (NG) is a naturally occurring hydrocarbon gas mixture composed primarily of methane, with varying amounts of other hydrocarbons and trace impurities. NG is one of the primary fuels used for combustion in power generation facilities, where it is combusted in gas turbines or boilers to produce electricity. Liquefied natural gas (LNG) is NG that has been cryogenically cooled to approximately -162°C (-260°F), causing it to condense into a liquid state, significantly reducing its volume for efficient storage and transportation. Upon regasification, LNG returns to its gaseous state and can be used in power generation facilities in the same manner as NG.

Conversions to natural gas typically involve modifying combustion units that operate on FO6 to use natural gas as the primary fuel, while preserving dual-fuel capability. This allows operation with either natural gas or FO6. Gas conversions involve technical modifications and the installation of additional infrastructure to ensure operational flexibility and fuel supply safety. The conversion adapts the internal combustion engines to primarily run on natural gas, with the option to use FO6 as a backup when necessary. This requires modifications or installations of dual-fuel injection systems, specific combustion controls, and monitoring equipment to efficiently switch between fuels.

In addition to engine modifications, gas handling and regasification infrastructure must also be installed, presumably within the existing premises. This includes distribution piping systems, control and safety valves, leak detection equipment, and measurement devices to ensure safe operation and compliance with applicable regulations. A key element is the regasification system, which will store LNG and convert it to a gaseous state for injection into



the generation units. The regasification infrastructure includes cryogenic storage/buffer tanks, ambient vaporizers or other systems, pressure and temperature control equipment, and gas distribution piping. The LNG supply will be delivered by cryogenic trucks transporting LNG (LNG ISO trucks), which will be unloaded into cryogenic buffer tanks for subsequent vaporization and distribution to the generation units.

B. Palo Seco Units 3 and 4 Proposed Fuel Swap

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The Energy Bureau is specifically considering Genera's request to approve switching the primary fuel used to generate electricity to two (2) units, Palo Seco 3 and Palo Seco 4, at the Palo Seco Power Plant in Toa Baja, Puerto Rico from FO6 to natural gas while allowing FO6 to remain as the backup fuel.⁴ The Palo Seco Units 3 and 4 are combustion engineering heavy fuel oil-fired boilers, capable of 216 MW each (nameplate) that began commercial operation between 1967 and 1968.⁵ According to Genera, the Palo Seco Unit 3 ran with annual capacity factor of about 23% for the fiscal year 2023-2024; 69.9% for the fiscal year 2024-2025; and 60.1% for the fiscal year 2025-2026 (until December 2025).⁶ Also, the Palo Seco Unit 4 allegedly ran with annual capacity factor of about 7.5% for the fiscal year 2023-2024; 0% for the fiscal year 2024-2025; and 21.9% for the fiscal year 2025-2026 (until December 2025).⁷ It is clarified that the information submitted by Genera includes another set of calculated capacity factors that are lower than those presented in Response to ROI-1. Specifically, Genera represents Palo Seco Unit 3 ran with annual capacity factor of about 57.6% in fiscal year 2024-2025 and 48.1% in fiscal year 2025-2026.⁸

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Genera also states that the Heat Rates for Palo Seco Units 3 over the last five years are: 10,237 for fiscal year 2023-2024; 9,581 for fiscal year 2024-2025; and 9,907 for fiscal year 2025-2026 (through December 2025).⁹ For Palo Seco Unit 4, Genera reports the following Heat Rates: 9,982 for fiscal year 2023-2024; 0 for fiscal year 2024-2025; and 10,677 for fiscal year 2025-2026 (through December 2025).¹⁰ Regarding Service Hours, Genera states that Palo Seco Unit 3 operated 2,920 hours in fiscal year 2023-2024; 7,607 hours in fiscal year 2024-2025; and 4,116 hours in fiscal year 2025-2026 (through December 2025).¹¹ For Palo Seco Unit 4, the reported Service Hours are 927 in fiscal year 2023-2024; 0 in fiscal year 2024-2025; and 1,851 in fiscal year 2025-2026 (through December 2025).¹²

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⁴ See Updated SOW, p. 2.

⁵ See *Id.*, p. 4.

⁶ See Responses to ROI-1, p. 4. Through its evaluation of this case, the Energy Bureau is not assessing the accuracy of the capacity factors calculated by Genera. It is further clarified that the capacity factor reported by Genera in this case is expressed in energy terms rather than in terms of hours of operation. In this context, the capacity factor represents the ratio between the actual amount of electricity generated by the unit over a given period and the maximum amount of electricity that the unit could have generated if it had operated at its full rated capacity during that same period. In other words, it measures the actual energy output of the unit relative to its maximum potential energy output. This differs from an operational metric based on hours of operation, which simply measures the percentage of time a unit is running, regardless of the level of output at which it operates.

⁷ See *Id.*

⁸ See ROI-2 Attachment B and ROI-2 Attachment C.

⁹ See Responses to ROI-1, p. 5. It is clarified that, based on the evaluation conducted by the Energy Bureau, it should not be understood that the values represented by Genera are being accepted as true, nor should it be understood that the Energy Bureau has passed judgment on them.

¹⁰ See *Id.*

¹¹ See Responses to ROI-1, p. 5

¹² See *Id.*



According to Genera, Palo Seco Units 3 and 4 operate in accordance with a Title V Operating Permit issued by the Department of Natural & Environmental Resources (“DNER”) on March 16, 2015.¹³

Initially, Genera proposed converting Palo Seco Units 3 and 4 using LNG ISO containers to deliver natural gas to the units.¹⁴ Genera also stated that the required additional regasification infrastructure would be funded by FEMA and fully owned by PREPA.¹⁵ Later, in the Updated Proposed Fuel Swap, Genera stated that natural gas will be delivered through a gas pipeline from the San Juan Power Plant under a project lead by the United States Department of Energy (“DOE”) and the United States Army Corps of Engineers (“USCOE”), thereby eliminating the need for truck transport from the San Juan Plant to the Palo Seco Plant.¹⁶

Genera indicates that a federal project is expected to streamline natural gas delivery to the Palo Seco facility and eliminate reliance on truck transportation.¹⁷ Genera also stated that multiple components and parts required for the gas conversion of the Palo Seco Units 3 and 4 had previously been purchased by PREPA. After inspecting those items, Genera informed that they appear to be in good condition and functionally operable and determined that procuring new replacement parts with federal funding is not necessary. As a result, Genera presented a revised cost estimate that accounts for these reductions, including those associated with the availability of existing equipment as well as the reductions attributable to the elimination of the regasification infrastructure that would have been required to deliver natural gas using LNG ISO containers by truck.¹⁸

In the Fuel Swap Memorandum, Genera describes its assumptions regarding the fuel costs that would be incurred using FO6 versus natural gas for Palo Seco Units 3 and 4. Genera calculates that operating Palo Seco Units 3 and 4 on natural gas would result in approximately \$2.55/MMBtu in savings.¹⁹ Genera further states that the proposed fuel swap will not have impact rates because the conversion works will be performed using FEMA funds. Also, Genera stated that the proposed fuel swap generates significant environmental benefits.

Genera asserts that the natural gas to be used to supply the Palo Seco Units 3 and 4 will be provided by NFE pursuant to a contract awarded following a competitive procurement process conducted by the 3PPO.²⁰ Genera states that the NG Purchase Contract will supply natural gas to the Palo Seco facility.²¹ According to Genera, the gas will be delivered through a federally led project involving the U.S. Army Corps of Engineers and the Department of Energy, which would eliminate the need to transport natural gas by truck from San Juan to Palo Seco.

Initially, Genera asserted that it would be possible to switch between natural gas and FO6, thereby allowing the units to operate using whichever fuel is more cost-effective at any given time.

¹³ See Title V Permit and *PSD Applicability Analysis for Palo Seco Boilers 3 and 4 Fuel Conversion Project* (“PSD Applicability Analysis”) included as part of the letter sent by Genera to the United States Environmental Protection Agency on February 18, 2026, p. 1.

¹⁴ See SOW, January 9 Motion, p. 6.

¹⁵ See January 9 Motion, p. 4.

¹⁶ See February 9 Motion, p. 4.

¹⁷ See *Id.*, p. 7.

¹⁸ See February 9 Motion, Attachment B.

¹⁹ See January 9 Motion, p. 6, ¶6.

²⁰ See *Gas Sale Agreement* signed by NFE Energi LLC, Puerto Rico Public Private Partnership Authority and PREPA on December 4, 2025 (“NG Purchase Contract”). See, also, January 9 Motion, p. 3-4.

²¹ See February 9 Motion, p. 4.



However, Genera later clarified that switching between fuels based on relative prices was not feasible and noted that fuel prices, including FO6 and NG, are highly volatile and subject to significant fluctuations driven by market speculation, geopolitical events, supply and demand imbalances, macroeconomic conditions, and movements in relevant commodity indices.²² Genera further stated that, although historical data may provide a reasonable basis for projections, actual future fuel costs may differ significantly due to factors beyond its control.²³

Genera states that PREPA and Genera have already obligated A&E funding for design work during the project formulation phases.²⁴ Genera asserts that this funding will be used for technical studies, engineering assessments, and preparation of scopes of work and cost estimates, consistent with FEMA's purpose for A&E allocations.²⁵ Additionally, Genera states that conversion costs will be eligible for advances under the working capital advance program once FEMA obligates the scope of work.²⁶

Genera states that switching a power generation unit from FO6 to natural gas is expected to significantly extend equipment life.²⁷ According to Genera, natural gas combustion produces negligible ash, very low particulate emissions, and sulfur content in parts per million, reducing deposit formation and corrosion on boilers, turbines, and exhaust systems.²⁸ Genera states this cleaner combustion maintains thermal efficiency, reduces wear on engine components, lowers lube oil contamination, and decreases maintenance frequency and overhaul costs, resulting in improved operational stability and longer equipment lifespan compared to FO6 operation.²⁹

Finally, Genera requests the Energy Bureau's authorization to submit a federal fund request to COR3 and FEMA under the Section 428 and/or Section 406 Hazard Mitigation Program to enable these units to operate on dual fuels, using natural gas as the primary fuel and FO6 as backup.³⁰ Genera alleges that, under PREPA FAAS, the conversion work is eligible for FEMA Section 428 funding, and, due to single-point-of-failure considerations, also qualifies for FEMA funding under Section 406 HMP.³¹ Genera indicates that its approach is to initially formulate the project under Section 428 and subsequently submit the mitigation narrative for FEMA's consideration under Section 406.³² According to Genera, this sequencing preserves flexibility and allows the project to transition to Section 406 once final costs and supporting documentation are available, in accordance with FEMA policy.³³

²² See Responses to ROI-1, p. 6-7.

²³ See *Id.*

²⁴ See Responses to ROI-1, p. 8.

²⁵ See *Id.*

²⁶ See *Id.*

²⁷ See Responses to ROI-1, p. 9.

²⁸ See *Id.*

²⁹ See *Id.*

³⁰ See February 9 Motion, p. 4, ¶8 and Responses to ROI-2, pp. 30-31.

³¹ See Responses to ROI-1, p10.

³² See *Id.*

³³ See *Id.*



III. Analysis of the Palo Seco Units 3 and 4 Conversion

A. Alignment with the Integrated Resources Plan

1. Alignment with the Approved IRP³⁴

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The Energy Bureau recognizes the Approved IRP as a fundamental planning instrument for the development, transformation, and operation of Puerto Rico's electric system. The Energy Bureau also notes that significant changes in the system since the approval of the current IRP, including changes affecting the availability of generation resources, as well as modifications to Puerto Rico's public energy policy through the enactment of Act 1-2025,³⁵ have had an impact on the evaluation of various initiatives contemplated under the Approved IRP. Notwithstanding these developments, the Energy Bureau acknowledges the importance of evaluating the proposed fuel swap initiative under the framework of the Approved IRP to assess its consistency, to the extent practicable, with the directives set forth therein.

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As part of the development of the Proposed IRP,³⁶ PREPA evaluated the operational condition and regulatory status of the Palo Seco Units 3 and 4. That evaluation identified significant operational and environmental compliance challenges, including the poor physical condition of the units and their inability to comply with the Mercury and Air Toxics Standards ("MATS"). In addition, the units are located in an area designated as nonattainment with respect to the EPA's SO₂ National Ambient Air Quality Standard ("SO₂ NAAQS"), and their emissions contribute to the ambient sulfur dioxide concentrations associated with that nonattainment designation. At the time, PREPA determined that substantial capital investments would be required for the units to remain operational and achieve compliance with applicable environmental regulations.³⁷ Based on that assessment, PREPA concluded that no capital projects should be undertaken to bring these units into compliance with MATS and that the units should instead be retired by 2025, thereby avoiding potential penalties or enforcement actions related to MATS noncompliance.³⁸ As a result, PREPA primarily considered limited-use and retirement options to address MATS compliance. Based on the simulations conducted as part of the Proposed IRP, Palo Seco Units 3 and 4 were projected to retire between approximately 2021 and 2025, although they were recommended to remain available for potential conversion to synchronous condensers.³⁹ The Energy Bureau ultimately adopted PREPA's recommendation in the Approved IRP, which established the retirement of these units within that timeframe.

Notwithstanding the foregoing, in the Approved IRP the Energy Bureau approved the retirement plans for PREPA steam units under PREPA's caveats indicating a need for replacement capacity, assurance of meeting the overall reliability needs, and in alignment with

³⁴ *Final Resolution and Order on the Puerto Rico Electric Power Authority's Integrated Resource Plan, In re. Review of the Puerto Rico Electric Power Authority Integrated Resource Plan, Case No. CEPR-AP-2018-0001, August 24, 2020 ("Approved IRP").* Minor modifications and/or clarifications to the Approved IRP were introduced through a *Resolution and Order on Reconsiderations* issued by the Energy Bureau on December 2, 2020, in case: *In re. Review of the Puerto Rico Electric Power Authority Integrated Resource Plan, Case No. CEPR-AP-20 18-0001.*

³⁵ Act No. 1 of March 12, 2025 ("Act 1-2025").

³⁶ PREPA's Motion to Leave File IRP Main Report "ERRATA" version, dated June 19, 2019, which included a corrected version of the Main IRP Report submitted on June 7, 2019, and is titled Integrated Resource Plan 2018-2019, Draft for the Review of the Puerto Rico Energy Bureau, Prepared for the Puerto Rico Electric Power Authority, June 7, 2019 (Rev. 2.1), In re. Review of the Puerto Rico Electric Power Authority Integrated Resource Plan, Case No. CEPR-AP-2018-0001 ("Proposed IRP").

³⁷ The last major maintenance of the Palo Seco Steam Unit 3 was performed in 2009. PREPA's filing under cover *Moción para presentar Documento: Reporte Detallado del Estatus Actual de la Flota de Generación de la Autoridad*, dated October 23, 2021, In Re: Puerto Rico Electric Power Authority's Permanent Rate, Case No.: NEPR-MI-2020-0001.

³⁸ See Proposed IRP, *infra*, Section 8.2.3, p 8-23.

³⁹ See Proposed IRP, *infra*, Section 8.2.3, p 8-23.



more specific timing thresholds described in the Modified Action Plan.⁴⁰ This means that the retirement dates proposed in the Approved IRP are not definitive, but rather remain subject to periodic evaluation, taking into consideration the needs of the system as well as the operational condition of the units.

The current circumstances of the system, as recognized by the Energy Bureau in this and other proceedings, have required that the Palo Seco Units 3 and 4 remain in operation in order to maintain system stability and avoid the implementation of load shedding, given the generation limitations currently affecting the system.⁴¹ Under these circumstances, the Energy Bureau **DETERMINES** that maintaining the Palo Seco Units 3 and 4 in operation beyond the estimated retirement year of 2025 is not inconsistent with the Approved IRP.⁴²

Separately, the modeling conducted as part of the Proposed IRP did not contemplate the specific fuel swap proposed by Genera for the Palo Seco Units 3 and 4 and, therefore, did not evaluate its economics. Notwithstanding, the Proposed IRP considered a new LNG terminal as a preferred option for supplying natural gas to the San Juan and Palo Seco plants.⁴³ The project contemplated an onshore LNG storage and vaporization facility with an estimated capital cost of approximately \$472 million, supplied by LNG carriers delivering fuel directly to onshore tanks.⁴⁴ The proposal cost included the construction of a natural gas pipeline of 4.2 miles connecting the San Juan facility to the Palo Seco plant, with an estimated cost of \$25 million.⁴⁵ The pipeline was intended to supply natural gas to a new combined cycle unit of approximately 300 MW at Palo Seco. The Proposed IRP also established incremental costs for the gas supply infrastructure and the pipeline connecting San Juan to Palo Seco in the event that additional natural gas-fired units were to be installed at the Palo Seco Plant. Nevertheless, the proposal did not contemplate the conversion of the existing Palo Seco Units 3 and 4 to natural gas. Additionally, the Proposed IRP analysis assumed that the residual fuel oil units at the San Juan and Palo Seco power plants would eventually be replaced, retired, or limited in operation to achieve compliance with MATS, and that replacement generation would be capable of operating on natural gas and diesel.⁴⁶

The foregoing proposal was rejected in part as part of the Approved IRP, although the continued evaluation of certain initiatives related to the potential installation of a 300 MW combined cycle unit at Palo Seco was allowed to proceed. Among other factors, the determination was influenced by the capital cost required for the development of the LNG terminal in San Juan, which was estimated at approximately \$472 million. Although the cost of connecting the San Juan facility to Palo Seco was not considered significant, the development of the LNG terminal infrastructure weighed heavily in the economic determination to reject that alternative.

Nevertheless, as discussed above, Genera's fuel swap proposal explicitly states that no capital investment from ratepayers will be required for the conversion of the Palo Seco Units 3 and 4, as those costs are expected to be covered by FEMA.⁴⁷ In addition, Genera stated that natural gas will be delivered through a pipeline from the San Juan Power Plant under a project led by the DOE and the USACE, which would eliminate the need to transport LNG by truck from San

⁴⁰ See Approved IRP, ¶ 630, p. 193.

⁴¹ See, for example, *Puerto Rico Electrical System Resources Adequacy Analysis Report*, dated December 5, 2025, filed by LUMA in Case No. NEPR-MI-2022-0002.

⁴² As discussed further below, this determination is consistent with the 2025 Proposed IRP, *infra*, which proposes retirement dates for the Palo Seco Units 3 and 4 that could extend to as late as 2034.

⁴³ See Proposed IRP, Section. 10.1.6.1, p. 9-7.

⁴⁴ See Proposed IRP, Section 7.1.2.9, p. 6-13.

⁴⁵ See Proposed IRP, Section. 10.1.6.1, p. 9-7.

⁴⁶ See *Id.*

⁴⁷ See January 9 Motion, p. 2, ¶4.



Juan to Palo Seco.⁴⁸ According to Genera, the development of this pipeline infrastructure would also be undertaken and funded by those federal entities. Therefore, if the proposed fuel cost savings can be implemented as described in Genera's proposal, without requiring capital investments that would impact ratepayers, the proposal would be substantially aligned with the Approved IRP.

A Genera estimated annual savings of \$2.55/MMBtu for the Palo Seco Units 3 and 4.⁴⁹ Later in this Resolution and Order, the savings proposed by Genera will be evaluated in detail. However, considering the caveats regarding Genera assumptions, as discussed in this Resolution and Order, the Energy Bureau acknowledges that some level of savings may exist, though not to the extent originally calculated by Genera.

Jim Based on the reasons discussed above, including the fact that the continued operation of the Palo Seco Units 3 and 4 beyond the previously projected 2025 retirement date is not inconsistent with the Approved IRP, and that the conversion to natural gas proposed by Genera is not expected to require capital investment from ratepayers, the Energy Bureau finds that the proposed fuel swap for the Palo Seco Units 3 and 4 does not conflict with the Approved IRP. Accordingly, the Energy Bureau determines that the proposed fuel swap **IS NOT INCONSISTENT** with the Approved IRP.

2. Alignment with the 2025 Proposed IRP

SM As required by Act 57-2014, on July 12, 2023, the Energy Bureau initiated a new Integrated Resource Plan (IRP) process to update the previously approved IRP.⁵⁰ This update is mandated by law to account for changes in available resources and to reflect updated circumstances and conditions affecting the electric system, thereby ensuring that Puerto Rico's long-term energy planning remains aligned with current realities and future needs. As part of this process, LUMA recently submitted a proposed IRP.⁵¹ The IRP process is ongoing, with further evaluations and stakeholder engagements planned to ensure a sustainable and reliable energy future for the island.

SM While the development of the updated IRP was ongoing, Act 1-2025 was enacted, amending Puerto Rico's Public Energy Policy Act ("Act 17-2019") and the Energy Diversification Act, as amended ("Act 82-2010"), eliminating the interim renewable energy targets of 40% by 2025 and 60% by 2040, while retaining the statutory objective of achieving 100% renewable energy generation by 2050. These legislative amendments modified the energy transition framework to better align with current conditions of the electric system and to ensure continued system reliability. In particular, the amendments allow, during a transitional period, the integration of other generation resources into the system that are not necessarily based on renewable energy sources, provided that such integration supports the achievement of the 100% renewable energy goal by 2050 and that such resources are procured at competitive prices capable of competing with renewable energy alternatives. This significant change in public policy not only affects the planning framework reflected in the Approved IRP but also required modifications to the earlier versions of the proposed IRP that were under development at the time.

In addition, consistent with Act 1-2025, on March 19, 2025, the Energy Bureau issued a Resolution and Order in the case In Re: Electric System Priority Stabilization Plan, Case No. NEPR-MI-2024-0005 ("March 19 Resolution"), in which it determined that: (i) given the pattern of forced outages affecting PREPA's existing aging thermal generation fleet, the available generation capacity is limited and may hinder necessary maintenance and repairs to

⁴⁸ See February 9 Motion, p. 4.

⁴⁹ See January 9 Motion, p. 6, ¶14.

⁵⁰ See *In Re: Review of the Puerto Rico Electric Power Authority Integrated Resource Plan*, Case No.; NEPR-AP-2023-0004.

⁵¹ See *Memorandum of Law in Support of Request of Confidential Treatment of Revised 2025 IRP and Submission of Public Version and Confidential Version of Revised 2025 IRP*, filed by LUMA Energy, LLC and LUMA Energy ServCo, LLC on October 29, 2025 ("2025 Proposed IRP")



the system; (ii) there is a need to explore the costs and timeframe associated with the availability of new, modern generation resources that would allow Puerto Rico to meet the objectives of the updated public energy policy while serving the best interests of electricity customers; and (iii) such procurement effort should explore between 2,500 and 3,000 MW of new capacity.

Although the directive to procure new generation capacity, as stated in the March 19 Resolution, may not fully align with the Approved IRP, it falls within the Energy Bureau's delegated authority to implement Puerto Rico's energy policy and to issue determinations in furtherance thereof. The March 19 Resolution illustrates how, given the current conditions of the electric system and the enactment of Act 1-2025, the Energy Bureau has in certain instances been required to adopt measures that may depart, to a limited extent, from the assumptions reflected in the Approved IRP and, in some cases, from those contemplated in the 2025 Proposed IRP, while acting within the scope of the authority delegated to it by law.

As is well established, conversion projects must be evaluated for consistency with an Integrated Resource Plan that has been duly approved in accordance with applicable legal provisions. In other words, such projects are not required to conform to an Integrated Resource Plan that is still under review and has not yet been approved. However, the particular circumstances of this case warrant that the Energy Bureau consider, to some extent, the consistency of the proposed conversion of the Palo Seco Units 3 and 4 with certain relevant aspects of the Integrated Resource Plan currently under evaluation. This is particularly appropriate because, as discussed above, the current conditions of the electric system, particularly the limited availability of adequate generation resources required to maintain system reliability, as well as the enactment of Act 1-2025, have required the Energy Bureau to make determinations that may depart, to a limited extent, from certain elements of the Approved IRP.

One of the essential components of an Integrated Resource Plan is the evaluation of the generation resources available to the system and the manner in which those resources are proposed to be utilized or retired over the planning horizon. Under Act 57-2014, the IRP is developed using a planning horizon of twenty (20) years, while establishing a five-year action plan to guide near-term implementation. As part of this process, the IRP must identify the generation resources currently available to the system, as well as those proposed to be developed or retired, and evaluate them based on a range of technical, economic, and regulatory parameters associated with such resources.

The 2025 Proposed IRP identifies Palo Seco Unit 3 as a generation resource, with a nameplate capacity of 216 MW, an available capacity of 180 MW, a heat rate of 10,300 Btu/kWh, and a forced outage rate of 25%.⁵² Regarding Palo Seco Unit 4, the nameplate capacity is 216 MW, the available capacity is 200 MW, the heat rate is 10,300 BTU/kWh, and the forced outage rate is 35%.⁵³ The 2025 IRP also identifies FO6 as the primary fuel used by the Palo Seco Units 3 and 4.

As part of the modeling assumptions in the 2025 Proposed IRP, the potential retirement of certain FO6 units was evaluated within a defined time window.⁵⁴ Specifically, with respect to the Palo Seco Units 3 and 4, the modeling assumed that these units could retire within a window between 2030 and 2034.⁵⁵ The earliest retirement year of 2030 was selected as the first year in which new firm capacity could reasonably be developed and placed into operation to replace the units' capacity. The end of the window, 2034, allowed the resource modeling framework to determine a preferred retirement date within a five-year period based on the cost and reliability criteria applied to generation additions and retirements.⁵⁶ The modeling

⁵² See LUMA's 2025 Proposed IRP, p. 164.

⁵³ See *Id.*

⁵⁴ See LUMA's 2025 Proposed IRP, p. 225.

⁵⁵ *Id.*

⁵⁶ *Id.*



results presented in the 2025 Proposed IRP propose specific retirement dates for Palo Seco Unit 3 and Palo Seco Unit 4, with Palo Seco Unit 3 projected to retire in 2032⁵⁷ and Palo Seco Unit 4 projected to retire in 2030.⁵⁸

The retirement recommendations included in the 2025 Proposed IRP are subject to certain conditions related to the addition of new resources and the ability of the electric system to maintain adequate reliability levels.⁵⁹ Specifically, with respect to Palo Seco Unit 4, the 2025 Proposed IRP indicates that its planned retirement, identified for 2030 in the modeling results, would be contingent upon future resource adequacy analyses confirming that the system has sufficient capacity to maintain acceptable reliability levels. Such evaluations would consider reliability indicators, including Loss of Load Expectation (LOLE), Expected Unserved Energy (EUE), or similar metrics, to ensure that adequate generation resources are available prior to the unit's retirement.⁶⁰ The discussion in this section of the 2025 Proposed IRP refers specifically to Palo Seco Unit 4 because it is the unit proposed for retirement within the five-year action plan. In contrast, Palo Seco Unit 3 is projected to retire in 2032, which falls outside the five-year action plan; however, if its retirement were to be considered in the future, a similar resource adequacy evaluation would be expected to apply.

As reflected in the preceding discussion, the 2025 Proposed IRP contemplates that Palo Seco Unit 3 and Palo Seco Unit 4 could remain in operation until approximately 2034, representing an additional operational period of roughly nine years. Although the utilization of these units is projected to decline after 2029, the planning framework of the IRP nevertheless recognizes that these units may continue operating for a period of time rather than being immediately retired. Accordingly, from a retirement perspective, the proposal to operate the units using natural gas is not inconsistent with the planning assumptions of the IRP. This is particularly so because, as discussed further below, the units are expected to remain in operation for most of the term of the NG Purchase Contract, which commenced in December 2025 and extends through December 2032.

The Energy Bureau recognizes that the 2025 Proposed IRP does not evaluate the economic aspects associated with the conversion to natural gas proposed for Palo Seco Units 3 and 4. In particular, the 2025 Proposed IRP does not account for the costs of gasification infrastructure or for the construction of a pipeline connecting San Juan to Palo Seco. However, the circumstances currently presented by Genera differ from those considered in the planning assumptions of the 2025 Proposed IRP. As represented in the record, the conversion works themselves are expected to be funded through FEMA under the Section 428 and/or Section 406 programs, and the pipeline connecting San Juan to Palo Seco would be developed by federal agencies, specifically the DOE and the USCOE, without capital investment from ratepayers. In addition, the supply of natural gas is expected to rely on existing infrastructure, further limiting the need for new capital expenditures. Under these circumstances, the principal economic element remaining for evaluation from an IRP perspective relates to fuel costs. Moreover, to the extent that, as discussed above with respect to the Approved IRP, any fuel cost savings materialize as a result of the proposed conversions, the Energy Bureau considers that the proposal may be consistent with the framework contemplated in the 2025 Proposed IRP.

Finally, while the 2025 Proposed IRP did not specifically model the conversion of Palo Seco Units 3 and 4 to natural gas, it does contemplate measures aimed at addressing environmental compliance and system needs, including the use of ultra-low sulfur diesel ("ULSD") and the conversion of certain units to natural gas to support compliance with applicable environmental standards, including the EPA's SO₂ NAAQS. Accordingly, although the specific proposal at issue was not expressly modeled in the 2025 Proposed IRP, it may nonetheless be

⁵⁷ See LUMA's 2025 Proposed IRP, p. 275.

⁵⁸ See *Id.*

⁵⁹ See LUMA's 2025 Proposed IRP, p. 293.

⁶⁰ See LUMA's 2025 Proposed IRP, p. 293.



considered as part of the IRP process, consistent with the determinations adopted by the Energy Bureau in this Resolution and Order.

As previously noted, it is not necessary at this stage to determine whether the proposed conversion to natural gas complies with the 2025 Proposed IRP. However, the analysis conducted herein suggests that, with appropriate adjustments, the proposal may be consistent with the planning framework contemplated in the 2025 Proposed IRP.

B. Alignment with the Energy Public Policy

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Article 1.11 of Act 17-2019 provides that PREPA's Legacy Generation Assets sold as part of a PREPA Transaction may be converted to dual-fuel capability, with at least two fossil fuels, one of which may be natural gas. Nevertheless, Act 17-2019 does not prohibit existing units within PREPA's Generation Legacy Assets (not sold as part of a PREPA Transaction) from being converted to dual-fuel capability. Therefore, if a proposed conversion aligns with the Approved IRP and applicable energy public policy principles, the Energy Bureau may authorize the conversion of a PREPA Legacy Generation Asset to dual-fuel use, with natural gas as one of the fuels.

A careful review of Genera's filings also shows that the proposed fuel swap substantially aligns with the energy public policy, as it meets the objectives of providing affordable and reasonable electric power service, allowing fossil fuel units to operate with multiple fuel types, including natural gas, ensuring that fuel and power purchases are made at reasonable prices based on market and local conditions.⁶¹

C. Relevant Permits

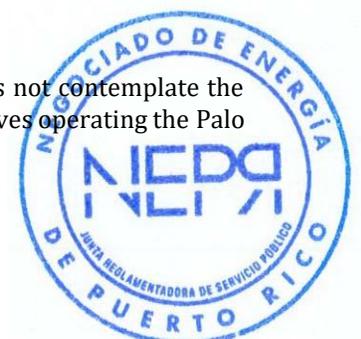
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According to Genera, Palo Seco Units 3 and 4 operate under the Permit Title V issued by the DNER on March 16, 2015, which authorizes the operation of the two units using FO6. Palo Seco Units 3 and 4 currently may not operate using natural gas. The conditions in the permit for the operation of Palo Seco Units 3 and 4 would need to be modified to allow the use of natural gas. On February 18, 2026, Genera submit to the Environmental Protection Agency ("EPA") the PSD Applicability Analysis, including revised natural gas emission calculations. Genera has submitted no further information about other local or federal permits necessary for implementing the proposed fuel swap at Palo Seco Units 3 and 4, nor has it provided a detailed schedule for obtaining such permits.

Genera has conveyed that the project is effectively ready for implementation as early as June 2026. However, it has not provided a reasonable timeline for securing several key permits that are typically required for projects of this nature.⁶² Based on experience with similar permitting processes, obtaining these authorizations can be complex and time-consuming, raising questions as to whether the project is as imminently executable as Genera has suggested.

Nevertheless, the Energy Bureau **CLARIFIES** that it is solely Genera's responsibility to obtain all required permits for the project's execution, and the Energy Bureau has not assessed the status or adequacy of these permits. To the fullest extent possible, all permits obtained in connection with the proposed fuel swap must be secured to benefit PREPA. Further, Genera **SHALL** only operate the Palo Seco Units 3 and 4 using natural gas and **SHALL** only commit under the NG Purchase Contract to procure additional quantities pursuant to the Take-or-Pay provision of such contract, once it has fully complied with all applicable legal requirements and obtained all necessary permits.

⁶¹ See, in general, Article 1.5 of Act 17-2019.

⁶² In fact, it is worth noting that the PSD Applicability Analysis submitted by Genera does not contemplate the operational scenario that Genera proposes to implement as early as June 2026, which involves operating the Palo Seco Units 3 and 4 using a fuel mix consisting of 50% natural gas and 50% FO6.



D. Project Cost

In the Updated Proposed Fuel Swap, Genera submitted certain information regarding the scope of work and costs associated with the requested conversions for the Palo Seco Units 3 and 4. Genera indicated that the conversion of the Palo Seco Units 3 and 4 from FO6 to natural gas would not require PREPA to incur any capital expenditures, as such costs may be funded through FEMA.⁶³ In the Updated SOW Genera indicated that “*in the alignment with Puerto Rico’s Public Energy Policy, Genera has identified the Palo Seco Units 3 & 4 conversion project as a key initiative that can significantly reduce fuel costs without requiring capital investment from customers*”.⁶⁴ Genera also asserted the project will be eligible for FEMA Section 428 funding. In the Updated SOW, Genera indicated that it “*intends to submit to COR3 and FEMA a request for funds under the 428 program to undertake the works to convert the units to burn natural gas...*”.⁶⁵

Genera asserts that, based on its analysis and inventory, the originally proposed project scope and cost for converting Palo Seco Units 3 and 4 to dual fuel may be significantly reduced.⁶⁶ Initially, Genera estimated that the project cost would be \$80,350,000.00.⁶⁷ Notwithstanding, in the Updated Proposed Fuel Swap Genera states a reduction in the cost approximately about \$60,350,000, resulting in a revised estimated total project cost of \$20,000,000, plus the value of equipment already on hand.⁶⁸ Through the Updated SOW, Genera indicated that it has identified various components and parts previously purchased by PREPA for the regasification of Palo Seco Units 3 and 4 and in a preliminary inspection suggests that these items are in good condition and functionally operable that result in a cost reduction of about \$30,000,000.⁶⁹ As a result, Genera informs the total cost breakdown for the fuel swap project for the Palo Seco Units 3 and 4 in approximately \$50 million.⁷⁰ Genera also states that while the fuel-conversion scope remains unchanged, the cost estimate for FEMA project formulation will be adjusted accordingly.⁷¹ Additionally, Genera states that no regasification infrastructure will be required due to the federal-led natural gas pipeline delivery project to the Palo Seco facility, the costs of which are expected to be borne by the federal agencies leading such project.⁷²

Genera states that, in line with prudent administration of federal funds, it has identified \$113,000,000 from FEMA PWs 10710, 108115, 10819, and 009510 that could be used for the fuel conversion of Cambalache, San Juan 7 & 9, and Palo Seco Units 3 and 4. If the Energy Bureau approves the project, Genera will submit the necessary scope of work and project formulation to FEMA to expedite the fuel swap for Palo Seco Units 3 and 4.

Regardless of whether certain equipment and components are already available at PREPA’s facilities for the execution of the project, the total cost of the project is approximately \$50 million, since even if \$30 million is attributed to existing equipment and parts, such costs were incurred at some point. Accordingly, the project ultimately represents a capital cost of approximately \$50 million.

⁶³ See January 9 Motion, p. 2-3, ¶4.

⁶⁴ See February 9 Motion, p. 4.

⁶⁵ See January 9 Motion, pp. 2-3.

⁶⁶ See February 9 Motion, p. 5, ¶13.

⁶⁷ See SOW, p. 8.

⁶⁸ See February 9 Motion, p. 5, ¶13.

⁶⁹ See February 9 Motion, p. 4, ¶11.

⁷⁰ See February 9 Motion, Updated SOW, p. 6.

⁷¹ See February 9 Motion, p. 5, ¶13.

⁷² See *Id.*



It is important to state that previous conversion requests made by Genera required ratepayers to fund such conversions. This is the first time that Genera has developed the conversion at no cost to the ratepayers. This is an important aspect since Genera accepts that such alleged savings may vary particularly with the uncertainty of the cost of fuels.

Based on the representations made by Genera, the Energy Bureau notes that the proposed conversion of the Palo Seco Units 3 and 4 to natural gas would not require capital expenditures to be borne by PREPA's customers, as the costs associated with the project are expected to be funded through federal programs. While the Energy Bureau is not conducting, as part of this proceeding, a specific cost-benefit analysis regarding the use of such federal funds for the proposed conversions, the record suggests that the project may provide certain potential benefits. These include the possibility of fuel cost reductions, although potentially not to the magnitude asserted by Genera, as well as environmental and operational benefits. In particular, the conversion to natural gas could facilitate improved compliance with applicable environmental requirements, including those related to MATS, support compliance with the SO₂ NAAQS, and result in lower pollutant emissions compared to the continued use of FO6. Additionally, the use of a cleaner fuel may contribute to improved maintenance conditions and operational reliability of the units. Considering these factors, and under the particular circumstances of the system, the Energy Bureau finds that the balance of these considerations reasonably supports the costs that may be incurred to convert the units to operate with natural gas.

E. Proposed Fuel Cost Savings

In the Updated Fuel Swap, Genera states that switching the primary fuel from FO6 to natural gas will benefit PREPA's customers through savings in fuel costs.⁷³ Genera also alleges that the proposed conversion will also have additional savings in operation and maintenance ("O&M") costs.⁷⁴ Genera provides a numerical comparison, stating that FO6 is forecasted to cost \$13.62/MMBtu, while LNG is forecasted at \$7.95/MMBtu (plus Henry Hub adjustments), and concludes that this represents savings of approximately \$2.55/MMBtu.⁷⁵

Genera further alleges that, based on the historical operation of the Palo Seco Unit 3 over the past thirty months, the proposed fuel conversion will result in savings for ratepayers.⁷⁶ Specifically, Genera estimates that when the units operates in the future using natural gas, it could yield an average monthly savings of approximately \$1,692,408.22, which would amount to cumulative savings of \$50,772,246.56 over an 30-month period.⁷⁷ In support of this allegation, Genera includes as Attachment B a Excel table illustrating the historical fuel consumption of the Palo Seco Unit 3. Genera also alleges that actual savings could be higher with the return of Palo Seco Unit 4 to service. Genera estimates that if both units operate with natural gas, the estimated combined savings would be approximately \$3,384,816.44 per month, which would amount to cumulative savings of \$40,617,797.25 annually.⁷⁸

The Energy Bureau finds that Genera's methodology for estimating the projected savings does not reasonably reflect the savings that may be expected from the proposed natural gas operations. For example, Genera relies on historical average cost data from approximately the last thirty (30) months to estimate annual savings, a methodology that is not reliable and does not accurately reflect future operating conditions. Rather, any evaluation of savings associated with the operation of the Palo Seco Units 3 and 4 on natural gas must be based using the pricing structure established in the NG Purchase Contract and the FO6 Purchase Contract. This

⁷³ See January 9 Motion, p. 5.

⁷⁴ See January 9 Motion, p. 6, ¶12.

⁷⁵ See January 9 Motion, p. 6, ¶14.

⁷⁶ See January 9 Motion, p. 7-8, ¶19.

⁷⁷ See *Id.*

⁷⁸ See January 9 Motion, p. 8, ¶20.



methodology is not reliable because the averaging approach relies on historical data that is not representative of current or expected market conditions. In particular, the calculation incorporates older periods in which natural gas prices were significantly lower and do not reflect the upward trend observed in recent years, thereby artificially lowering the resulting average natural gas price. Conversely, with respect to FO6, the methodology incorporates earlier periods when prices were relatively higher, which has the effect of increasing the resulting average fuel oil price. As a result, the calculated averages do not provide an appropriate basis for estimating the potential fuel cost savings. Moreover, the methodology does not account for the fuel price levels reasonably expected in the coming years based on prevailing market trends, expected fuel volumes, and the existing contractual arrangements for the procurement of both fuels.

The Energy Bureau deems that a reasonable calculation of the expected savings associated with the operation of Palo Seco Units 3 and 4 on natural gas should be based substantially on the following parameters: (i) the dependable capacity of the units and an operating profile consistent with the expected dispatch levels of the units over the coming years; (ii) natural gas pricing calculated in accordance with the pricing structure established in the NG Purchase Contract; (iii) forward-looking natural gas price projections based on the Henry Hub indices published in the Short-Term Energy Outlook (STEO) of the U.S. Energy Information Administration; and (iv) an FO6 price benchmark based on the pricing structure established in the applicable FO6 purchase contract, or on equivalent proxy indices published by the U.S. Energy Information Administration.

As previously stated, the Energy Bureau will not undertake a further review of the projected fuel price assumptions at this time. Given the particular circumstances surrounding fuel price dynamics and the nature of the projections presented, the Energy Bureau will rely on Genera's representations and will not require additional information regarding the projected savings associated with the proposed conversion. Nevertheless, Genera shall be required to submit, on an annual basis, detailed calculations of the savings allegedly realized as a result of the conversion of Palo Seco Units 3 and 4 to natural gas, as described below.

On February 1 of the calendar year following the commencement of commercial operation of the Palo Seco Units 3 and 4 using natural gas, and on February 1 of each year thereafter, Genera shall file with the Energy Bureau an annual report detailing the savings realized as a result of operating the Palo Seco Units 3 and 4 using natural gas. The annual report shall include, for each unit: (i) the number of hours the unit operated during the reporting year; (ii) the resulting capacity factor for that unit; (iii) the unit's total natural gas consumption and the corresponding cost of natural gas incurred; (iv) an estimate of the cost that would have been incurred to operate the unit on FO6 during the same period, based on the FO6 purchase contract in effect at the time; (v) a calculation of the savings attributable to operating the unit on natural gas as compared to FO6; (vi) the amount by which the minimum take-or-pay obligations under the NG Purchase Contract increased as a result of the inclusion of the Palo Seco Units 3 and 4 as additional generation units under that agreement; (vii) the amount incurred by PREPA during the applicable calendar year (January 1 through December 31) as a result of natural gas volumes not taken but paid for under the take-or-pay provisions of the NG Purchase Contract; and (viii) a separate section identifying and supporting the maintenance costs attributable to each unit during the reporting year, as well as any capital expenditures incurred in connection with the operation of such units.

F. Fuel Price Trends

The Energy Bureau conducted a general review of historical fuel price data for FO6 and natural gas using publicly available price indices published by the U.S. Energy Information Administration (EIA).⁷⁹ The Energy Bureau's review was not intended to constitute a detailed or comprehensive economic analysis, but rather a high-level assessment of historical cost behavior, including an examination of relative volatility patterns. That review suggests that, while natural gas may exhibit greater short-term statistical volatility in percentage terms, FO6

⁷⁹ See *No. 6 Residual Fuel Wholesale Price*, Short-Term Energy Outlook Data Browser, U.S. Energy Information Administration ("No. 6 Fuel Wholesale Price"); and *Natural Gas Henry Hub Spot Price*, Short-Term Energy Outlook Data Browser, U.S. Energy Information Administration ("NG Henry Hub Price").



historically displays larger cyclical price movements and periods of sustained price increases, particularly during oil-market disruptions.⁸⁰

Although the data reviewed suggests a potential reduction in residual fuel oil prices during the 2026–2027 period, the Energy Bureau does not interpret this as indicative of a persistent long-term trend. The historical record instead shows that residual fuel oil prices have been subject to significant cyclical variability and may experience substantial and prolonged increases. Accordingly, the Energy Bureau cannot make a definitive determination regarding future relative fuel price movements based solely on this limited review and instead relies on the representations made by Genera, which was retained by PREPA (among others) to procure fuel and assess fuel market conditions on its behalf and is expected to possess the relevant expertise in such matters.⁸¹

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Sm The Energy Bureau notes that, while it generally relies on the representations provided by Genera regarding the procurement of natural gas, the savings projected by Genera for the years 2026–2027 may ultimately be materially lower than currently estimated or may not materialize at all.⁸² This conclusion is reached without considering recent geopolitical developments, including the evolving conflict involving Iran, which historically has been associated with sustained increases in global oil prices.

Finally, the Energy Bureau also notes that the fuel price forecast included in the 2025 Proposed IRP reflects a methodology that generally projects a more pronounced long-term increase in FO6 prices relative to natural gas. While the Energy Bureau does not adopt or validate those projections in this Resolution and Order, the projected trend is consistent with the broader historical patterns observed in the data reviewed.

SM The Energy Bureau reiterates that, at this stage, it does not undertake an independent assessment of those fuel price projections. Rather, the Energy Bureau relies on Genera's representations together with the high-level review described above and proceeds with the expectation that more substantial savings associated with the fuel transition may materialize in subsequent years.

G. Environmental Benefits

1. SO₂ NAAQS Compliance

SM Genera states that the Palo Seco power plant is located in an SO₂ NAAQS Non-Attainment Area designated.⁸³ According to Genera, as a result of this designation, the Government of Puerto Rico must implement measures through its State Implementation Plan (SIP) to reduce SO₂ emissions and achieve compliance with the NAAQS.⁸⁴ Genera further contends that converting

⁸⁰ See, for example, the significant global oil-market disruptions associated with the 2008 oil price shock, the 2020 pandemic-related market collapse and subsequent recovery, and the 2022 energy market disruptions following Russia's invasion of Ukraine.

⁸¹ Nothing herein shall be construed as limiting the Energy Bureau's authority to intervene if the evidence demonstrates that Genera's determinations are not supported by adequate analysis or may result in outcomes contrary to the public interest, in which event the Energy Bureau retains full authority under applicable law to take such actions as it deems necessary.

⁸² Preliminary high-level calculations performed by the Energy Bureau, based on the data reflected in No. 6 Fuel Wholesale Price and NG Henry Hub Price, as well as certain assumptions regarding the projected use of Palo Seco Units 3 and 4, consistent with their historical utilization levels and the historical FO6 cost assumptions used by Genera PR, were prepared as part of the Energy Bureau's review. These calculations indicate that, contrary to Genera's assertions, for the years 2026 and 2027 operating these units using FO6 would result in a reduction in fuel costs of nearly the same magnitude as the savings that Genera claims would be achieved by operating the units using natural gas. These preliminary calculations, however, do not consider the potential upward pressure on fuel prices that could arise from current geopolitical developments, including the ongoing conflict involving Iran. As widely reported, such events may lead to increases in the prices of oil and natural gas in international energy markets, which could affect the relative cost comparison between FO6 and natural gas in the coming years.

⁸³ See February 9 Motion, p. 6.

⁸⁴ See *Id.*



Palo Seco Units 3 and 4 from FO6 to natural gas would significantly reduce SO₂ emissions and other pollutants associated with FO6 combustion. Based on preliminary emissions calculations referenced by Genera, operating the units on natural gas would reduce emissions for most pollutants, with the exception of carbon monoxide (CO) and greenhouse gases (GHG).⁸⁵ Genera also asserts that these reductions, particularly those related to SO₂, could help address the plant's location within a SO₂ Non-Attainment Area, potentially improving environmental conditions and public health in nearby communities and helping the area move closer to attainment status under EPA standards.⁸⁶ Genera further maintains that achieving such status could reduce regulatory constraints and eliminate certain federal restrictions that may apply to industrial development in Non-Attainment areas.⁸⁷

Consistent with this approach, the Puerto Rico Department of Natural and Environmental Resources (DRNA), as part of the SO₂ State Implementation Plan (SIP) process, proposed to the EPA that compliance with the SO₂ NAAQS would be achieved, among other measures, through the reduction of SO₂ emissions resulting from the retirement of certain generating units, including Palo Seco Units 3 and 4. However, as discussed above, given the current need to maintain adequate generation resources to ensure system reliability, the retirement of these units has not been feasible. As a result, Puerto Rico has not yet achieved the reductions contemplated in the proposed SIP.

In addition, the ongoing development of the 2025 Proposed IRP will require the identification of alternative mechanisms to address compliance with the applicable SO₂ NAAQS requirements. In this context, the Energy Bureau considers that the proposed conversion of Palo Seco Units 3 and 4 to natural gas may constitute a reasonable mechanism to reduce SO₂ emissions while maintaining needed generation capacity, particularly given that, as represented in the record, the conversion would not require capital investment from ratepayers.

The Energy Bureau also notes that failure to attain the SO₂ NAAQS and to secure approval of an adequate SIP may trigger federal consequences under the Clean Air Act, including the imposition of stricter emissions offset requirements for new or modified sources and, after certain statutory periods, potential sanctions affecting the availability of federal highway funds. Such consequences may also constrain economic development in nonattainment areas by limiting the ability to authorize new sources of emissions. Accordingly, these considerations weigh in favor of the Energy Bureau approving the proposed conversion to natural gas, as it represents a mechanism that may contribute to advancing progress toward SO₂ compliance while addressing the current operational needs of the electric system.

2. MATS

As part of the IRP process that led to the approval of the Approved IRP, PREPA represented to the Energy Bureau that Palo Seco Units 3 and 4 were not in compliance with the MATS and had therefore been designated as limited-use units. However, in the 2025 Proposed IRP, these units are identified as being in compliance with the applicable MATS requirements.⁸⁸ The Energy Bureau has not conducted an independent verification of that representation. Nonetheless, the Energy Bureau notes that the proposed conversion of Palo Seco Units 3 and 4 to natural gas may place the units under a different emissions source category and potentially subject them to less stringent MATS requirements. Accordingly, even if compliance with MATS were uncertain under the current operating configuration, the proposed conversion may improve the regulatory conditions applicable to these units under MATS. These considerations further weigh in favor of the Energy Bureau approving the proposed conversion.

⁸⁵ See *Id.*

⁸⁶ See January 9 Motion, p. 9, ¶26.

⁸⁷ See *Id.*

⁸⁸ See Responses to ROI-2.



H. Proposed Implementation Schedule

In the Responses to ROI-2, Genera indicates that the project is expected to operate at 50% on natural gas by July 2026. Genera also states that full (100%) operation is expected by October 2026.⁸⁹

The schedule proposed to commence operations using natural gas appears to be highly aggressive, as it presumes that all necessary permits and authorizations from state and federal agencies, including the EPA, will be obtained within a period of approximately four months.⁹⁰ As previously stated, however, the Energy Bureau does not intervene in the permitting process, and any approval it may grant is necessarily subject to Genera's ability to obtain all required permits and regulatory authorizations. Nevertheless, it is important to emphasize that, for this project to be successful, it must be executed within a relatively short timeframe so that any potential benefits associated with the conversion to natural gas can be realized and maximized. This consideration becomes even more relevant when taking into account that the generation mix reflected in the 2025 Proposed IRP indicates that, beginning around 2029 and thereafter, the expected utilization of Palo Seco Units 3 and 4 would be minimal.⁹¹ Accordingly, while the Energy Bureau is not imposing specific implementation deadlines, it does not appear to be in the public interest for these projects to be executed over a period exceeding one year, as such delay would likely diminish or eliminate the potential benefits to consumers. However, responsibility for the timely execution of the project remains with Genera, including the design of the necessary modifications, the processing and obtaining of all required permits, the construction and implementation of the project, and the placement of the facilities into service.

I. Natural Gas Supply/Take-or-Pay Provisions

Genera proposes to procure the natural gas required to supply Palo Seco Units 3 and 4 through the NG Purchase Contract. The NG Purchase Contract establishes that the Annual Take-or-Pay for additional generation units shall be calculated on the basis of the added unit's Net Dependable Capacity and the operating profile set forth in the applicable Required Permits.⁹² The calculations derived from the parameters set forth in the NG Purchase Contract demonstrate that the Annual Take-or-Pay quantity implied by the contractual methodology may result in an operational requirement that is not consistent with the expected dispatch profile of Palo Seco Units 3 and 4.⁹³ Therefore, it is necessary to evaluate the relevant contractual provisions, as well as the circumstances and parameters presented by Genera, to ensure that any procurement under the referenced contract safeguards the public interest.

For purposes of this analysis, and in the absence of an explicit electrical capacity parameter in the Required Permits (Title V Permit), the calculation presumptively relies on an assumed heat rate of approximately 10,300 Btu/kWh, consistent with historical operating data provided by Genera and the data included in the 2025 Proposed IRP.⁹⁴ In addition, the proposed modifications to the Title V Permit contemplates that the units would operate on natural gas for approximately eighty-five percent (85%) of the hours in a year, with approximately ten percent (10%) of the hours using fuel oil No. 6 and the remaining time not accounted for as

⁸⁹ See Responses to ROI-1, p. 8.

⁹⁰ The Energy Bureau takes notice that, as of February 2026, Genera has already initiated certain permitting processes required for the conversion of Palo Seco Units 3 and 4. See PSD Applicability Analysis.

⁹¹ See 2025 Proposed IRP, p. 275.

⁹² Section 4.3.3 of the NG Purchase Contract provides that:

...For purposes of determining the increase to the Annual TOP Quantity, the maximum annual Gas consumption of the applicable Generation Unit shall be calculated on the basis of such Generation Unit's net dependable capacity and the operating profile set forth in the applicable Required Permits.

⁹³ See in general, February 9 Motion, Attachment B; ROI-2 Attachment A; ROI-2 Attachment B; and ROI-2 Attachment C.

⁹⁴ See 2025 Proposed IRP, p. 164.



operational hours.⁹⁵ Accordingly, the calculation assumes approximately 7,446 hours of operation per year on natural gas. When this heat rate is applied to the Net Dependable Capacity of the units and the permitted operating profile, the resulting estimated annual natural gas consumption for Palo Seco Unit 3, with a Net Dependable Capacity of approximately 180 MW⁹⁶, is approximately 13.8 TBtu. In the case of Palo Seco Unit 4, assuming a Net Dependable Capacity of approximately 200 MW and applying the same methodology, the estimated annual natural gas consumption would be approximately 15.3 TBtu, resulting in a combined potential consumption for both units of approximately 29.1 TBtu.⁹⁷

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ABW The implications of the Annual Take-or-Pay quantity calculated pursuant to the contractual methodology become even more significant when considering the expected timing of the commercial operation of Palo Seco Units 3 and 4 using natural gas, the remaining term of the NG Purchase Contract, and the system's long-term planning assumptions. The NG Purchase Contract commenced in December 2025 and has a term of seven years. However, the Palo Seco Units 3 and 4 are expected to begin operations using natural gas on June 2026.⁹⁸ Consequently, the Take-or-Pay obligation would effectively apply for approximately six and a half years of the contract term.

AM As explained above, the contractual methodology results in an estimated annual gas consumption of approximately 29.1 TBtu, a level that would require the Palo Seco Units 3 and 4 to operate essentially at its Net Dependable Capacity for nearly the entire year in order to avoid payment obligations for unused fuel. This concern is further exacerbated when considering the projected evolution of the system's generation mix. The 2025 Proposed IRP contemplates the retirement of Palo Seco Unit 4 around 2030 and Palo Seco Unit 3 around 2032, with a potential latest retirement date of approximately 2034. More importantly, the 2025 Proposed IRP anticipates that the operational role of these units will decline substantially well before their expected retirement, with minimal utilization expected beginning around 2028-2029 as significant new resources are added to the system. These additions include, among others, new battery energy storage systems, peaking resources, and the Energiza combined cycle plant expected to enter service around 2029. As a result, a substantial portion of the contract term for the gas supply would coincide with a period during which the 2025-Proposed IRP anticipates limited operation of Palo Seco Units 3 and 4. Under these circumstances, establishing a Take-or-Pay quantity derived solely from the maximum parameters contained in the permits and operating profile could result in the system incurring payment obligations for gas volumes that are unlikely to be consumed.

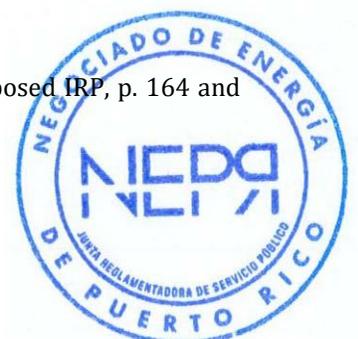
Accordingly, it is particularly important that the Annual Take-or-Pay quantity be established at a reasonable level that reflects the realistic operational expectations of the units over the remaining years of their useful life. Genera and/or the 3PPO must therefore ensure that the quantity ultimately negotiated adequately safeguards the public interest when establishing the Take-or-Pay obligation applicable to Palo Seco Units 3 and 4. Failure to do so could expose ratepayers to unnecessary fuel payment obligations and raise questions regarding the

⁹⁵ See PSD Applicability Analysis, pp. 3-5.

⁹⁶ See Title V Permit, p. 2 and 20.

⁹⁷ Net Dependable Capacity of the Palo Seco 3 is approximately 180 MW. See 2025 Proposed IRP, p. 164 and Genera's raw data, ROI-2 Attachment B and ROI-2 Attachment C.

⁹⁸ See Responses to ROI-1, p. 8



prudence of committing to gas volumes that may ultimately become stranded as the system transitions toward the resource mix contemplated in the 2025 Proposed IRP.

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The Energy Bureau understands that the Palo Seco Units 3 and 4 conversion project and the related gas supply arrangements do not necessarily require that the supply of natural gas for Palo Seco Units 3 and 4 be provided on an exclusive basis by NFEnergia LLC (“NFE”). In other words, the Energy Bureau does not interpret the NG Purchase Contract as granting exclusivity, and it recognizes that, in principle, another supplier could provide such gas. However, given the current circumstances, in which there is no alternative infrastructure capable of supplying natural gas directly from another source, such as a regasification facility that could deliver natural gas to the San Juan Power Plant and from there to Palo Seco, it is evident that the only viable option presently available is supply through NFE under the existing contractual framework.⁹⁹ Under these circumstances, and in light of past experiences already known to the parties, it is also important that any additional Take-or-Pay quantities that may be incorporated into the contract as a result of converting Palo Seco Units 3 and 4 to operate on natural gas, and supplying such gas through NFE, be determined in a manner that serves the best interests of the public.

IV. Conclusion

SMN
Considering the foregoing, and guided by the public interest, the Energy Bureau **DETERMINES** that the balance of interests favors the approval of Genera’s proposal and that the proposal complies with the applicable regulatory framework. Accordingly, the Energy Bureau **APPROVES** the proposed fuel swap for Palo Seco Units 3 and 4. This **APPROVAL** shall be limited to the project described in Genera's filings regarding the Palo Seco Units 3 and 4. Any modifications to the project shall require obtaining the corresponding authorization from the Energy Bureau before implementation.

SMN
The Energy Bureau **CLARIFIES** that this approval of the fuel swap for the Palo Seco Units 3 and 4 does not constitute, nor shall it be deemed, construed, or interpreted as a determination regarding the request for a fuel swap at any other site or any initiatives under Genera's FOP.¹⁰⁰ The evaluation of the fuel swap for the Palo Seco Units 3 and 4 as a potential fuel saving measure shall be conducted under the applicable criteria and procedures governing such matters, should the proposal be formally submitted.

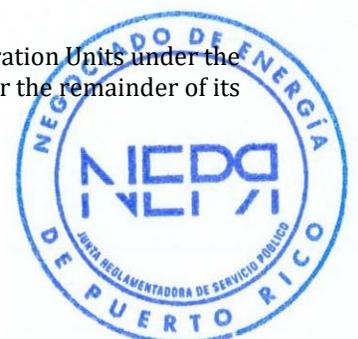
The Energy Bureau **WARNS** Genera that:

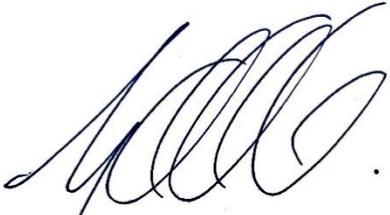
- (i) noncompliance with this Resolution and Order, regulations and/or applicable laws may carry the imposition of fines and administrative sanctions of up to one hundred twenty-five thousand dollars (\$125,000) per day;
- (ii) for any recurrence of non-compliance or violation, the established penalty shall increase to a fine of not less than fifteen thousand dollars (\$15,000) nor greater than two hundred fifty thousand dollars (\$250,000) at the discretion of t/e Energy Bureau

Be it notified and published.

⁹⁹ It should be noted that once Palo Seco Units 3 and 4 are incorporated as additional Generation Units under the NG Purchase Contract, they will generally remain subject to the terms of that agreement for the remainder of its contractual term, except under limited and narrowly defined circumstances.

¹⁰⁰ See *In Re: Genera PR, LLC Fuel Optimization Plan*, Case No.: NEPR-MI-2023-0004.

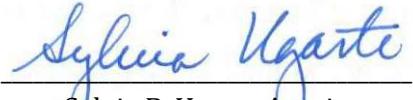




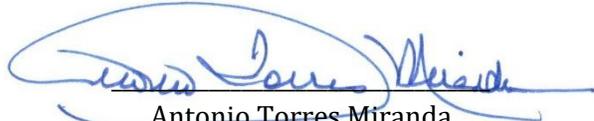
Edison Avilés Deliz
Chairman



Lillian Mateo Santos
Associate Commissioner



Sylvia B. Ugarte Araujo
Associate Commissioner



Antonio Torres Miranda
Associate Commissioner

CERTIFICATION

I certify that the majority of the members of the Puerto Rico Energy Bureau has so agreed on March 6, 2026. Associate Commissioner Ferdinand A. Ramos Soegaard did not intervene. I also certify that on March 6, 2026 I have proceeded with the filing of the Resolution and Order issued by the Puerto Rico Energy Bureau and a copy was notified by electronic mail to regulatory@genera-pr.com, legal@genera-pr.com, jfr@sbgblaw.com, jdiaz@ecija.com, sromero@ecija.com; alexis.rivera@prepa.pr.gov; nzayas@gmlex.net; mvalle@gmlex.net; rcruzfranqui@gmlex.net; alejandro.figueroara@lumapr.com; Yahaira.delarosa@us.dlapiper.com; Emmanuel.porrogonzalez@us.dlapiper.com.

I sign this in San Juan, Puerto Rico, today March 6, 2026.



Sonia Seda Gaztambide
Clerk

