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Puerto Rico Electric Power Authority

Revenue Decoupling Mechanism

FY2027-FY2028

September 1, 2026



Executive Summary

LUMA Energy, LLC and LUMA Energy ServCo, LLC (together, “LUMA”) respectfully submit the following document (Exhibit 1) and Attachments as the Revenue Decoupling Mechanism (RDM) compliance filing, as required by the Puerto Rico Energy Bureau (Energy Bureau) pursuant to the Final Resolution and Order issued on April 15, 2026 (April 15 Final R&O), in Docket No. NEPR-AP-2023-0003. In the April 15 Final R&O, the Energy Bureau approved a mandatory, annual, bidirectional RDM governing revenue reconciliation for the Puerto Rico Electric Power Authority (PREPA), administered jointly by LUMA and Genera PR, LLC (Genera). The purpose of the RDM is to ensure that PREPA recovers no more and no less than the Energy Bureau approved revenue requirement for each fiscal year. The mechanism aims to provide a consistent and transparent regulatory framework to address revenue volatility caused by deviations between forecasted and actual electricity sales, while promoting rate stability and compliance with statutory cost-based ratemaking requirements.

Pursuant to the April 15 Final R&O, revenue targets are established strictly on the Energy Bureau approved revenue requirement allocated to each participating rate class, compared to revenues based on actual electricity sales, excluding fuel, purchased power, and other rider-reconciled variable costs. The Energy Bureau required that LUMA's decoupling mechanism incorporate full decoupling, without weather normalization, and required inclusion of storm-related outage impacts to ensure alignment with actual system conditions and reliability needs. The April 15 Final R&O requires that the revenue requirement exclude non-participating customer classes except the subsidized rates (i.e., GRS, GSS, GSP, TOU-P, GST, and TOU-T), consistent with prior Energy Bureau determinations, including the July 31, 2025, Provisional Rate Order. Accordingly, the revenue requirement excludes non-participating classes, including Residential Service for Public Housing (RH3), Lifeline Residential Service (LRS), Residential Fixed Rate for Public Housing Under Ownership of the Public Housing Administration (RFR), and Public Lighting in its entirety.

The Energy Bureau ordered that LUMA submit annual reconciliations that convert the total annual revenue variance across all classes into either a surcharge or credit embedded within volumetric base rates, subject to a three-percent cap on upward adjustments and full refunds of downward adjustments. The Energy Bureau established FY2027 as the first fiscal year for revenue-target determination and FY2028 as the first year of decoupling-rate implementation.

LUMA is required to file a complete set of formulas, inputs, methodologies, assumptions, and workpapers by September 1, 2026, and to provide a full operational evaluation of the RDM within ninety (90) days following the conclusion of FY2029. The attached document demonstrates LUMA's compliance with the Energy Bureau's directives and its commitment to fully implementing them in accordance with regulatory requirements and best utility practices.

LUMA notes that the decoupling mechanism approved in April 15 Final R&O requires that the revenue requirement exclude non-participating classes, including Residential Service for Public Housing (RH3), Lifeline Residential Service (LRS), Residential Fixed Rate for Public Housing Under Ownership of the Public Housing Administration (RFR), and Public Lighting in its entirety.

Revenue Decoupling Mechanism

LUMA is presenting two Revenue Decoupling implementation methodologies because the April 15 Final R&O clearly establishes the participating classes scope but does not expressly direct how tariff-level CILT/CILTA and SUBA base-rate credits applied to some participating classes should be treated. In doing so LUMA RDM methodologies demonstrate full regulatory compliance with the April 15 Final Resolution and Order and ensure a transparent, accurate treatment of base-rate credits to prevent double-counting.

Methodology 2 differs from Methodology 1 by explicitly addressing the potential duplication of credits associated with CILT/CILTA and SUBA. Under Methodology 1, these credits would be recognized twice; once through the Revenue Decoupling Mechanism (RDM) and again through the riders' annual reconciliations (CILTA, SUBA-HH, SUBA-NHH). As discussed in Base Rate Alignment | Double Counting Prevention (see section below), Methodology 2 modifies the reconciliation so that the verified base-rate portion of applicable CILT/CILTA and SUBA credits is netted from the participating rate classes base-rate amounts before the RDM calculation. The adjustment is applied symmetrically to Revenue Target and Actual Revenue, is limited to the base-rate component, and preserves scope separation from rider reconciliations; thereby ensuring an accurate and compliant implementation of the RDM.

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Table 0-1. List of Acronyms

ACRONYM	DEFINITION
ARC	Actual Revenue Collected, defined as billed
CATV	Cable TV Power Supplies
CC&B	Customer Care and Billing System
CILT	Contribution in Lieu of Taxes (Municipalities)
CILTA	Contributions In Lieu Of Taxes Cost Adjustment Rider
COSS	Cost of Service Study
DA	Decoupling Adjustment
FCA	Fuel Charge Adjustment
GAS	General Agricultural Service and Aqueduct Pumps Operated by Rural Communities
Genera PR, LLC	Genera
GRS	General Residential Service
GSS	General Service at Secondary Distribution Voltage
GSP	General Service at Primary Distribution Voltage
GST	General Service at Transmission Voltage
LIS	Large Industrial Service
LP-13	Outdoor Sports Field Lighting
LRS	Lifeline Residential Service
PPBB	Power Producers Connected at PREPA Bus Bar
PPCA	Purchase Power Charge Adjustment
PLG	Public Lighting General
PREB	Puerto Rico Energy Bureau
PREPA	Puerto Rico Electric Power Authority
RH3	Residential Service for Public Housing
RFR	Residential Fixed Rate for Public Housing Under Ownership of the Public Housing Administration
RD	Revenue Decoupling
RDM	Revenue Decoupling Mechanism
SUBA	Help to Humans and Not Help to Humans Subsidies
TOU-P	Time Of Use at Primary Distribution Voltage
TOU-T	Time Of Use at Transmission Voltage
TRT	Total Revenue Target
USSL	Unmetered Service for Small Loads

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Table 0-2. Key Definitions

CONCEPTS	DEFINITION
Actual Revenue	Base-rate revenue billed and recognized on an accrual basis for participating customer classes, measuring revenue under applicable tariffs without dependence on payment timing or allocation across bill components.
Adjusted Actual Revenue	Gross Actual Revenues less base-rate credits related to CILT and SUBA credits.
Adjustment Cap	A yearly revenue reconciliation that applies a three percent (3%) upward cap on any customer charge resulting from a revenue deficit, while any revenue surplus is credited to customers.
Adjusted Revenue Target	Gross Revenue target, less projected base-rate credits related to CILT and SUBA credits.
Decoupling Adjustment	The variance between Revenue Target and Actual Revenues, subject to the adjustment cap.
Fiscal Year Actual Revenue	Calculated as ten months of actual revenue plus two months of forecasted revenue, applying the same convention to each related base-rate credit when it applies.
Negative Revenue Variance	A Negative Revenue Variance indicates that there is an overcollection during the FY period to be credited to participating rate classes.
Participating Rate Classes	Referring to the group of rates- included in the Revenue Decoupling Mechanism for purposes of calculating the decoupling surcharge or credit.
Positive Revenue Variance	Positive Revenue Variance indicates that there is a revenue shortfall during the FY period to be credited to participating rate classes.
Revenue Decoupling Mechanism	A regulatory tool that aligns a utility's actual revenues with its authorized revenue requirement, adjusting charges or credits when sales fall below or exceed projections.
Revenue Target	Requires that revenue targets be based on the approved revenue requirement for each participating customer class, rather than on revenue-per-customer metrics.
Revenue Variance	The result of the calculation of the Fiscal Year Revenue Target minus Fiscal Year Actual Revenue for each participating class.
Volumetric Rate Adjustment	Applies the Proposed Annual Amount to be surcharged or credited over subsequent-year forecast kWh for participating classes, incorporating the result into the volumetric rate.
Volumetric Revenue Decoupling Adjustment	Approved mechanism that alters volumetric (per-unit) rates, typically in cents per kWh, to reconcile the variance between a utility's authorized revenue requirement and the actual revenue collected over a set period. Under this approach, if actual consumption diverges from forecasts, resulting in under- or over-collection of revenue, the adjustment increases or decreases the volumetric rate to ensure the utility recovers its full authorized revenue without tying earnings directly to sales volume.

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Table 0-3. Key Formulas

CONCEPTS	FORMULA
Adjusted Actual Revenue	= <i>Gross Actual Base Rate Revenue – Actual and Forecast Base Rate Credits</i>
Adjusted Revenue Target	= <i>Gross Base Rate Revenue Target – Forecast Base Rate Credits</i>
Decoupling Adjustment	= <i>Total Revenue from Base Rates – Actual Revenue Collected (ARC)</i>
Net Proposed Annual Amount	= <i>Proposed Amount to be Charged - Proposed Amount to be Credited</i>
Revenue Variance	= <i>Fiscal Year Revenue Target - Fiscal Year Actual Revenue</i>
Volumetric Revenue Decoupling Adjustment	= <i>Proposed Annual Amount / Subsequent Year Participating Class Forecast Kilowatt Hours</i>

Revenue Decoupling Mechanism

1.0 Introduction and Context

1.1 Title

This report should be known as the “*Puerto Rico Electric Power Authority Revenue Decoupling Mechanism FY2027-FY2028*”.

1.2 Background and Purpose

On April 15, 2026, after reviewing the Puerto Rico Electric Power Authority (PREPA), Genera PR, LLC (Genera), and LUMA Energy, LLC and LUMA Energy ServCo, LLC (together, “LUMA”) Rate Review Proposal, the Puerto Rico Energy Bureau (Energy Bureau) issued a Final Resolution and Order in Docket No. NEPR-AP-2023-0003 (April 15 Final R&O), in which the Energy Bureau addresses the revenue requirement for the utility. As part of the April 15 Final R&O, the Energy Bureau addresses the proposed Revenue Decoupling Mechanism, considering the positions advanced by the parties, Intervenor, and the recommendations of its consultants. Among other determinations, the Energy Bureau adopted an annual RDM and established the design and implementation requirements governing that mechanism.

For purposes of the accompanying workpapers, the Energy Bureau directed LUMA as follows:

The Energy Bureau ORDERS LUMA to file an updated decoupling mechanism in accordance with this Resolution and Order, containing the formulas, inputs, data sources, and workpapers necessary to implement the decoupling mechanism by September 1, 2026.¹

In response to this directive, LUMA developed the RDM workpapers by aligning the requirements with the current state in which base-rate charges, riders, and billing credits are applied. As part of that effort, LUMA prepared the FY2026 Illustrative Exercise Workbook (the “FY2026 Illustrative Exercise”), which models the mechanism for Fiscal Year 2026 using two illustrative methodologies, Methodology 1, and Methodology Two. These illustrative exercises are provided as Attachment A (Methodology 1, Excel format), Attachment B (Methodology 2, Excel format), Attachment C (Methodology 1, Clean Workbook Excel format), and Attachment D (Methodology 2, Clean Workbook Excel format), which are included in this Exhibit 1 as clean versions for FY2027 implementation.

The exercises demonstrate how the proposed implementation translates the regulatory design into a documented methodology supported by available historical information. This proposal describes the purpose of the FY2026 Illustrative Exercise, defines the governing data sources and measurement conventions, and summarizes the calculation, traceability, and validation controls embedded in the workbook to support a functional RDM implementation for FY2027 and FY2028.

Taken together, the Attachments and this Exhibit provide the narrative explanation and complete technical materials—formulas, inputs, data sources, and workpapers—necessary to evaluate the proposed Revenue Decoupling Mechanism. The narrative complements, but does not supersede, the formulas and source documentation contained in the workbook.

¹ Page 72, Chapter Seven: Billing Determinants, Cost Allocation and Revenue Allocation, Rate Design, and Revenue Decoupling of the Final Resolution and Order dated April 15, 2026, Docket No. NEPR-AP-2023-0003.

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2.0 Overview of Revenue Decoupling

2.1 What is Revenue Decoupling Mechanism?

RDM is a regulatory ratemaking mechanism that serves the direct link between utility sales and revenues. Under traditional ratemaking, a utility's revenues depend directly on sales, creating revenue volatility because actual sales differ from projections². The Energy Bureau explains that a revenue decoupling mechanism addresses this issue by reconciling actual revenues with the revenue requirement authorized by the regulator.³ If sales fall below forecast and revenues decline, an upward adjustment allows the utility to recover its authorized amount; if sales exceed projections, customers receive credit.⁴

In simplified terms, the mechanism operates as follows:

Decoupling Adjustment (DA) = Total Revenue Target from Base Rates - Actual Revenue Collected (ARC)

For the mechanism approved in its proceedings, the Energy Bureau states that the first decoupling adjustment would apply in FY2028 based on FY2027 revenue results.⁵

FY2028 Decoupling Adjustment = FY2027 Total Revenue Target from Base Rates - FY2027 ARC

2.2 Relationship Between Decoupling and Reconciliation⁶

The Energy Bureau distinguishes revenue decoupling from provisional-permanent reconciliation. Revenue decoupling reconciles the approved revenue requirement for a fiscal year against actual revenue billed in that fiscal year. Provisional-permanent reconciliation, in contrast, reconciles the permanent revenue requirement against the provisional revenue requirement. For that reason, the Energy Bureau determined that revenue decoupling will not apply to FY2026, because FY2026 is already subject to provisional-permanent reconciliation and applying both mechanisms to the same fiscal year could create a risk of duplicative recovery.

3.0 Scope and Approved Mechanism Design

Scope of the Mechanism

The Energy Bureau approved a RDM designed to ensure that Puerto Rico Electric Power Authority (PREPA) recovers its **authorized annual revenue requirement** regardless of variations in electricity

² Page 58, Chapter Seven: Billing Determinants, Cost Allocation and Revenue Allocation, Rate Design, and Revenue Decoupling of Final Resolution and Order on Electricity Rates dated April 15, 2026, Docket No. NEPR-AP-2023-0003.

³ *Id.*

⁴ *Id.*

⁵ *Id.*, page 74.

⁶ *Id.*, pages 72-74.

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sales.⁷ The mechanism is an integral component of the approved rate structure and reconciles actual base-rate revenues with the authorized revenue requirement on an annual basis.⁸

Participating Rate Classes

The Energy Bureau approved applying of the decoupling mechanism exclusively to non-lighting, non-subsidized residential customers rate classes, specifically:

General Residential Service (GRS), General Service at Secondary Distribution Voltage (GSS), General Service at Primary Distribution Voltage (GSP), Time of Use at Primary Distribution Voltage (TOU-P), General Service at Transmission Voltage (GST), and Time of Use at Transmission Voltage (TOU-T).⁹ (For a detailed list of the participating Rate Classes, refer to Table 4-2.)

All subsidized residential and lighting classes are excluded from decoupling.¹⁰

Revenue Target Methodology

The Energy Bureau requires that revenue targets be based on the approved revenue requirement for each participating rate class, not on revenue-per-customer metrics.¹¹ This approach prevents over- or under-recovery tied to changes in customer counts and aligns decoupling with PREPA's cost structure.

The Energy Bureau approved applying the decoupling surcharge or credit based on the total combined variance across all participating classes.

Adjustment Cap

April 15 Final R&O adopted an annual, bidirectional revenue decoupling to reconcile the approved revenue target for participating rate classes with corresponding actual revenue. Under the approved design, a revenue deficit may produce an amount to be charged to customers, subject to the applicable upward-adjustment cap of three percent (3%), while a revenue surplus produces an amount to be credited to customers.

The approved mechanism requires an annual calculation supported by transparent formulas, inputs, data sources, and workpapers. The accompanying Attachments organize these elements into an auditable framework that preserves the distinction among source data, calculations, validations, and filing outputs for the RDM implementation.

3.1 Principal Design Requirements

The April 15 Final R&O must be read in its entirety, including Appendix H, which establishes the approved base-rate revenue allocations and separately identifies rider revenues. The Order also identifies the applicable rate classes and outlines the design and calculation of the RDM, as well as any resulting surcharge or credit, based on the aggregate revenue variance across the participating classes. For the

⁷ Pages 72-74, Chapter Seven: Billing Determinants, Cost Allocation and Revenue Allocation, Rate Design, and Revenue Decoupling of Final Resolution and Order on Electricity Rates dated April 15, 2026, Docket No. NEPR-AP-2023-0003.

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*, pages 68-69.

¹¹ *Id.*

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FY2026 Illustrative Exercise, as it will be for the proposed RDM, the workbook begins with participating classes Revenue Target and participating classes Actual Revenue as the calculation starting point. Then, an illustrative uniform volumetric adjustment is applied only through those classes. This structure also allows billing credits recorded within ordinary rate classes to be identified and reconciled explicitly, rather than treating them as separate rate classes.¹²

The design reflected in the illustrative exercise incorporates the following elements:

1. Application of the uniform \$/kWh adjustment exclusively to participating rate classes.
2. Use of the same Appendix H participating-class base-rate Revenue Target, source sales data, ten-month actual/two-month forecast convention, and subsequent-year participating-class kWh denominator as the common starting point for both methodologies.
3. Exclusion from both Methodology of fuel, purchased power, CILT/CILTA, SUBA, and other separately reconciled or pass-through rider revenues; the methodology differs only in whether the verified base-rate portion of customer-level credits is separately netted from the RDM measurement.
4. A revenue variance calculated on a consistent Revenue Target and Actual Revenue measurement basis under the selected methodology and aggregated across participating classes.
5. Full decoupling without weather normalization.
6. Inclusion of outage effects within Actual Revenue.
7. Use of an annual measurement period consisting of 10 months of Actual Revenue and two months of forecast revenue.
8. Application of a 3% cap only to upward adjustments; proposed amount to be charged, using the Revenue Target applicable to the methodology being evaluated.
9. No cap on amounts credited to customers when the variance result is a revenue surplus.
10. Implementation of the adjustment through the applicable volumetric rate through a separate bill line item.¹³

4.0 Revenue Decoupling Mechanism Proposal

This section describes the proposed Revenue Decoupling Mechanism, including its design, operational parameters, and regulatory foundation for implementation.

¹² Pages 68–71, Chapter Seven: *Billing Determinants, Cost Allocation and Revenue Allocation, Rate Design, and Revenue Decoupling of Final Resolution and Order on Electricity Rates dated April 15, 2026, Docket No. NEPR-AP-2023-0003.*

¹³ This method is not only a cost-effective way to implement the Revenue Decoupling Mechanism, but it also adds clarity and transparency to the bill.

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4.1 Fiscal Year 2026 Illustrative Exercise

Purpose and Rationale

LUMA developed the FY2026 Illustrative Exercise to demonstrate how the approved design would operate using available historical information. The exercise translates applicable regulatory requirements into a concrete calculation sequence and allows the underlying data requirements, formulas, controls, and outputs to be evaluated in a single, organized framework.

The illustrative exercise also provides a practical means of assessing source-data availability, testing the annual calculation sequence, identifying matters requiring documented assumptions or functional confirmation, and establishing a workable foundation for the “Revenue Decoupling Template” workbook. Use of a historical period allows the calculation framework to be reviewed and validated before the first annual measurement period subject to the mechanism.

Scope of the Illustration

Specifically, the FY2026 Illustrative Exercise demonstrates the comparison of a revenue target with actual revenue, identification of a resulting revenue deficit or revenue surplus, application of the prescribed regulatory treatment to the aggregate revenue variance, and conversion of the resulting annual amount into an illustrative volumetric adjustment. Supporting schedules present the source data, monthly and class-level results, validation controls, rate impact, and sensitivity analysis.

FY2026 Illustrative Exercise Caveats

Prepared solely for demonstration and implementation-planning purposes, the FY2026 Illustrative Exercise does not constitute a FY2026 revenue-decoupling reconciliation, propose any amount to be charged or credited to customers for that period, or establish any regulatory entitlement, obligation, or precedent. The historical information and assumptions included in the exercise illustrate the model's operation and remain subject to the controlling determinations of the Energy Bureau.

Accordingly, the illustrative result should not be combined with, or treated as a substitute for, the provisional-permanent rate reconciliation applicable to Fiscal Year 2026. This limitation aligns with the Energy Bureau's express determination that the RDM does not apply to Fiscal Year 2026.¹⁴

4.2 Data Sources and Measurement Conventions

Revenue Targets Source and Appendix H

Revenue Targets (numerator) and the subsequent year forecast kilowatt-hour (denominator) derive from the applicable Appendix H rate-design model. Appendix H identifies the approved amount as Revenue from Base Rates and presents rider revenue separately through the Revenue Summary, Riders, and Revenue Summary Rider's worksheets. Both methodologies begin with the same Appendix H participating class revenue target and preserve the underlying source values and cell references. Methodology 1 retains those participating classes revenue targets without a separate credit deduction. Methodology 2 begins with the same targets and then applies only the verified forecast base-rate portion

¹⁴ Note: While FY2026 decoupling does not apply in practice (to avoid overlap with the provisional-permanent reconciliation), this exercise is presented solely to document the architecture and controls that the Order requires for subsequent years.

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of documented credits for participating rate classes. Neither methodology deducts the aggregate CILT/CILTA or SUBA revenue requirement or rider revenue from Appendix H.

The credit schedules are maintained as separate source tabs so that the Energy Bureau can identify, by rate class and month, which amounts relate to Base Rate, Provisional, Pension, CILT/CILTA, SUBA, or other bill components.¹⁵

Actual Revenue

For purposes of the workpapers, Actual Revenue means base-rate revenue billed and recognized on an accrual basis during the applicable measurement period for participating rate classes. Using base-rate revenue billed rather than revenue collected mitigates the operational dependency on customer payment timing and the variability in how customer payments are allocated across individual bill components, thereby avoiding gaps associated with contractual payment delays or customer remittance practices.¹⁶

Consistent with the full-decoupling design, Actual Revenue is not weather-normalized, and the effects of outages remain reflected in the amounts recorded for the measurement period.

LUMA notes that, although the Energy Bureau references “collected” base-rate revenue, the utility’s Customer Care and Billing System (CC&B) and the accounting system reports “billed” base-rate revenue. Accordingly, for purposes of this filing and consistent application across all reports, LUMA will interpret the Energy Bureau’s reference to “collected” revenue as “billed” revenue and will report billed base-rate revenue throughout.¹⁷

Participating Customer Rate Classes

The workbook applies the RDM for FY2026 non-lighting rate classes and excludes the residential subsidized rates, consistent with the April 15 Final R&O. The rate-class mapping is presented with the complete class description and is subject to annual confirmation against the applicable tariff, Appendix H, and source billed data. Any annual inclusion, exclusion, or mapping change should be documented in the supporting workpapers.

LUMA notes that while the Energy Bureau’s April 15 Final R&O may appear to use the term “customer class” generically, even though it acknowledges distinctions among customer groups, LUMA will implement the decoupling mechanism based on rate classes (or customer rate classes), treating them

¹⁵ Notwithstanding the above, take into consideration that Scenario Two differs from Scenario One in the Total Revenue calculation to account for the identified potential double counting .

¹⁶ Customer payments are not itemized by individual charge categories. All remittances are applied to the total billed balance, and in cases of partial payment, no allocation hierarchy or prioritization methodology is used to distribute the payment across specific bill components.

¹⁷ The Energy Bureau’s use of the term “collections” refers to the actual revenue received by PREPA, which is the legally relevant measure for reconciling the systemwide authorized revenue target with actual base-rate revenue collected. In contrast, “billing” denotes only the invoiced amounts issued to customers. This distinction is essential to the approved decoupling mechanism, which requires reconciliation based on actual receipts, ensuring PREPA recovers no more and no less than its approved revenue requirement and maintaining compliance with Act No. 17-2019’s mandates for just, reasonable, and affordable rates within a transparent and reliable energy system.

Operationally, PREPA’s accounting processes and its CC&B system function using billing data, as CC&B generates and manages invoices, applies rating rules, records billed charges, and serves as the sub-ledger for accounts receivable. For consistency with its operational architecture and financial controls, LUMA will continue relying on billing-based data for system operations and reporting, while recognizing that regulatory reconciliation must adhere to the Energy Bureau’s requirement to use collections, since only collected revenue satisfies statutory revenue-recovery standards.

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distinctly from customer classes. This ensures precise and transparent volumetric rate adjustments consistent with both the April 15 Final R&O intent and tariff structure, as well as LUMA's system architecture.¹⁸ The following tables detail PREPA's Customer Classes and the Rate Classes within each Customer Class¹⁹ and the Participating Customer Rate Classes.²⁰

Table 4-1. Puerto Rico Electric Power Authority Customer Classes & Rate Classes

PREPA Customer Classes & Rate Classes		
Customer Class	Rate Class	Rate Class Name
Residential	GRS	General Residential Service
	LRS	Lifeline Residential Service
	RH3	Residential Service for Public Housing
	RFR	Residential Fixed Rate for Public Housing Under Ownership of the Public Housing Administration
Small Commercial	GSS	General Service at Secondary Distribution Voltage
	USSL	Unmetered Service for Small Loads
	CATV	Cable TV Power Supplies
Medium Commercial & Industrial (C&I)	GSP	General Service at Primary Distribution Voltage
	TOU-P	Time of Use at Primary Distribution Voltage
Large C&I	GST	General Service at Transmission Voltage
	TOU-T	Time of Use at Transmission Voltage
	LIS	Large Industrial Service
	PPBB	Power Producers Connected at PREPA Bus Bar
Public Lighting	PLG	Public Lighting General
	LP-13	Outdoor Sports Field Lighting
Other	GAS	General Agricultural Service and Aqueduct Pumps Operated by Rural Communities

¹⁸ During the April 15 Final R&O the Energy Bureau consistently employed the term "customer class" to describe groupings of customers based on their service characteristics, despite acknowledging distinctions among various customer and rate classes. For clarity, within LUMA's application of the decoupling mechanism, rate classes, which reflect tariff structures and usage patterns, will be treated distinctly and mapped individually to customer classes. Thus, while the Energy Bureau's order may use "customer class" broadly, LUMA will maintain a clear operational distinction by aligning each rate class separately to ensure accurate application of volumetric rate adjustments. The adoption of this approach aligns fully with the R&O's intent, maintaining regulatory compliance and transparency while preserving the structural rigor of decoupling across each rate category. This ensures both consistency with the Bureau's language and integrity in LUMA's implementation of the approved decoupling methodology.

¹⁹ Refer to Table 4-1. Puerto Rico Electric Power Authority Customer Classes & Rate Classes.

²⁰ Refer to Table 4-2. Revenue Decoupling Mechanism Participating Customer Rate Classes.

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Table 4-2. Revenue Decoupling Mechanism Participating Customer Rate Classes

Participating Customer Rate Classes		
Customer Class	Rate Class	Rate Class Name
Residential	GRS	General Residential Service
Small Commercial	GSS	General Service at Secondary Distribution Voltage
	USSL	Unmetered Service for Small Loads
	CATV	Cable TV Power Supplies
	GSP	General Service at Primary Distribution Voltage
Medium Commercial & Industrial (C&I)	TOU-P	Time of Use at Primary Distribution Voltage
	GST	General Service at Transmission Voltage
Large C&I	TOU-T	Time of Use at Transmission Voltage
	LIS	Large Industrial Service
	PPBB	Power Producers Connected at PREPA Bus Bar
	GAS	General Agricultural Service and Aqueduct Pumps Operated by Rural Communities

Actual and Forecast Periods

The annual calculation uses ten (10) months of actual revenue and two (2) months of forecast revenue. Forecast inputs are identified by participating rate class and require a documented basis, supporting reference, and approval before entering the calculation. The most recent actual month appears as a transparent default reference; a supported and approved alternative forecast may be used. The forecast method applied, or used, is the same forecast method used or followed by LUMA in each year's reconciliation process as approved by the Energy Bureau.

4.3 Revenue Decoupling Methodologies

LUMA is presenting two Revenue Decoupling implementation methodologies because April 15 Final R&O clearly establishes the participating classes scope but does not expressly direct how tariff-level CILT/CILTA and SUBA base-rate credits are applied to some participating classes.

Both methodologies therefore begin from the same regulatory and data foundation: the Energy Bureau-approved Appendix H Revenue from Base Rates for participating classes; exclusion of non-participating lighting and subsidized-rate classes; the same ten-month actual/two-month forecast convention; the same aggregate variance treatment; and the same subsequent-year participating-class kilowatt-hour denominator.

The only methodological distinction concerns how to treat the verified base-rate portion of customer-level credits that are separately tracked through CILT/CILTA or SUBA. One approach keeps those amounts outside the RDM and addresses them solely through the existing reconciliation riders; the alternative nets the same verified base-rate credits from both the Revenue Target and Actual Revenue to establish a net base-rate comparison. Presenting both methodologies enables the Energy Bureau to evaluate the impact of this implementation choice without altering any other design element of the RDM.

Revenue Decoupling Mechanism

LUMA identified that implementing the decoupling mechanism as ordered may result in double counting of credits applied in the base rate for subsidized customers and CILT customers. These credits would be reflected twice: once through the decoupling mechanism and again through the reconciliations associated with CILTA, SUBA-HH, and SUBA-NHH. (Refer to the Double-Counting Prevention section below for a comprehensive discussion of this topic.)

To address this potential double-counting, LUMA presents a second methodology in which all credits corresponding to participating rate classes are deducted from the base rate prior to calculating the reconciliation. This means that the Total Revenue Target and the Actual Annual Revenue will be adjusted by deducting the corresponding base number of credits applied to the base rate.

Notwithstanding the distinction outlined above, because the RDM nature, framework, and formulas remain the same, the narrative explanation and the complete set of supporting technical materials—including all formulas, inputs, data sources, analytical workpapers, and accompanying discussions—shall apply in full and without modification to both methodologies of the Revenue Decoupling Mechanism.

Base-Rate Revenue Alignment | Double-Counting Prevention

During its review, LUMA determined that certain base-rate subsidies were not reflected in the original projections. These projections were revised to ensure accuracy and regulatory compliance. The Energy Bureau's April 15 Final R&O establishes clear requirements for implementing an annual Revenue Decoupling Mechanism. To remain compliant and avoid double counting, base-rate components embedded within CILT/CILTA, SUBA-HH, and SUBA-NHH riders must be expressly excluded from decoupling calculations. This addresses the risk of double counting (double recovery or double credit) inherent in the interaction between base-rate subsidies and the Energy Bureau approved Revenue Decoupling Mechanism.

Most costs associated with these subsidies (CILT/CILTA, SUBA-HH, and SUBA-NHH riders) contain credits that apply to all or part of the customers' base-rate charges. As a result, both the decoupling mechanism and the reconciliation processes for these riders incorporate credits linked to the base rate of the customers who receive these subsidies, and such riders overlap with the revenue requirement. Without appropriate exclusions, the decoupling mechanism would reconcile those amounts a second time, generating non-compliant duplicate recoveries or credits.²¹

Failure to do so would produce double counting, potentially resulting in improper refunds or recovery. The exclusions and analyses documented herein are essential for meeting all regulatory obligations and ensuring full alignment with the approved rate design and statutory responsibilities governing the Energy Bureau, PREPA and LUMA.

LUMA analyzed each rider, presented numerical evidence, and outlined the compliance obligations required to prevent double counting under Puerto Rico's regulatory framework.²²

CILT/CILTA

²¹ If the base-rate credits for these customers are not excluded from the decoupling mechanism, the calculations will produce a double recovery or double refund: one through the decoupling mechanism and another through the reconciliation of the CILT/CILTA and SUBA riders.

²² For the double counting impact on the Volumetric Rate Adjustment, refer to Sheets-Class Impact and Bill Impact- of Attachments A and Attachment B.

Revenue Decoupling Mechanism

CILTA recovers regulated subsidies on an annual basis, including municipal-related billing and public-lighting credits. Under the decoupling mechanism, base-rates charge applicable to CILT-eligible accounts are already incorporated into the revenue-requirement determination. In parallel, the CILTA rider utilizes total CILT billing, which also encompasses base-rates amounts, for its forecasting and reconciliation processes.

When the base-rate portion of CILT/CILTA billing is not removed, the same amounts are reconciled twice—first through decoupling and subsequently through the annual rider's reconciliation. This leads to an unintended double credit or double recovery during the adjustment cycle. To ensure accurate and non-duplicative treatment, the appropriate corrective measure is the explicit exclusion of the base-rate component from the decoupling mechanism.

SUBA-HH and SUBA-NHH Riders

SUBA-HH²³ and SUBA-NHH²⁴ operate as recovery riders that distribute authorized subsidies to all qualified rate classes through credits applied to the full set of tariff components, including the base rates. Although these credits reduce the charges assessed to eligible customers, the base-rate portion was not removed from the revenue-requirement framework for some participating rate classes. Meanwhile, SUBA-HH and SUBA-NHH program forecasts and reconciliation activities explicitly incorporate the full credit allocation, including the base-rate segment.²⁵

Without an explicit exclusion of the base-rate portion from decoupling, identical credit amounts are processed through both the decoupling methodology and the rider reconciliation. This results in dual treatment and produces a double recovery, compromising the accuracy of regulatory accounting. To ensure compliance, the base-rate component of SUBA credits must be removed from the decoupling mechanism.

4.4 Calculation Methodology

Annual Actual Revenue

For the rate classes included in the illustrative exercise, Fiscal Year Actual Revenue is calculated as the sum of ten (10) months of Actual Billed Revenue and two (2) months of forecast billed revenue. The same ten-month actual and two-month forecast convention is applied to the related base-rate credits.

$$\text{Fiscal Year Actual Revenue} = 10 \text{ Months Actual Revenue} + 2 \text{ Months Forecast Revenue}$$

²³ Subsidies classified by the Energy Bureau as “Help to Humans” established Docket No. CEPR-AP-2015-0001 Resolution and Order issued on January 10, 2017, include: (1) the Credit for Consumption of Electrical Equipment Necessary to Preserve Life; (2) the Residential Fixed Rate for Public Housing under the ownership of the Public Housing Administration (RFR); (3) the Residential Fuel Subsidy; (4) Municipal Public Lighting and; (5) Puerto Rico Energy Bureau Assessment.

²⁴ *Id.*, Subsidies classified by the Energy Bureau as “Non-Help to Humans” include: (1) the Analog Residential Rate for Churches and Social Welfare Organizations; (2) General Agricultural Service (GAS); (3) the Tourism Sector Incentive Credit (Hotel Discount); (4) the Residential Rate for Communal or Rural Aqueducts; (5) the Downtown 10% Subsidy for Small Merchants; (6) the Residential Rate for Common Areas of Residential Condominiums; (7) the Act 73-2008 Industrial Tax Credit; and (8) the Irrigation District classification.

²⁵ The following subsidies from the SUBA-HH have an impact on the Base Rate: Credit for Consumption of Electrical Equipment Necessary to Preserve Life and Public Lighting (Municipal). Additionally, in alignment, the following subsidies from the SUBA-NHH have an impact on the Base Rate: Analog Rate to the Residential to Churches and Social Welfare Organizations, Credit for Incentives to the Tourism Sector (Hotel Discount), Residential Rate for Communal or Rural Aqueducts, Credit to Small Merchants in Urban Centers (Downtown 10% Subsidy), and Residential Rate to Common Areas of Residential Condominiums.

Revenue Decoupling Mechanism

Base-Rate Credit Adjustment

The April 15 Final R&O requires that the RDM reconcile only base-rate revenues, excluding statutory subsidies and rider-reconciled amounts; subsidized rate classes are identified as non-participating for the mechanism. Because the Appendix H Rate-Design Model allocates revenue across all rate classes, including subsidized schedules, the approved Revenue Target can embed a portion that is not collectible through base rates alone. To avoid double counting, that portion must be quantified and removed before performing the decoupling comparison and reconciled through the annual riders.

Consistent with those directives, the FY2026 Illustrative Exercise, Methodology 2,²⁶ applies a symmetrical credit adjustment so that both the Revenue Target and the Actual Billed Revenue are placed on the same net base-rate basis. The adjustment is computed by rate class (with a zero where no applicable base-rate credit is documented) and then aggregated to the systemwide control total used in the illustrative reconciliation.

$$\text{Adjusted Revenue Target} = \text{Base Rate Revenue Target} - \text{Forecast Base Rate Credits}$$

$$\text{Adjusted Actual Billed Revenue} = \text{Actual Billed Base Rate Revenue} - \text{Actual-Base Rate Credits}$$

The adjustment may be applied only after confirming that the starting Revenue Target and Actual Billed Revenue are both gross of the same credit components. That confirmation is a prerequisite to using a symmetrical net-basis adjustment; by itself, it does not establish that a deduction is necessary to make the two gross amounts comparable. The workbook documents that any credit-related variance is intended to be excluded from Revenue Decoupling and is not already addressed through the annual CILT or SUBA reconciliations; where either source is already net of a credit, the adjustment must be modified or reversed so that the comparison remains symmetrical and the credit is not deducted twice.

Finally, because subtracting forecast credits from the Revenue Target and actual credits from Actual Billed Revenue would otherwise cause the resulting Revenue Variance to reflect differences between actual and forecast base-rate credits, the workbook includes an overlap control with the annual CILT/SUBA reconciliations: any credit variance already recovered from or refunded to customers through those riders is excluded from the Revenue Decoupling adjustment.

Revenue Variance and Sign Convention

The Revenue Variance is calculated for each participating class by subtracting Fiscal Year Actual Revenue from the applicable Revenue Target.

$$\text{Revenue Variance} = \text{Fiscal Year Revenue Target} - \text{Fiscal Year Actual Revenue}$$

A positive Revenue Variance represents a Revenue Deficit. A negative Revenue Variance represents a Revenue Surplus. Class-level results are retained for transparency; the Regulatory Treatment is applied to the aggregate Revenue Variance across all participating classes.

²⁶ The workpapers supporting Scenario 1 consist of the primary analytical worksheets required under the April 15 Final R&O, including the Summary of the FY2026 RDM calculation, Appendix H revenue targets, monthly billed data, forecast inputs, decoupling calculations, rate conversion, class-level impacts, bill impacts, sensitivity analysis, and supporting data sources. Scenario 2 contains this full set of worksheets and further incorporates Billing Reports, Credit Reports, Actuals, and Forecasts to document the treatment and deduction of all applicable subsidies and credits necessary to prevent double counting within the decoupling reconciliation.

Revenue Decoupling Mechanism

Regulatory Treatment

When the aggregate result is a Revenue Deficit, the Proposed Amount to be Charged to Customers is limited to the lesser of the Revenue Deficit and three percent (3%) cap of the Total Revenue Target. Any portion above the three percent (3%) cap is identified separately as a Deferred Revenue Deficit. When the aggregate result is a Revenue Surplus, the full amount is identified as the Proposed Amount to be Credited to Customers and is not subject to a downward cap.

$$\text{Proposed Annual Amount} = \text{Proposed Amount to be Charged} - \text{Proposed Amount to be Credited}$$

A positive Proposed Annual Amount represents an amount to be charged to customers. A negative Proposed Annual Amount represents an amount to be credited to customers.

Volumetric Rate Adjustment

The Proposed Annual Amount is divided by the forecast kilowatt hours for participating in customer classes for the subsequent fiscal year. The resulting adjustment is incorporated into the applicable volumetric rate and presented as a separate customer-bill line item that will reflect the Proposed RDM Annual Amount to be recovered under the Revenue Decoupling Mechanism.

$$\text{Volumetric Revenue Decoupling Adjustment} = \frac{\text{Proposed Annual RDM Amount}}{\text{Subsequent Year Participating Class kWh Forecast}}$$

The attachments present two approaches for applying the Volumetric Rate Adjustment to the participating Rate Classes. The first approach applies the Volumetric Rate Adjustment uniformly to all participating Rate Classes. The second approach applies the Volumetric Rate Adjustment based on each Rate Class's proportional contribution toward the Revenue Target. LUMA respectfully submits these approaches for the Energy Bureau's consideration and approval, given the associated impacts allocated to the participating Rate Classes. (See, Tabs 07A_Class_Impact and 08_Bill Impact for each Attachment)

Decoupling Rider vs Volumetric Rate

In evaluating the available approaches for implementing the decoupling mechanism, adopting a separate volumetric charge remains the most effective, transparent, and regulatorily sound option. This approach is fully aligned with Act No. 17-2019, the Puerto Rico Energy Public Policy Act, which establishes the mandate for a resilient, reliable, and robust energy system supported by just, reasonable, and affordable rates and clear billing practices for all customers. Establishing the charge independently from the base rates offers substantial cost-avoidance benefits: it eliminates the need for extensive CC&B system redesign, reduces or removes expenditures on external consultants, prevents unnecessary rate-design overhauls, and avoids new implementation costs that would otherwise be incurred. By contrast, embedding the volumetric charge into existing base rates would require materially greater technical intervention, higher financial outlays, and increased operational complexity. Additionally, LUMA has identified a key consideration regarding the implementation of the volumetric reconciliation method applied to the base rate. Applying the Volumetric Rate Adjustment to the base rate as a reconciliation mechanism introduces an iterative process in which each adjustment builds on the previous one, allowing small variances to accumulate over time and creating a potential snowball effect. Historical data indicates that rolling forward amounts within the three percent (3%) cap may amplify this dynamic when base-rate revenue targets are not met, carrying missed base-rate revenues from prior years into subsequent periods and increasing the portion of the base rate subject to recovery. While this cumulative effect may

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be limited for residential and small commercial customers, it could have a more significant impact on large commercial and industrial classes.

Accordingly, adopting a separate volumetric charge identified as a separate line item on the bill represents the most prudent, fiscally responsible, and policy-aligned course of action, ensuring transparency, affordability, and full compliance with Puerto Rico's energy public policy framework.

4.5 Traceability and Validation

Source Traceability

The workbooks maintain end-to-end traceability from each annual calculation to its identified source records. For Appendix H inputs, the workbook retains the source workbook, worksheet, cell reference, fiscal-year selection, and any model settings relevant to the calculation. For sales-report inputs, it preserves the billing month, source tariff, rate-class mapping, kilowatt-hours, Actual Billed Revenue, the source file or query, the source-record reference, and a review note documenting validation steps. For credit inputs, it additionally records the applicable program or tariff code, rate class, month, source record, whether the amount is treated gross or net, and the separate components for Base Rate, Provisional, Pension, CILT, SUBA, and other riders. Taken together, these lineage fields provide a consistent audit trail, support reproducibility, and enable targeted reconciliation when the selected bases (e.g., "Revenue from Base Rates" vs. "Revenue with Riders") differ.

Validation Controls

The workbooks apply formula-driven validations to confirm: (i) completeness of Revenue Targets; (ii) rate-class and monthly Actual Billed Revenue coverage; (iii) integrity of forecast revenue and kilowatt-hour inputs; (iv) Appendix H source confirmation; and (v) correctness of the subsequent-year denominator used to derive the uniform \$/kWh factor. Additional controls determine (1) whether Revenue Target and Actual Billed Revenue are stated before or after applicable credits; (2) that only the Base Rate component is used when the selected comparison is Revenue from Base Rates; (3) that a credit already reflected in a subsidized rate schedule is not deducted again; and (4) that any variance included in a CILT or SUBA annual reconciliation is not also included in Revenue Decoupling. To preserve auditability, monthly and rate-class reconciliations are maintained as independent review points; they inform the checks without making a pivot table or a corroborating source report part of the calculation engine.

5.0 Conclusion

LUMA's RDM compliance filing meets the Energy Bureau's requirements by providing a complete and transparent set of formulas, inputs, methodologies, and workpapers necessary for implementation. The two RDM methodologies included in this filing demonstrate both adherence to the April 15 Final R&O and LUMA's commitment to preventing double-counting through a refined and transparent treatment of base-rate credits.

Attachments A and B (FY2026 Illustrative Exercises, Methodology 1 and 2) and Attachments C and D (Methodology 1 and 2, respectively, clean versions for FY2027 Annual Compliance Template) together establish a clear, traceable, and replicable framework for executing the Revenue Decoupling Mechanism. Attachments A and B illustrate the operational dynamics of the mechanism, the separation of base-rate credits from rider-specific components, and the controls required to ensure consistent revenue-target comparisons. Attachments C and D translate those insights into a standardized compliance structure for

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FY2027 and forward.²⁷ Also, LUMA submits the two approaches for the implementation of the Volumetric Rate Adjustment to the participating Rate Classes for the Energy Bureau's consideration and approval.

By submitting these materials, LUMA complies with the Energy Bureau's directive to provide an updated decoupling mechanism and reaffirms its commitment to accuracy, regulatory integrity, and transparency in the administration of the RDM. This filing establishes a solid foundation for future annual reconciliations and supports long-term compliance with cost-based ratemaking principles.

²⁷ LUMA also has compliance concerns regarding the LRS and RH3 Rate Classes. The recovery of the costs associated with these rates classes was excluded from the SUBA-HH rider and is instead carried out through the base rates, allocating higher revenues to the other customer classes. The projected revenues of the non-participating classes were considered in the final determination of the revenue requirement to cover all costs. If the revenues corresponding to these non-participating rate classes are not incorporated into the reconciliation between total billed revenues and the approved revenue requirement, the reconciliation will not be performed correctly. We believe that although these classes are excluded from the mechanism, they should not be excluded from the reconciliation.