



David A. Skeel Jr.
Chair

Members

Andrew G. Biggs
Arthur J. González
Antonio L. Medina
John E. Nixon
Justin M. Peterson
Betty A. Rosa

Robert F. Mujica Jr.
Executive Director

BY ELECTRONIC MAIL

May 19, 2023

Honorable Pedro R. Pierluisi Urrutia
Governor
Commonwealth of Puerto Rico

Dear Governor Pierluisi Urrutia,

The Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”) is in receipt of the proposed Fiscal Plan submitted on May 12, 2023 (the “Proposed Plan”) by the Puerto Rico Electric Power Authority (“PREPA”).

We note that the Proposed Plan is the first to be developed and certified after the start of the transition period during which Genera PR LLC (“Genera”) will assume responsibility for the operation and maintenance of PREPA’s generation thermoelectric units. Accordingly, to the extent any of the revisions identified herein require information and support from Genera, the Oversight Board expects PREPA, LUMA, and Genera to work collaboratively to ensure the timely delivery of a revised Proposed Plan.

After careful review, the Oversight Board has determined that the Proposed Plan requires certain revisions and additional supporting information before the Oversight Board can certify it as compliant with the requirements of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”). This letter serves as the notice of violation pursuant to PROMESA Section 201(c)(3)(B). Below, the Oversight Board identifies and details the areas where the Proposed Plan must be revised to ensure compliance with PROMESA.

I. Progress to Date

This upcoming Fiscal Year 2024 marks a monumental milestone in the transformation of Puerto Rico's energy system.¹ On July 1st, 2023, it is expected that Genera's service commencement date will occur, and Genera will assume full responsibility to operate, maintain, and eventually decommission PREPA's legacy thermoelectric generation assets.

With this step, the requirement of Puerto Rico Act 17-2019² ("Act 17") to unbundle PREPA's vertically integrated monopoly is approaching completion. Now the main PREPA operational arms, separated into T&D (plus customer service) and generation, will both be in the hands of separate, professional, private operators (LUMA and Genera) whose incentives – through their respective Operation and Management Agreements (OMAs) - are aligned with those of the customer by incentivizing improvements to the energy service sector and achieving savings.

Progress has also been made by the parties in obtaining regulatory approvals from the Puerto Rico Energy Bureau ("PREB") for capital projects and from the Federal Emergency Management Agency ("FEMA") such that the highly awaited reconstruction, hardening and resiliency capital works are finally taking place and gaining traction.

As a final positive note, the eagerly anticipated FEMA emergency generation equipment should give Puerto Rico's energy system much-needed additional generation capacity and reserve load and, presumably, should act as a load cushion to allow Genera to carry out critical maintenance on the legacy generation assets more aggressively.

Other aspects of the broader transformation of the Puerto Rico energy sector, however, must still be achieved. In particular, the process has been hindered by notable delays on finalizing the legal and financial reorganization of PREPA, rightsizing PREPA's remaining non-operational legacy activities (HoldCo and HydroCo), and on the deployment of competitively procured renewable generation sources.

II. Remaining Challenges

Despite the progress and improvements shown by LUMA on reliability indices, Puerto Rico's energy system continues to fail to deliver the level of reliability, efficiency, and resiliency Puerto Rico's residents deserve. Additionally, PREPA still has significant steps to take before it achieves a reorganized corporate structure that is consistent with its new, reduced mandate following the transfer of operational responsibilities to LUMA and Genera.

The aforementioned PREPA reorganization, unbundling, and transformation is of particular importance, as it is fundamental for enabling many of the transformational measures of the energy sector reform contemplated in Act 17, the 2023 Certified Commonwealth Fiscal Plan (the "Power Sector Energy Transformation"), and the 2022 Certified PREPA Fiscal Plan.³ Despite its importance and the time elapsed, PREPA has yet to finalize the capital contribution agreements necessary to transfer the relevant assets to each of the subsidiaries created on March 2, 2023

¹ Please refer to the Energy Sector Structural Reform outlined in Chapter 5 of the 2023 Certified Commonwealth Fiscal Plan, available at the Oversight Board's website: oversightboard.pr.gov.

² The Puerto Rico Energy Public Policy Act, Act No 17 of April 11, 2019.

³ PREPA also committed to its reorganization through the T&D Operation and Maintenance Agreement with LUMA.

(GenCo, HydroCo, PropertyCo). Nor has PREPA executed the important PREPA-GenCo-HydroCo Operating Agreement (“PGHOA”), which essentially establishes the rules of play among the operators and PREPA, including the Agreed Operating Procedures, and sets forth how each of the parties’ bank accounts are to be funded on a day-to-day basis, among other important aspects.

PREPA also remains reliant on expensive generation and subject to volatile fuel prices. To date, more than 95% of total electricity continues to be generated from non-renewable resources (including diesel and bunker fuel), making PREPA particularly vulnerable to changes in global fuel prices. That exposure is expected to be mitigated by Genera’s expertise in the industry through the implementation of several fuel saving strategies that are aligned with its contractual incentives as a shared interest with the ratepayer.

Efforts on the renewable front are expected to further mitigate this vulnerability. Nevertheless, despite the historic selection of over ~844MW in renewable energy projects through 18 new renewable generation contracts over a year ago, the modernization and diversification of the Island’s generation resources is significantly behind schedule, risking Puerto Rico’s and PREPA’s ability to meet intermediate renewable portfolio standard (RPS) goals. Particularly, despite signing these agreements following PREB and the Oversight Board’s February 2022 approval, PREPA has been unable to achieve financial closings for any of these Power Purchase Agreements (“PPOAs”) at the prices at which the selected proponents bid. Instead, PREPA has claimed a number of alleged issues preventing it from achieving financial closings, despite ample opportunity over a lengthy period of time.

In light of these and other challenges, PREPA must focus on:

- Finalizing its corporate reorganization as envisioned in the Energy Sector Transformation.
- Rightsizing HoldCo’s headcount and budget footprint to the size required to comply with its reduced and limited mandate in the most cost-effective and efficient manner possible, in order to maximize dollars allocated to the actual operation and maintenance of the T&D and generation systems.
- Operating the Hydroelectric assets with the limited resources available until future opportunities are identified.
- Supporting the expedient transition to renewable energy resources and compliance with regulatory requirements, while promoting market competition.
- Achieving financial responsibility and sustainability through the restructuring and reformation of its legacy debt and pension obligations.
- Improving cooperation with the Commonwealth, LUMA and Genera on joint initiatives, reporting, budget and cash management and other Shared Services.

The focus of this year’s Fiscal Plan initiatives thus turns to finalizing the transformation and unbundling of PREPA into its separate components and turning it into an efficient entity that prioritizes energy system and service reliability and efficiency.

III. Detailed discussion of required revisions to PREPA's Proposed Plan

A. *Transition to private generation operator and reorganization*⁴

- **GenCo P3:** The Proposed Plan must include a discussion of: (i) Genera's operation and maintenance agreement, and (ii) the transition of employees and plant operations (including recruitment tally to date, VTP cost and benefits provided). The Proposed Plan should also include an estimate of those employees expected to transition to Genera, along with those opting for mobilization to the CW and those staying in the remaining PREPA entities.
- **PREPA Reorganization:** The Proposed Plan must include a detailed discussion regarding the steps to be taken by PREPA to achieve the reorganization contemplated in the Energy Sector Transformation. The Proposed Plan must include a clear description of PREPA's reorganized corporate structure by, among other things, identifying all subsidiaries established and expected to be established in relation to its reorganization (GridCo, GenCo, HoldCo, HydroCo, and PropertyCo), as well as any other remaining subsidiaries (i.e., PREPA Holdings, PREPA Networks, LLC—now known as HUB Advanced Networks, etc.). The Proposed Plan must include a description of each entity, its assets, operational scope, roles and responsibilities (i.e., Organizational Charts).
 - The Proposed Plan must include an exhibit showing PREPA's overall organizational structure in chart format, to reflect all contemplated subsidiaries.
 - The Proposed Plan must include a detailed timeline with specific milestones that is consistent with the goal of a timely completion for PREPA's reorganization.
 - The Proposed Plan must detail its plans (both short-term and long-term) for each of the above entities remaining in PREPA's control, with an estimated timeline for execution of each of the proposed steps. PREPA must propose plans that consider the Energy Sector Transformation's objectives of reducing PREPA's remaining day to day activities in proportion to its remaining legacy responsibilities.
 - The Proposed Plan must include clear descriptions of PREPA's plans with regards to each entity or subsidiaries remaining under its control (e.g., responsibilities, staffing, processes contemplated for managing and divesting assets, outsourcing of certain services, transferring operations to third party operators whether private or public, as applicable).
 - The Proposed Plan must include a description of the future right-sizing, role, staffing level over time, and internal organizational structure of HoldCo and HydroCo. The description should take into consideration their reduced roles and responsibilities after the unbundling and the Genera transition. An analysis of the

⁴ PROMESA Sections 201(b)(1)(A),(B),(C),(D),(F),(G),(H),(J),(I).

resources needed as a proportion of the remaining responsibilities, like the one prepared by AAFAF should be included.

- The Proposed Plan must in summary describe the PGHOA and identify its execution date as a Fiscal Plan milestone.

B. Fiscal Measures⁵

The Proposed Plan must be updated to reflect the following fiscal measures:

- **HoldCo Rightsizing:** While we are aware of the PREB budget proceeding that started on May 15, 2023, and that the Proposed Plan may undergo significant updates, there are several concerning items in the HoldCo budgets and expense forecasts submitted. We are disappointed to note that the Proposed Plan's underlying financial model reflects an **increase of 108%** in proposed HoldCo expenditures (when removing the shared top line Restructuring and Title III and the Oversight Board's Advisor Costs) from \$28.9M in FY23 to \$60.2M in FY24. This is despite the fact that, following July 1, 2023, PREPA HoldCo's functions will be reduced substantially as compared to FY23 on a go forward basis.

PREPA has been and is acutely aware of the revenue constraints the system has and has also been consistently reminded of the need to reduce HoldCo expenditures in proportion to its new, reduced mandate pursuant to Puerto Rico public policy. Any unnecessary increase to the HoldCo allocation is funding that is not invested in improvements to the energy system, to the detriment of the Puerto Rico ratepayer. **PREPA must reduce its HoldCo expenditures** to a maximum of the allocation of its available base revenues as determined by P3A, or 3% of available base revenues until such time as PREB determines to modify it or otherwise. The above staffing and organizational plan should be at the very least below or consistent with this funding envelope.

We are also aware of the Government's and AAFAF's efforts to right-size HoldCo to meet its new mandate and a copy of such analysis must be provided. A full description of HoldCo's remaining responsibilities, staffing levels required, organizational structure, job descriptions of roles required, and a proposed roster must be included in a manner that is consistent with HoldCo's mandate after the Genera transition is complete. A discussion on the conclusions of this analysis should be included. Further details on budgetary concerns are included in the budget section below.

- **HydroCo Rightsizing:** It is also concerning that HydroCo expenditures are also nearly twice the amount allocated under P3A's determination. Given the limited resources available, the system's priorities as stated by PREPA itself in the past must be on providing critical maintenance to high priority generation units. Hydroelectric assets generate only about 1% of total load and therefore should not become a new system priority. Instead, PREPA must use its federal funding obligated envelope, to maintain the ability to focus on higher impact priority investments. A full description of HoldCo's steady state

⁵ PROMESA Sections 201(b)(1)(A),(B),(C),(D),(G),(H),(J),(I).

responsibilities, staffing levels required, organizational structure, job descriptions and roster must be included. **PREPA must reduce its HydroCo expenditures** to a maximum of the allocation of available base revenues as determined by P3A, or 4.6% of the Generation allocation of the available base revenues until such time as PREB determines to modify it or otherwise.

- **Legacy debt:** PREPA must illustrate the full impact of legacy debt service charges, assuming no debt restructuring, and clearly separate this impact from any other rate elements based on the fiscal plan's baseline load, while also clearly identifying all assumptions. Specifically, the Proposed Plan's Debt Chapter must include a discussion, as well as an illustration, of PREPA's unstructured debt impact and cost to PREPA and ratepayers, in dollar amounts, energy rates (c/kWh), and on an average residential customer's monthly bill. While PREPA has included this analysis, it must update it and, in particular, the pension costs shown on this analysis should assume the pension plan is unfunded as it is today and that it will transition to PayGo – as further elaborated below.
- **FY2024 Pension Plan Employer Contributions:** The Proposed Plan includes an FY24 employer contribution of \$3 million for HoldCo employees and \$2.8 million for HydroCo pension and benefits. However, PREPA must detail its employer pension contribution for these employees. The Proposed Plan further assumes that the PREPA Employee Retirement System ("PREPA ERS") will be converted to PayGo in FY2024. The costs assumed in PREPA's model include \$173M in funding (unbudgeted) for PayGo for FY2024, which is significantly below the expected total PayGo costs of \$280M, even when adding the employer contributions above. While the ability to pay benefits in the longer term is still being addressed and some PREPA ERS bridge funding has been identified through certain accounts receivable settlements by and amongst PREPA and Commonwealth agencies that owed it monies, PREPA must identify resources or include a plan to contribute in FY2024 at a level that will allow the payment of pensions due in the current year and also not result in any incremental underfunding relative to its current employees (excluding employees that transferred to other government entities).
- **Pension Reform:** The Proposed Plan includes employer contributions to the PREPA pension system to fund monthly pension obligations on a PayGo basis, with some small amounts for contributions for current employees.

The proposed Plan of Adjustment provides that PREPA provide funding to a PayGo trust that meets the PayGo needs of the system, provides structural changes to the system to secure long-term stability (including a pension freeze and COLA elimination), and provides sufficient advance funding to reduce the risk that future PayGo payments are interrupted. The Proposed Plan must be updated to reflect the terms of the Plan of Adjustment and the impact on future pension costs must be reflected, beginning at least in January 2024. Furthermore, the costs presented in the narrative (see Exhibit 34) must be consistent with the projected costs in the model.

Pension Liquidity: PREPA's pension system has been essentially depleted of all liquid assets. The liquidity crisis cannot simply be remedied through structural reform, and PREPA must identify contingency funding.

As of March 31, 2023, PREPA ERS reported to the Oversight Board that it had less than \$100 million of liquidity available to make the pension benefit payments of approximately \$25 million a month (more after accounting for LUMA transferee withdrawals and potential Genera transferee withdrawals). Stated simply, more than 18,000 current and future retirees are at risk of losing their pensions unless a meaningful effort to restructure and fund the pension system is made.

While the Oversight Board has worked with PREPA and the Commonwealth to identify interim funding solutions, including a \$50 million payment by the central government to repay legacy account receivable balances, along with approximately \$72.5M from PRASA and ASEM settlements, the amounts are woefully insufficient to fund benefits due in FY2024. Moreover, while the Oversight Board's proposed Plan of Adjustment secures a committed funding source via the PayGo Trust, an interim funding solution for FY2024 is required. The Proposed Plan included statements that PREPA would seek emergency funding for PayGo pension contributions, however, it did not specify these sources. Therefore, the Oversight Board requires revisions to the Fiscal Plan that include a proposal of an interim funding solution for the entire FY2024 pension benefit obligation to ensure pension benefits and any benefit withdrawal requests are adequately funded until such time as a dedicated, long term funding source is implemented.

C. Capital Expenditures⁶

The Proposed Plan must provide transparency on capital planning and funding. This includes detailed descriptions of the capital improvement plans and their funding sources (including any cost-share requirements).

- **Transparency of capital plan interfaces, portfolios, and funding:** The Proposed Plan currently includes an overview of several relevant capital plans, including objectives, project prioritization criteria, and the project portfolio. The Proposed Plan must also include the following additional information:
 - A description of the prioritization of generation capital expenditures and prioritizations.
 - A description of the long term capital plans, portfolios and funding sources.
- **Federal Funding Cost-Share:** To reflect the risk associated with the cost-share requirements of federal funds available to PREPA, the Proposed Plan must include an illustration of the effect on electricity rates, in the event that PREPA has to resort to sourcing cost-share amounts from electricity sales. Specifically, the Proposed Plan must include a discussion of the rate impact if U.S. Department of Housing and Urban Development's Community Development Block Grant Disaster Recovery ("HUD CDBG-DR") funds are not available to cover all or a portion of the cost-share requirement.

D. Operational Measures⁷

⁶ PROMESA Sections 201(b)(1)(A),(B),(C),(D),(F),(G),(H),(J),(I).

⁷ PROMESA Sections 201(b)(1)(A),(B),(C),(D),(F),(G),(H),(J).

The Proposed Plan must provide additional transparency on operational measures. The Proposed Plan must reflect:

- **Genera Fuel Purchasing Strategy and Fuel delivery optimization:** The Proposed Plan must include a description of Genera’s fuel purchasing strategy and the expected savings. Additionally, the Proposed Plan must include a comparison between the strategies used by PREPA and the ones suggested by Genera, regarding fuel purchasing and logistics. A reporting cadence in sync with that required by PREB must be included in the Proposed Plan.
- **Genera Operational Savings Strategy:** The Proposed Plan must include a reporting cadence in sync with the reporting required by PREB must be included in the Revised Fiscal Plan.
- **Vegetation Management:** LUMA must clearly define Vegetation Management metrics, performance management, and reporting cadence as critical to ensuring the appropriate work is planned and completed to better maintain a safe, reliable, and resilient T&D system for PREPA (LUMA) customers. The Proposed Plan does not include or mention the funding plan that maximizes federal funding to clear vegetation of all 230kV lines, which LUMA has proposed to PREB in lieu of the requested annual budget increase of \$10M for vegetation management through PREB’s February 27, 2023 Resolution and Order.
- **HydroCo Maintenance Expenses Reporting:** As part of the review process, PREPA must report additional supporting detail to its HydroCo Maintenance Budget, with specific projects by hydroelectric unit and accompanying costs on a project basis.

E. Resource Planning⁸ and Industry Trends⁹

The Proposed Plan follows a methodology that is consistent with the Integrated Resource Plan (IRP)¹⁰ approved by PREB while recognizing known and current events that affect the pace of modernization, transformation efforts, and current market environments. This includes certain adjustments or deviations from the IRP, such as the inclusion of electric vehicles (“EV”), the current pace of renewables uptake, and the market conditions for new renewable projects.

The Proposed Plan must include an additional discussion of risks to the system and associated mitigation measures and include discussions of the impact of energy efficiency (“EE”), EV adoption, as well as residential and industrial use of Distributed Generation and Cogeneration (“DG/Cogen”), including **sensitivity analyses**, outlining the associated rate and load impacts, along with clarifying underlying assumptions.

⁸ PROMESA Sections 201(b)(1)(A),(B),(C),(D),(F),(G),(H),(J),(I).

⁹ PROMESA Sections 201(b)(1)(A),(B),(C),(D),(F),(G),(H),(J).

¹⁰ Final Resolution and Order, In Re: Review of the Puerto Rico Electric Power Authority Integrated Resource Plan, Case No. CEPR-AP-2018-0001, August 24, 2020.

- **Energy efficiency (EE):** The Proposed Plan includes a single EE scenario that is consistent with the PREB-requested “Low EE” case in the IRP and is compliant with the Act 17-2019 legislative mandate of 30% load reduction from EE by FY2040.

The uptake scenario in the Proposed Plan assumes a slow adoption of EE measures starting in FY2024, accelerated adoption starting in FY2025 that leads to meeting Act 17-2019 requirements by FY2040. In light of this, the Proposed Plan must include a qualitative sensitivity analysis on EE adoption scenarios that may not meet the Act 17-2019 EE mandate, using (but not limited to), LUMA’s operator experience, industry standards, additional EE programs that benefit residential customers, and the effect on rates and on load of each of the projected scenarios.

The Proposed Plan must also include the identified or potential funding sources that are being considered for the implementation of EE initiatives, including an illustrative discussion of their potential impact on rates and the average customer’s monthly bill.

- **Electric Vehicles (EV):** The Proposed Plan shows an increased load from EV’s as compared to the 2022 PREPA Certified Fiscal Plan, given that LUMA started using the PR 100 projections from NREL that forecast higher adoption of EVs on the Island.

The Proposed Plan must also include a qualitative sensitivity analysis on EV forecast scenarios assuming PR 100 projections don’t fully materialize, outlining the assumptions, key drivers, and potential impact on rates and load.

The proposed plan must include a graph illustrating the actual deployment of Electric Vehicles (“EV”) until the present, including the relevant charging infrastructure.

- **Distributed Generation (DG):** The Proposed Plan indicates a significant increase in the adoption of distributed generation (DG) when compared to the 2022 PREPA Certified Fiscal Plan. The disparities between the two plans can be attributed to a change in the methodology employed by LUMA to estimate DG adoption, along with more optimistic projections on rooftop solar by the Energy Information Administration (“EIA”), which serve as key inputs for LUMA's regression model. Furthermore, LUMA utilizes the trend in net metering requests from the preceding six months as a starting point to adjust for recent adoption. It is essential for LUMA to incorporate the assumptions behind the DG uptake into the Proposed Plan. The Proposed Plan must also outline LUMA’s approach for dealing with and managing DG uptake, (e.g., net metering installations).

In addition, LUMA must provide a concise summary of the \$500 million Community Development Block Grant-Mitigation (CDBG-MIT) funding for low- and mid-income families and reasons for not including this funding into the Proposed Plan. The reasons previously communicated by LUMA included lack of transparency on the disbursement of funding, along with the difficulties in accessing such funds.

The Proposed Plan must also include a qualitative sensitivity analysis on DG forecast scenarios, outlining the assumptions, key drivers, and potential impact on rates and load.

Other resource planning Fiscal Plan considerations:

- **Potential Risks on Renewable Capacity Deployment:** PREPA must include a detailed description of the status of the 18 PPOAs selected on Tranche 1 and later approved by PREB and the Oversight Board. The Proposed Plan must include an explanation as to why none of the 18 PPOAs have reached financial closing more than 1 year after their approval. The Proposed Plan must also outline the potential risks these delays may cause to Tranche 2 and subsequent renewable procurement tranches and deployment.

Additionally, given the delays in the timeline for renewable deployment, the Proposed Plan’s underlying financial model must also include a realistic view on when utility scale renewable generation is expected to be deployed and associated costs.

- **Ecoléctrica Retirement:** The Proposed Plan also assumes the EcoEléctrica facility is retired in FY2033 – when the current contract expires – at which point it is replaced by diesel fuel and LNG generation. The Proposed Plan must include a generation mix forecast in compliance with IRP-mandated retirement of diesel-fired base load generation resources. The Proposed Plan should not have the generation capacity of the EcoEléctrica plant replaced by diesel-fueled power plants. Instead, the Proposed Plan must consider in the above outlined sensitivity analyses, whether DG may be a potential replacement source. Otherwise, PREPA must explain the rationale and economic benefits of switching to diesel upon the termination of the current EcoEléctrica contract versus other generation sources.
- **LNG to H2 Combined Cycle Generation Plant:** The Proposed Plan must include a qualitative discussion of the Public Private Partnership (“P3”) launched to identify, permit, finance, design, build and operate a new generation facility to help manage the varying demand of generation in Puerto Rico. This discussion must explain its purpose and expected impact on the system.
- **FEMA/USACE Emergency Generation Deployment:** The Proposed Plan must include a qualitative discussion of the expected emergency generation that will be brought to the island and the effects it may have on system reliability, generation capacity, and planned outage schedules, and if there’s an expected impact on costs.

F. Financial Projections¹¹

The Proposed Plan’s financial projections must be updated based on the following:

- **Basic Revenues:** Basic Revenues must align with the load forecast and base revenues available as filed by LUMA before P3A and PREB. In particular, the basic revenues included for FY24 in the consolidated budget tab do not reconcile with Basic Revenues

¹¹ PROMESA Sections 201(b)(1)(A),(B),(C),(D),(F),(G),(H),(J).

Forecasted + Other Income allocated to all entities. PREPA must correct the basic revenues available in the budget or otherwise explain the driver of the difference.

- **Budget:** The Oversight Board is aware that the Fiscal Plan submission does not include final budgets because of the formal review process that is taking place before PREB through its mandated budget proceeding with the recent filings on May 15, 2023. However, the Oversight Board anticipates that the parties submit a Proposed Fiscal Plan that includes a set of balanced budgets for each fiscal year in accordance with PROMESA, with expenses that are aligned to and do not exceed each of the entities' (GridCo, GenCo, HoldCo and HydroCo) allocated available basic revenues pursuant to the P3A's determination until such time as PREB determines to modify it or otherwise. Nonetheless, we note that certain items currently rise to the level of a notice of violation:
 - **HoldCo:** Of particular concern, the Proposed Plan includes a 31% increase to Labor Operating Expenses in FY24 from FY23 Certified Budget levels. There are close to \$10M of not previously budgeted Legal Services, \$10M of "Other Miscellaneous Expenses" (a 439% increase to the FY23 amount), new regulation and environmental inspection services costs and an unexplainable \$2.7M of maintenance projects coded as "Executive (General & Admin)". HoldCo should reflect a budget and forecast that is compliant with the revenue allocation and in line with HoldCo's reduced responsibilities, meaning that the entire expense envelope must be modified downward accordingly. We expect PREPA's revised Proposed Plan submission to reflect a compliant budget.
 - **HydroCo:** See Section B above.
 - **GridCo:** The underlying financial model includes an "awaiting LUMA Submission" comment. LUMA must submit its updated proposed GridCo budget for consolidation with the revised Proposed Plan financial model submission.
 - **T&D Operator Service Fee:** The budget tabs of the underlying financial model understate the T&D (LUMA) Operator Service Fee. The Proposed Plan must be updated to reconcile with the fee as included in P3A's approved revenue allocation determination and as presented to PREB by LUMA in the annual budgets filing.
 - **Generation Operator Service Fee:** The budget tabs of the underlying financial model do not include the Thermoelectric Generation Operator (Genera) Service Fee. The Proposed Plan must include the Genera fee as included in P3A's approved revenue allocation determination and as presented to PREB.
- **Certified Budget Format:** The model must include an additional consolidated budget tab that mirrors the certified budget format.
- **Staffing Breakdown:** PREPA's current FY23 Certified Fiscal Plan includes headcount detail, which is not included in the FY24 Proposed Plan. To evaluate HoldCo and HydroCo's roster compositions and the required budgeted amounts requested, the

Proposed Plan must provide a detailed staffing level breakdown for each entity and their respective costs.

- **Aurora Modeling Assumptions:** PREPA's Proposed Plan model relies on multiple data sources, expert input, and dynamic load and economic dispatch modeling using a zonal model (Aurora model). The Proposed Plan must amend several inconsistencies identified by the parties themselves through their Proposed Plan submission and provide explanations of the various key modeling assumptions (unit retirement dates and cost drivers, renewable deployment timeline, etc.).

According to the schedule established by the Oversight Board pursuant to PROMESA Section 201(a), PREPA must submit its revised Proposed Plan, addressing and incorporating each of the items identified herein, along with all necessary supporting materials, no later than **May 26, 2023**.

We look forward to continuing working with you for the benefit of the people of Puerto Rico.

Sincerely,



Robert F. Mujica Jr.
Executive Director

David A Skeel, Jr.
Andrew G. Biggs
Arthur J. González
Antonio L. Medina
John E. Nixon
Justin M. Peterson
Betty A. Rosa

Cc: Hon. Omar Marrero Díaz
Mr. Josué A. Colón Ortíz
PREPA Governing Board
Mr. Fermín Fontanés Gómez
Mr. Wayne Stensby
Mr. Brannen McElmurray