

March 5, 2024

To: Puerto Rico Electric Power Authority ("PREPA")
Attention: Josué Colón Ortiz
Executive Director
PO BOX 364267
San Juan, Puerto Rico 00936-4267

Re: Inaccurate PREPA Statements on LUMA's Reimbursement, Billing, Collections and Metering Efforts

LUMA is in receipt of PREPA's letter dated January 26, 2024 ("January Letter"), which makes several misleading statements related to LUMA's compliance with the Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement ("T&D OMA")¹ and attempts to deflect PREPA's responsibility to fully fund the Service Accounts in compliance with the terms specified in the T&D OMA.

In the January Letter, PREPA states: "LUMA's failure or inefficient execution of its contractual duties thwarts PREPA's ability to adequately fund the Service Accounts." **LUMA rejects all explicit or implicit claims of non-compliance with its responsibilities as Operator of the T&D System**, and PREPA's false assertions that its obligation to fully fund the Service Accounts is somehow conditioned on the amount or timing of federal reimbursements or of collections for electric service. Please refer to letter sent on February 29, 2024 (LUMA-PREP-T-00701) regarding PREPA's unfounded reasoning that attempts to excuse PREPA's non-performance of its obligation to fund the Service Accounts. LUMA provides below specific responses to each of the categorically false statements made by PREPA regarding LUMA's performance on reimbursement of federally funded activities and on collections for electric service.

I. Inaccurate PREPA Claims Regarding Reimbursements for Federally Funded Expenditures on the T&D System

In the January Letter, PREPA claims to have collected \$664,620,311.00 in reimbursement from federally funded projects and compares this to the \$43,000,000.00 collected by LUMA during the same time period. This is a misleading and inaccurate comparison. PREPA's alleged \$664,620,311.00 reimbursement cannot be compared to LUMA's reimbursements because the numbers represent non-comparable categories of funding with varying requirements, timelines, and timeframes, as summarized below:

- Approximately \$423 million of PREPA's cited \$664,620,311.00 derive from Category B – Emergency Protective Measures from Hurricane Maria. By definition, these Category B

¹ The Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement ("T&D OMA") executed on June 22, 2020 by and among PREPA, the Puerto Rico Public-Private Partnerships Authority ("P3A") and LUMA Energy, LLC and LUMA Energy ServCo, LLC (collectively, "LUMA")



activities occurred during the emergency response period for Hurricane Maria which is more than 6-years ago and well before LUMA commenced operation of the T&D System.

- Approximately \$125 million of the \$423 million is a refund for long disputed expenses that PREPA incurred in payments to COBRA as part of Maria Emergency activities.
- Of the \$242 million remaining amount, \$72 million is from Generation related projects and \$17 million Direct Administrative Costs.

Contrary to PREPA's misleading statements, LUMA has produced approximately \$170 million in Request for Reimbursements ("RFR") and received access to approximately \$306 million in Working Capital Advances ("WCA") to date, with hundreds of highly complex projects in progress. Using metrics that are comparable over the time period of September 2021 to January 2024, the below table provides a summary of total requested amounts by request type for all Category B – Emergency Protective Measures, Category F – Utilities, and Category Z – Direct Administrative Costs disbursements.

Table I – Total Requested Amounts by Request Type (Category B, F, and Z) from September 2021 to January 2024

	Advance	Reimbursement	Small	Working Capital Advance	Total
LUMA	\$2,162,282.76	\$159,552,149.52	\$962,424.39	\$306,442,330.43	\$469,119,187.10
PREPA	\$8,699,060.24	\$245,548,572.17		\$133,028,222.36	\$387,275,854.77
Total	\$10,861,343.00	\$405,100,721.69	\$962,424.39	\$439,470,552.79	\$856,395,041.87

LUMA has also initiated several projects to further maximize results and periodic 'Continuous Improvement Sessions' with COR3 to streamline the process and expedite RFRs. LUMA assures PREPA that it is utilizing the reimbursement request process and maximizing federal dollars for the improvement of the T&D System.

II. Inaccurate PREPA Claims Regarding LUMA Billing, Collections and Metering

In the January Letter, PREPA also makes false claims that PREPA's responsibility to fund the Service Accounts is conditioned on LUMA billing and collection-related activities. PREPA states, "PREPA's ability to fund the Service Accounts depends primarily and almost exclusively on LUMA's proper execution of its contractual obligations. These include, inter alia, timely and accurate billing, as well as collection from consumers for all power services provided. In order to fulfill its contractual duties, LUMA is required to eradicate power theft, guarantee proper operation of power meters, suspend power service to delinquent customers, among others."

PREPA's insinuations that LUMA is not performing its T&D OMA obligations related to these activities are inaccurate and misleading. Since Commencement, LUMA has taken significant steps towards reducing the ratio of billed versus collected revenue and increasing overall collections, in compliance



with its T&D OMA responsibilities. Among other milestones on collections, **LUMA has brought all central government accounts to current collection activity, which is unprecedented in Puerto Rico.** Other LUMA accomplishments and actions include:

- Between August 1, 2022, and May 1, 2023, LUMA decreased the pre-Commencement Accounts Receivable Total Balance by approximately 40% and post-Commencement Accounts Receivable Total Balance by approximately 25%.
- For the first time since 2017, LUMA began disconnecting delinquent commercial customers in early 2023 and disconnections for delinquent residential customers in November 2023.
- In April 2023, PREPA requested LUMA reduce historical, pre-Commencement PRASA accounts by a total of \$26,486,916, reflecting that PREPA approved \$21,770,000 related to preferential rate and a separate \$4,716,916 settlement for disputed billed amounts.
- LUMA has steadily improved past due Accounts Receivable from 2022 to 2023. Over the last 12 months, LUMA consistently collected payments averaging over \$320 million per month. and significantly increased the number of customers on payment plans. This achievement means more customers are paying their past due Accounts Receivable.

Finally, LUMA has made significant progress on metering since Commencement, in compliance with its T&D OMA obligations. Since LUMA took over as Operator of the T&D System, LUMA has installed new or exchanged and replaced more than 148,000 meters, including approximately 50,000 non-NEM meters that were previously neglected by PREPA and generated faulty data, and approximately 53,500 meters required for NEM customers. As it relates to NEM customers, at Commencement LUMA inherited a backlog of 8,000 Net Metering ("NEM") cases from PREPA. Not only has LUMA addressed this backlog, but it has also activated more than 80,000 NEM customers since Commencement. Additionally, LUMA received unprecedented FEMA funding obligation worth over \$870 million for an island-wide Advanced Metering Infrastructure ("AMI") project to replace the approximately 1.5 million meters with modern, functional, and resilient technology. Given the lack of meter maintenance before LUMA commenced operations, LUMA expects to continue to see increasing volumes of meter failures until the AMI program is fully implemented, despite this LUMA will continue to improve metering accuracy.

While it is clear LUMA has improved billing, collections, and meter accuracy, the T&D OMA is clear with regards to PREPA's obligations to fully fund the Service Accounts – they are not conditioned upon LUMA's actions. PREPA is required to full fund the Service Accounts without condition.

III. Conclusion

As shown below in a comparison of PREPA's estimated audited actuals for the T&D System from FY19-FY21 versus LUMA's budget from FY22-FY24, the work that LUMA has been able to accomplish related to restoration and reliability of the T&D System in the past three years far exceeds what PREPA was able to accomplish in the three years prior to Commencement, despite a decrease in the T&D Budget by 30% since Commencement.



Table II – PREPA Estimated T&D System Actuals (FY19-FY21) vs. LUMA Budget (FY22-FY24)

	Estimated Audited Actuals			Budget		
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
O&M	\$696,060	\$675,972	\$720,505	\$514,502	\$547,125	\$560,283
NFC	\$184,857	\$139,349	\$195,746	\$124,000	\$79,778	\$91,144
Total	\$880,917	\$815,321	\$916,250	\$638,502	\$626,903	\$651,427
% Change		-7%	12%	-30%	-2%	4%

LUMA remains committed to collaboratively working with PREPA to transform Puerto Rico's electrical system, operating prudently and transparently, and making measurable improvements towards creating a reliable, resilient, and safe T&D System for Puerto Rico.

Sincerely,



Corey Schneider
Chief Financial Officer

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