

June 13, 2024

To: Puerto Rico Electric Power Authority (“PREPA”)

Attention: Josué Colón Ortiz

Executive Director

PO BOX 364267

San Juan, Puerto Rico 00936-4267

Re: Response to PREPA's Recent Service Account Funding Letters

LUMA acknowledges receipt of PREPA's correspondences dated March 15, 2024 (“PREPA's March 15th Letter”), May 13, 2024 (“PREPA's May 13th Letter”), and June 3, 2024 (“PREPA's June 3rd Letter”)¹ regarding Service Account funding and provides the following response.

LUMA does not consider this back-and-forth letter exchange to be a productive and prudent use of valuable resources' time. However, given PREPA's continued non-compliance with its Service Account Funding requirements under the Transmission and Distribution Operation and Maintenance Agreement (T&D OMA)² and its recent series of letters on this topic, LUMA is obligated to remind PREPA of its contractual responsibilities and must correct PREPA's misleading statements.

I. PREPA's Contractual Obligations

Firstly, LUMA remains concerned by PREPA's disregard of its obligations under the T&D OMA. PREPA's responsibility to meet its contractual commitments in Section 7.5 of the T&D OMA is an unconditional and material obligation. For the past 18 months, PREPA has failed to comply with its contractual obligations and in several of those months it breached provisions of the T&D OMA, through failure to fund the Outage Event Reserve Account. For the avoidance of doubt, LUMA did not serve notice of an Owner Event of Default in the months when this happened and reserves all rights and remedies under the T&D OMA. LUMA again points out that the alleged avoidance of an Owner Event of Default is not equivalent to compliance with the terms of the T&D OMA.

Further, it is PREPA's obligation to ensure it is managing PREPA's cash in a prudent manner and providing for sufficient working capital across all its assets. This includes working capital to provide for fuel price fluctuations and federally funded projects. In addition, PREPA is obligated to provide funding for all reserve accounts as part of its calculation of working capital.

II. Outage Event Reserve Account

¹ Reference PREPA letters titled, “Response to LUMA's March 5th Letter to Address LUMA's Misrepresentations”, “Letter from PREPA to LUMA in response to the letters dated March 19, 2024 and April 16, 2024”, and “Projected Shortfalls for Service Account Funding for June 2024, due on July 15, 2024, under T&D OMA”

² The Puerto Rico Transmission and Distribution System Operation and Maintenance Agreement (“T&D OMA”) executed on June 22, 2020, amongst the Puerto Rico Electric Power Authority (“PREPA”), the Puerto Rico Public-Private Partnerships Authority (“P3A”) and LUMA Energy, LLC and LUMA Energy ServCo, LLC (collectively, “LUMA”)



For the past 5 months, PREPA has failed to provide any funding for the Outage Event Reserve Account, as required under Section 7.5 (d)(iii) of the T&D OMA, which would be considered an Event of Default per Section 14.3(f) of the T&D OMA should notice be provided to PREPA and not cured. This letter is not a written Notice of an Event of Default, and should Operator choose to serve such a Notice it will do so separate from this letter.

On October 9, 2023 (LUMA-PREP-T-00635), LUMA reminded PREPA that not only does the T&D OMA not permit PREPA to withhold funding from the Outage Event Reserve Account for any reason, but this provision was specifically agreed to among the Parties to the T&D OMA to mitigate potential cash flow issues during Outage Events. This provision enables LUMA to meet its requirement to promptly respond to Outage Events and mitigate impacts to T&D customers.

In accordance with Section 7.5(d) of the T&D OMA, PREPA is responsible for ensuring funding of the Outage Event Reserve Account. PREPA's lack of budgetary or other funding source does not excuse PREPA from promptly funding this account in full following a withdrawal, as required under the T&D OMA. LUMA urges PREPA to identify alternative funding sources and utilize working capital to meet its obligation to fully fund the Outage Event Reserve Account.

III. PREPA's Misleading and False Claims

LUMA rejects PREPA's attempt to shift its Service Account funding responsibilities to other parties and urges PREPA to take immediate corrective action to ensure compliance with its T&D OMA responsibilities. Further, LUMA rejects any explicit or implicit claims of non-compliance with its responsibilities as Operator of the T&D System pursuant to the T&D OMA, including those responsibilities and performance standards related to federal funding reimbursements and collections for electric service.

On March 5, 2024, LUMA addressed similar, categorically false statements made by PREPA regarding LUMA's performance on reimbursement of federally funded activities and collections for electric service (LUMA-PREP-T-00703). Please refer to LUMA's response letter for further details on LUMA's position. Further information regarding LUMA's position on PREPA's contractual obligation to fully fund the Service Accounts in a timely manner, irrespective of the results of LUMA's federal funding and collections can be found in letters sent March 16, 2023 (LUMA-PREP-T-00487), April 26, 2023 (LUMA-PREP-T-00514), July 21, 2023 (LUMA-PREP-T-00591), August 30, 2023 (LUMA-PREP-T-00609), February 27, 2024 (LUMA-PREP-T-00701), and each of the 18 Notices of Non-Compliance with Service Account Funding³.

³ Reference the "Notice of PREPA Non-Compliance with Service Account Funding" letters sent from LUMA to PREPA on December 16, 2022 (#LUMA-PREP-T-00435), January 18, 2023 (#LUMA-PREP-T-00440), February 15, 2022 (#LUMA-PREP-T-00472), March 16, 2023 (#LUMA-PREP-T-00488), April 18, 2023 (#LUMA-PREP-T-00509), May 18, 2023 (#LUMA-PREP-T-00543), June 16, 2023 (#LUMA-PREP-T-00574), July 20, 2023 (#LUMA-PREP-T-00595), August 16, 2023 (#LUMA-PREP-T-00606), September 18, 2023 (LUMA-PREP-T-00618), October 17, 2023 (LUMA-PREP-T-00634), November 16, 2023 (LUMA-PREP-T-00649), December 18, 2023 (LUMA-PREP-T-00671), January 17, 2024 (LUMA-PREP-T-00683), February 16, 2024 (LUMA-PREP-T-00695), March 19, 2024 (LUMA-PREP-T-00710), April 20, 2024 (LUMA-PREP-T-00728), and May 17, 2024 (LUMA-PREP-T-00744)



PREPA's May 13th Letter misleadingly states there is an overfunding of the Capital Account – Federally Funded. LUMA reminds PREPA that the cash in the Capital Account – Federally Funded consists of restricted Working Capital Advances (“WCA”) and unrestricted cash to be used as working capital around federally funded project costs. PREPA's claim that excess cash in the Capital Account – Federally Funded should be reimbursed to the Operating Account is incorrect.

LUMA has made significant efforts to limit the amount of cash PREPA must fund as working capital for FEMA projects by taking advantage of FEMA's WCA program. To date, LUMA has requested more than \$309 million in WCA from FEMA or COR3 to minimize the use of PREPA's cash as working capital for federally funded capital projects. As of June 4, 2024, there is more than \$211 million in restricted cash in the Capital Account – Federally Funded, resulting from LUMA's usage of this WCA program. LUMA also regularly reviews projects and expected cash flows of obligated federally funded projects to evaluate the ability to request additional WCA, to further minimize PREPA's need to fund working capital for federal projects.

Additionally, LUMA has received approximately \$135 million in total cash reimbursements, and has approximately \$112 million Request for Reimbursements (“RFR”) currently outstanding with COR3, totaling approximately \$246 million in submitted RFRs. LUMA is also currently working on packaging an incremental approximate \$67 million RFRs, which will be submitted to COR3 within the next month which will bring the total RFRs submitted to approximately \$313 million.

PREPA also misrepresents LUMA's collections and billing efforts. Since Commencement, LUMA has significantly increased the number of customers on payment plans, decreasing past due Accounts Receivable. Notably, LUMA has also brought all central government accounts to current collection activity for the first time in Puerto Rico's history. Further, LUMA has reduced the number of customers on estimated rates by over 40% by optimizing the billing system configuration and has reduced the number of unbilled customers to less than .6%. LUMA has also initiated a federally funded project to replace the faulty meters inherited at Commencement which will further increase billing accuracy and decrease power theft.

Regardless of LUMA's accomplishments in these areas to increase collections and reduce the amount of working capital PREPA requires to fund all its operations, it is PREPA's responsibility to fully fund the Service Accounts in accordance with Section 7.5 of the T&D OMA. PREPA's responsibility to adhere to the terms and conditions set forth in the T&D OMA is unconditional and a material obligation under the T&D OMA, which PREPA is willfully in violation of.

IV. Conclusion

The integrity of the T&D OMA must be upheld by all parties and PREPA must adhere to its responsibilities under the T&D OMA. Despite the projected cash shortfall for the June 2024 Service Account Funding cycle mentioned by PREPA in its June 3rd Letter, PREPA is expected to fulfill its obligation to fully fund the service accounts in accordance with Section 7.5 of the T&D OMA.

Nothing contained in this letter shall constitute a waiver or relinquishment by LUMA of any rights and remedies provided by the T&D OMA, the PGHOA, and Applicable law. LUMA reserves all rights and



remedies under the T&D OMA, the PGHOA, and applicable law and equity, including but not limited to, pursuing legal action, with respect to the subject of this letter.

Sincerely,



Mario Hurtado

Chief Regulatory Officer

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