

Schedule C-3 shall present the calculation of the Gross Revenue Conversion Factor. An explanation and support must be provided for each item that is incorporated into the Gross Revenue Conversion Factor.

PREPA’s rate proposal does not include a Gross Revenue Conversion Factor. PREPA is not subject to income taxes. PREPA’s proposal treats depreciation expense and CILT separately, without use of a GRCF. As a result, there is no item to include in a GRCF. Below is a sample calculation for the Test Year and Rate Effective Year of what the GRCF would look like. PREPA is required by law to provide service at no charge to Municipalities and Special Customers. We add a line item provisions broadly referred to as CILT & Subsidies to revenue requirement to recover the cost of providing service to these customers.

Like CILT & Subsidies, we add a provision for Bad Debt, also known as uncollectible revenue, to recover revenue for service rendered that is not collected. This line item is intended recover from non-municipal non-special customers only, such that there is no overlap. Given our available data, we developed our estimate based on overall billed revenue and total collections. Overall billed revenue includes all government entities, including municipalities. Total collections includes all cash collections, including other income. We compared our estimate to past year bad debt write-off amounts and found it to be in the range of prior years.

Gross Revenue Conversion Factor Sample Calculati	FY 2014	FY 2015	FY 2016	FY 2017
Gross Revenue Requirement	\$ 5,363,134,449	\$ 4,564,935,608	\$ 3,033,973,874	\$ 2,958,930,536
CILT & Subsidies	\$ 366,004,842	\$ 351,962,217	\$ 242,985,776	\$ 220,096,742
Bad Debt	\$ 191,533,358	\$ 58,540,416	\$ 55,739,896	\$ 85,383,767
Net Revenue Requirement	\$ 4,805,596,250	\$ 4,154,432,975	\$ 2,735,248,202	\$ 2,653,450,027
GRCF	1.12	1.10	1.11	1.12