COMMONWEALTH OF PUERTO RICO
PUERTO RICO ENERGY COMMISSION

IN RE: PETITION FOR APPROVAL OF TRANSITION ORDER FILED BY THE PREPA REVITALIZATION CORPORATION	**CASE NO.:** CEPR-AP-2016-0001

RESOLUTION AND ORDER

On April 7, 2016, the Puerto Rico Electric Power Authority Revitalization Corporation (the "Corporation") filed before the Puerto Rico Energy Commission (the "Commission") a petition for a Restructuring Order (the "Petition") pursuant to Article 6.25A of the Energy Transformation and RELIEF Act, Act No. 57-2014 ("Act 57-2014"), as amended. On April 12, 2016, the Commission issued a Resolution and Order whereby it determined that the Petition was complete for purposes of subsection (c) of Article 6.25A since it includes, in some form, each of the documents required by subsection (e) of Article 6.25A.

On said occasion the Commission stated that, although it had determined the Petition to be complete, the information contained in the documents may not have sufficient clarity to allow the Commission to make each of the positive findings requested by the Petitioners and required by Section 6.25A of Act 57-2014. The Commission further noted that it would be issuing a request for clarification so that the Corporation has an opportunity to provide the necessary clarifications. Consequently, through this Resolution and Order, the Commission issues a second request for clarification.[1] Said clarification request consists of a group of questions which, by being answered by the Corporation, we hope will provide sufficient clarity to the Petition to allow the Commission to issue a final determination pursuant with Article 6.25A of Act 57-2014.

Article 6.25A of Act 57-2014 sets forth the specific findings to be made by the Commission as part of its evaluation of the Petition. The questions included as part of this request for clarification have been grouped and organized according to said findings.[2] The Corporation's collaboration with the Commission's efforts by fully and timely answering the questions included herein will, we hope, provide the Commission with the necessary information for it to comply with its statutory mandate pursuant to Article 6.25A of Act 57-2014.

---

[1] On April 13, 2016, the Commission issued its first request for clarification requiring the Corporation to provide the work-papers and Excel files related to the documents included in the Petition.

[2] Article 6.25A of Act 57-2014 and Chapter IV of Act 4-2016 require the Commission to evaluate and ensure that the Petition and the Corporation have fully complied with the parameters set forth in Act 4-2016, including, but not limited to, the requirement that the calculation methodology for the proposed Transition Charge and Adjustment Mechanism are consistent with the cost distribution and other standards provided in Article 6.25A of Act 57-2014 and the same are nor arbitrary or capricious. *See*, Article 6.25A of Act 57-2014, sub-section (f)(2) and (4) and Article 35, sub-section (b)(i) of Act 4-2016.

In compliance with this Commission's responsibility to review the Corporation's Petition's according to the parameters established by the Act 4-2016, and pursuant to its ample investigative powers[3], the Corporation is hereby ordered to provide its answers to the questions included as part of this request for clarification. The corresponding questions are included as Attachment A of this Resolution and Order.

The information requested herein does not constitute additional information which has not been already contemplated in Article 6.25A of Act 57-2014. The questions set forth herein are part of the list of questions that the Commission would ordinarily ask during a public hearing. By answering these questions in writing, the Corporation will help the Commission evaluate the Petition efficiently. Accordingly, the Corporation shall have until **April 25, 2016 at 4:00 p.m.** to provide its answers to the questions included in Attachment A.

The Corporation's answers must be submitted by electronic email to the following addresses: legal@energia.pr.gov and afigueroa@energia.pr.gov.

For the benefit of all the parties involved, the Commission issues this Resolution and Order in both Spanish and English languages. Should any discrepancy between each version arise, the content and provisions of the Spanish version shall prevail. Due to the technical nature of the questions provided as Attachment A, the same are included only in the English language.

Be it notified and published.

Ángel R. Rivera de la Cruz
Associate Commissioner

José H. Román Morales
Associate Commissioner

I certify that the Puerto Rico Energy Commission has so agreed on April 18, 2016. The Commission's Chairman, Agustín F. Carbó Lugo, did not intervene. I also certify that on this date a copy of this Resolution was notified via email to: equinones@qalawpr.com and glenn.rippie@r3law.com.

Brenda Liz Mulero Montes
Interim Clerk

[3] *See*, in general, Article 6.3 of Act 57-2014.

CERTIFICATION

I Certify that the foregoing is a true and exact copy of the Resolution and Order issued by the Puerto Rico Energy Commission. I further certify that on April _____, 2016 I have proceeded with the filing of this Order and I have sent a copy thereof to:

Quiñones & Arbona, PSC
Edwin Quiñones
Víctor D. Candelario-Vega
Giselle M. Martínez-Velázquez
Richard Hemphill Cabrera
PO Box 10906
San Juan, PR 00922

Rooney Rippie & Ratnaswamy, LLP
E. Glenn Rippie
Michael Guerra
Mario E. Domínguez
Kingsbury Center, Suite 600
350 West Hubbard Street
Chicago, Illinois 60654

For the record, I sign this in San Juan, Puerto Rico, today, April _____, 2016.

_____
Rafael O. García Santiago
Clerk of the Puerto Rico
Telecommunications Regulatory Board

CEPA
COMISION DE ENERGIA DE PUERTO RICO
2014

ATTACHMENT A – GENERAL PRACTICALITY AND LAWFULNESS

I. Are the calculation methodology and the adjustment mechanism "designed to provide for the full and timely payment of the Restructuring Bonds in accordance with their terms and other Ongoing Financing Costs," as required by Article 6.25A(d)(i)?

A. July 1, 2016 Funding Needs. Refer to Attachment 3.03, p. 2 of 4.

1. Footnote (a) indicates that the "[a]nalysis excludes the impact of bonds to remain at PREPA under the restructuring transaction." How much of the $7.921 billion "Status Quo" amount is expected to remaining at PREPA under the restructuring scenario?

2. The "Restructured Scenario" lists $6.846 billion as of 7/31/2016. Please reconcile that $6.846 billion amount with the total amount of bonds that could be issued, which totals over $12 billion, as listed in the next question.

3. Please provide the projected debt service from issuance through retirement by year showing principal and interest payment amounts and dates for each of the following new bond issuances (listed in Petition at pp. 9-10):

    a. Exchange Offer Bonds (uninsured) of $4.970 billion
    b. Mirror Bonds (Monoline/insured) of $2.086 billion
    c. Other Mirror Bonds (2016 issuance) of $0.750 billion
    d. PREPA Self-Insurance of $0.050 billion
    e. ash Offer Bonds of $2.600 billion
    f. Lender Bonds (re: Credit Agreement) of $0.625 billion
    g. Syncora Bonds of $0.240 billion
    h. Bonds Not-to-Exceed 6.25% (reserve/IRS/etc.) of $0.708 billion

B. Please indicate which of the following new bond issuances (listed above) would be treated as PREPA debt (as opposed to Corporation debts).

C. Changes in the transition charge. Refer to Attachment 3.02.

1. What is the basis for assuming no changes in average monthly revenue for residential and non-residential for the entire projection period?

CEPR
COMISION DE ENERGIA DE PUERTO RICO
2014

2. What portion of the $99.34 and $0.26418 are for fuel and purchased power?

3. What portion of the $99.34 and $0.26418 are for PREPA's debt service and debt service coverage?

4. Is the "FY 2014" the 12 months ending June 30, 2014? If not, explain what calendar period is represented by the "FY 2014" designation.

5. Why was FY 2014 used, as opposed to more current information?

6. With changes in fuel costs, hasn't the average monthly revenue per customer changed since FY 2014?

7. What is the most current information PREPA has concerning average monthly revenue per customer?

8. Attachment 3.02 displays the Transition Charge as a percent of what PREPA is currently charging. The implication of this display is that once the Transition Charge is separately charged, and the associated costs are removed from the PREPA rate, the total ratepayer bill will be the same, for the entire period. Explain why this display presents an accurate projection of the ratepayer experience, given that PREPA's costs are certain to change over the entire period.

9. How will the Corporation and PREPA ensure that when PREPA proposes its new rates, there will be no double-counting of costs that have been and will be recovered through the Transition Charge?

D. Refer to the Attachment 3.03 table entitled "Benefits of Restructuring."

1. Please explain why the analysis extends to FY2026, yet the new bonds will be outstanding for a longer period, i.e., through 6/30/2041 as shown on Attachment 3.02.

2. Was any analysis done for the full bond period, i.e., through 6/30/2041? What were those results?

3. What are the risks that the benefits shown in the Attachment 3.03 table could be impacted by factors not reflected in those calculations? What sensitivity analyses were conducted?

CEPR
COMISIÓN DE ENERGÍA DE PUERTO RICO
2014

4. What are the risks that the benefits shown in the Attachment 3.03 table will not be realized?

E. Resolution Conclusion of Law: "16. ... Before issuing any order regarding the correction of a mathematical error, the Commission will consult with the Servicer and any Calculation Agent to verify the Commission's calculations...." This consultation step, inserted as the second sentence in Conclusion of Law 16, does not appear in the statute.

1. Is it legally required?
2. What is its value to the public interest?
3. Under the statute, is a Commission finding of a mathematical error binding on the Corporation?

JHRM

F. Resolution Finding of Fact: "36. Before issuing any order regarding the correction of a mathematical error, the Commission will provide a preliminary finding to the Servicer and any Calculation Agent. Any adjustment to correct the mathematical inaccuracy, if ordered by the Commission, shall be made by the Corporation (or the Servicer on its behalf) not later than the next succeeding application of the Adjustment Mechanism on which such adjustment can practically be implemented. In no event shall the provision of a preliminary finding or the implementation of a Commission order correcting any mathematical error result in the delay of the implementation of an adjustment to the Transition Charges from the effective date stated in the True-Up Adjustment Letter."

1. Regarding the first sentence, see questions under Conclusion of Law 16.

2. Assuming the Commission does provide a preliminary finding to the Servicer and any Calculation Agent, what procedure then would apply that would culminate in a "Commission order correcting any mathematical error"?

II. Is the Transition Charge "practicable to administer," as required by Section 6.25A(e)(1)(vii)?

A. Page 32, Paragraph 55 of the Restructuring Resolution indicates that the Corporation may issue one or more additional series of Restructuring Bonds in addition to the bonds being considered in this proceeding. so long as such

CEPR
COMISION DE ENERGIA DE PUERTO RICO
2 0 1 4

issuance is consistent with the terms of the Act, the Trust Agreement securing any outstanding Bonds and with the terms of the RSA.

1. Please explain how a multi-tiered Transition Charge would operate (i.e. one for more than on set of Restructuring Bonds), in terms of procedure for Commission approval, calculation of the Charge, and display on customers' bills.

2. Currently, do PREPA's financial plans include a plan for additional Restructuring bonds?

III. Are the Upfront Financing Costs and Ongoing Financing Costs proposed to be recovered from the Bond proceeds or the Transition Charge Revenues consistent with Article 6.25A and Chapter IV of the Revitalization Act?

A. Concerning the list (Petition at pp. 9-10) of $12.028 billion in bonds that could be issued as part of the Restructuring, as set forth below:

JHRM

Exchange Offer Bonds (uninsured)	$4.970 B
Mirror Bonds (Monoline/insured)	$2.086 B
Other Mirror Bonds (2016 issuance)	$0.750 B
PREPA Self-Insurance	$0.050 B
Cash Offer Bonds	$2.600 B
Lender Bonds (re: Credit Agreement)	$0.625 B
Syncora Bonds	$0.240 B
SUB-TOTAL	$11.321 B
Bonds Not-to-Exceed 6.25% (reserve/IRS/etc.)	$0.708 B
TOTAL	$12.028 B

1. Page 12 of the Petition indicates that one of the benefits of this Securitization is that it will, in total and on balance, reduce PREPA's debt. PREPA's current debt balance is $7.921 B (Attachment 3.03, p. 1). Please explain how a PREPA post-closing debt balance of $12 Billion could represent a reduction in PREPA's debt from its current level.

2. Page 13 of the Petition indicates that the Securitization would also reduce the cost of debt service and credit agreements to all customers. Explain why this statement would be correct if all the Closing Date debt

CEPR
COMISION DE ENERGIA DE PUERTO RICO
2014

that could be issued as a result of the Securitization (as listed at Petition pp.9-10) is actually issued.

3. If all the debt listed at Petition pp.9-10 were issued, would all of the interest and principal associated with each of those debt issues be included as Ongoing costs in the Transition Charge? If not, please indicate which such costs would not be included and why.

4. Please indicate which of the above-listed new bond issuances (Petition pp. 9-10) would be included in Transition Charges to PREPA ratepayers:

B. Attachment 2.10 shows the list of services totaling $124.325 million in Upfront financing costs.

1. Which of the services were the subject of competitive bidding?

2. For which services do binding agreements or contracts exist?

3. To what entities or firms is the $8,877,775 of Reserve Surety Premium to be paid?

4. Is a surety premium based on 2% of the outstanding amount standard practice?

5. Is the 2% specified in the RSA? If not, explain how the 2% was derived.

6. Does the "PFM" in the $1 million for "Municipal Advisor (PFM)" refer to Mr. Mace's firm, Public Financial Management?

7. Are any amounts beyond the $1 million for "Municipal Advisor (PFM)" for Mr. Mace's firm? If so, how much and what are the additional amounts for?

8. Will any of the $16 million "Underwriting / Exchange Agent Fees" be paid to PFM? If so, approximately how much?

9. Will any of the $5 million "Solicitation Agent Retail Fees" be paid to PFM? If so, approximately how much?

JHRM

CEPA
COMISION DE ENERGIA DE PUERTO RICO
2014

10. Is the $1,651,119 "Servicer Set-up Cost" amount going to be paid to PREPA? If not, to what entity would that be paid?

11. Article 17 of Act 4 amends Section 6.16 of Act 57 to, among other things, reimburse the Commission for up to $500,000 in expenses to review the Petition and up to $100,000 annually to review calculations of the Transition Charges and Adjustment Mechanism. Are these costs reflected in the Petition's estimates for Upfront costs and Ongoing costs? If so, where? If not, will they be?

12. What portion of the $124.325 million of Upfront costs has already been incurred? For which services? For the amounts not incurred, approximately when will they be incurred, and for which services?

13. If for some reason the proposed financial restructuring were to be terminated prior to consummation (i.e., prior to the issuing of the new bonds):

    a. What portion of, or components of, the $124.325 million of estimated Upfront costs would be avoided?

    b. How would the portion of the Upfront financing costs that was incurred through that point be addressed in terms of rate recovery?

14. Does the Corporation RC anticipate that the $124.325 million of Upfront fees will be financed by issuing new bonds, as described in Corporation Ex. 4.00, at 30:662-31:675?

15. Is there risk that the Upfront fees could ultimately be substantially higher than the $124.325 million estimate? If so, please explain.

C. Refer to Attachment 3.03.

1. Did PREPA receive a recent letter from the monoline insurers and Ad Hoc bondholder group concerning the 2016A and 2016B bonds listed on page 1 of 4? If so, please provide.

2. Are the 2016A and 2016B bonds listed on page 1 going to be issued? If so, when?

CEPA
COMISION DE ENERGIA DE PUERTO RICO
2014

3. What impact does a non-issuance of the 2016A and 2016B bonds have on the projections shown on Attachment 3.03?

4. Refer to page 2 of 4. Is the $114 million of 2016A and 2016B bonds under the Status Quo related to bonds that were not issued? Explain.

5. Refer to page 2 of 4, note c. What date is assumed for the expiration of the RSA?

6. Please clarify PREPA's plans to refinance its July 1, 2016 payments over 10 years at Puerto Rico's maximum lawful interest rate of 12%. Does that represent an actual plan that PREPA is considering?

7. Will the 2016C bonds be issued? If not, explain fully why not.

8. Is the Cost of Issuance of $45 million on Attachment 3.03 related to the $124 million of Up Front Financing Costs listed on Attachment 2.01, or any components of that amount? If not, explain fully why not. If so, explain the relationship.

9. Concerning the SIF Securitization ($50 million):

   a. Does PREPA currently have a "Self Insured Fund"?
   b. What is the current balance in that fund?

10. What is the DSRF Securitization ($80 million)?

D. Concerning what the monoline insurers are providing and receiving: The insured bonds are replaced with Mirror bonds (no haircut), so they incur no loss on the insured bonds. Also, the monolines are provided surety (Attachment 2.04) and receive quarterly fees of $1.25 million (Attachment 2.02). What other factors enable one to know what they are providing to and receiving from this transaction?

E. Regarding the New Syncora Mirror Bonds (Ex 1.00, p.9). What is Syncora contributing to the transaction? Are they providing surety like the two other monolines?

CEPR
COMISIÓN DE ENERGÍA DE PUERTO RICO
2014

F. Page 19, Paragraph 58 of the Restructuring Resolution states: "While the Restructuring Property remains pledged to secure such payments [Bonds, amounts payable to Financing Entities, and other Ongoing Financing Costs] revenues from the collection of Transition Charges shall be applied *solely to pay Ongoing Financing Costs*. (emphasis added)

1. Are the interest and principal payments included in the Corporation's calculation of the Transition Charge solely those related to Ongoing Financing Costs? Please provide support for your response.

2. Please detail and describe the differences between Ongoing Financing Costs and Bonds and amounts payable to Financing Entities, showing the relative amounts of each in the proposed transaction.

3. How and when will the Upfront Financing Costs (approximately $124 Million-- Attachment 2.01) be recovered?

fp/
JHRM

G. At page 13 of Company Exhibit 1.00 (Donahue Testimony), it is noted that the new bonds are expected to have a weighted average interest rate well below that of the status quo debt. This general statement needs evidentiary support.

1. What is the weighted average interest rate of the old debt that is to be refunded?

2. What is the most current expectation with regard to the weighted average interest rate of the newly issued Restructuring Bonds?

3. Please provide supporting documentation for that response.

H. At page 15 of Corporation Exhibit 4.00, Mr. Mace notes that the RSA calls for the Securitized bonds to carry an investment-grade credit rating (i.e., above BBB-).

1. Has there been any communication with the credit rating agencies indicating that such a rating will be available?

2. Has there been recent historical experience with similar securitizations indicating that the expectation of an investment-grade rating is reasonable?

CEPA
COMISIÓN DE ENERGÍA DE PUERTO RICO
2014

3. If the answer to the preceding two questions is no, please explain why the Corporation assumes that the new debt will carry an investment-grade rating (and lower interest rates).

I. Resolution Conclusion of Law: "7. Neither the Act nor this Restructuring Resolution imposes a cap on the Transition Charge calculated pursuant to the Adjustment Mechanism."

1. What statutory provision prevents the Commission from imposing reasonable limits on payments to contractors while imposing no cap on payments to bondholders?

2. What specific harm would fall to bondholders if the Commission did so?

J. Resolution Finding of Fact: "63: ... it being understood that all Ongoing Financing Costs shall be recoverable from Transition Charge Revenues regardless of their amounts, as set forth in Finding of Fact 16."

JHRM

1. Did the Corporation Board make an explicit finding that all costs incurred by the various advisors are reasonable costs? If yes, describe the inquiries made and documents reviewed. If no, explain why not.

2. Is there an arm's length relationship between the Corporation and PREPA? Identify all features of the relationship that vary from an arm's length relationship.

K. Resolution Conclusion of Law: "20. Any indemnity payments required to be paid by the Corporation to PREPA, the Trustee, the underwriters or other persons pursuant to the Securitization Chapter or agreements entered into in connection with the sale of the Bonds will be Ongoing Financing Costs recoverable pursuant to this Restructuring Resolution and the Securitization Chapter."

1. Does Act 4 anywhere mention indemnity payments?

2. What is the statutory basis for this Conclusion of Law?

3. What contracts exist, or might exist, that would call for such indemnity payments?

CEPR
COMISIÓN DE ENERGÍA DE PUERTO RICO
2014

4. Under what circumstances would indemnity payments by the Corporation be required?

L. Resolution Conclusion of Law: "55. The Corporation may issue one or more series of "Restructuring Bonds" in addition to the Bonds secured by "Restructuring Property" other than the Restructuring Property created pursuant to this Restructuring Resolution under one or more "Restructuring Resolutions" in addition to this Restructuring Resolution so long as such issuance is consistent with the terms of the Act, the Trust Agreement securing any outstanding Bonds and with the terms of the RSA."

This long sentence, with multiple interdependent clauses, is incomprehensible. Please clarify.

M. Resolution Conclusion of Law: "61. The Commission's rights to enforce the commitments of the Corporation to the Commission set forth in this Restructuring Resolution shall be limited to specific performance." What are the statutory basis and public interest basis for this restriction on Commission powers?

JHRM

N. Resolution Finding of Fact: "3. Nothing in this Restructuring Resolution shall preclude the Corporation from authorizing additional "Restructuring Bonds" (in addition to the Bonds) secured by "Restructuring Property" (other than the Restructuring Property created pursuant to this Restructuring Resolution) under one or more "Restructuring Resolutions" (in addition to this Restructuring Resolution) so long as such issuance is consistent with the terms of the Act, the Trust Agreement securing any outstanding Bonds and the RSA."

Please clarify that the Corporation will submit any such additional Resolution to the Commission for approval.

O. Resolution Resolved Clause: "6. RESOLVED, The Corporation authorizes and approves the recovery and payment of all Upfront Financing Costs described in this Restructuring Resolution from the proceeds of the New Money Bonds, the Cash Offer Bonds or Post-Closing Date Bonds or through delivery of New Money Bonds as payment or from an advance or contribution from PREPA, provided that, to the extent provided in the Designee Certificate or any Award Resolution), any Upfront Financing Costs in excess of available Bond proceeds not otherwise paid for, shall be paid as Ongoing Financing Costs from Transition Charges."

CEPA
COMISIÓN DE ENERGÍA DE PUERTO RICO
2014

1. Under what circumstances would PREPA make an "advance or contribution"?

2. What statutory duty, or statutory discretion, does PREPA have to make such an advance or contribution?

3. What source of funds would support such advance or contribution?

P. Resolution Resolved Clause: "29. RESOLVED, This Restructuring Resolution may be amended prior to the issuance of any Bonds without the approval of the Commission or any other Person; provided, however, that any amendment affecting the calculation methodology for the initial Transition Charge or the Adjustment Mechanism related thereto shall be subject to the written approval of the President of the Commission or his or her designee."

JHRM

1. Explain how the Corporation has the legal authority to grant the President of the Commission power to approve an amendment, without the votes of the other Commissioners.

2. If the Restructuring Resolution can be amended without approval of the Commission, what approval is the Corporation seeking at this time?

IV. Does the Restructuring Resolution contain a "description and documentation supporting the proposed Upfront Financing Costs and the Ongoing Financing Costs, to be recovered from the Restructuring Bonds proceeds or Transition Charges," as required by Article 6.25A(e)(1)?

A. Attachment 2.01 shows that $250,000 is incurred for auditor's fees. Footnote (a) references an agreed-upon procedures letter.

1. Please provide the agreed-upon procedures letter so the Commission can understand the review that is being conducted by the auditor.

2. When is the auditor's report due?

3. Please provide copy when available.

CEPR
COMISION DE ENERGIA DE PUERTO RICO
2014

B. Attachment 2.03 shows projected estimates of principal and interest for fiscal years 2017 through 2041.

1. This Attachment 2.03 shows principal payments during the first five years, including $140 million of principal due on 6/30/2017. What is the basis for reflecting principal payments during the first five years?

2. Is the depiction of projected estimates of principal and interest for fiscal years 2017 through 2041 on Attachment 2.03 fully consistent with the terms of the RSA? If not, please identify and explain any deviations.

3. Explain how the final payments date of 6/30/2041 relates to the "Legal Final Maturity" described at Corporation Ex. 4.00, 17:371-18:391.

4. Does the "Legal Final Maturity" extend the potential payment period two years beyond 2041? Please clarify the date of final payments under the time limit of the "Legal Final Maturity" provisions.

C. With respect to the $19,274,961 of estimated Ongoing Finance Costs listed on Attachment 2.02:

1. Which of the costs listed there were the subject of competitive bidding?

2. For which components of such costs do binding agreements or contracts exist?

3. Have any components of the estimated ongoing financing costs been incurred to-date (i.e., prior to the consummation of the transaction and issuance of the new bonds)? If so, identify which costs and in what amounts have been incurred to date.

4. If the financial restructuring is terminated before consummation (i.e., prior to the issuing of the new bonds):

   a. What portion of, or components, of the estimated Ongoing costs would be avoided?

   b. How would the portion of ongoing financing costs that was incurred through that point be addressed in terms of rate recovery?

CEPA
COMISIÓN DE ENERGÍA DE PUERTO RICO
2014

D. Uncollectibles

1. Please explain the apparent discrepancy between the charge-offs assumed in Attachment 4.00 (2.2%) versus in the Zarumba model Attachment 6.03 (9.83%).

2. Is there a relationship between the collection curve and the 9.83%?

3. Please address the reasonableness of the uncollectibles assumption of 9.83%, including explaining its relationship to electric utility industry standards.

E. Surety Replacement Schedule. Refer to Attachment 2.04:

AH JHRM

1. Will any surety remain for the replacement bonds after 6/30/27? If so, explain.

2. How was it determined that surety amounts were needed only through 6/30/27, as opposed to some longer period such as through the 6/30/41 payment schedule listed on Attachment 2.03?

F. Page 11 of Corporation Ex. 4.00 (Mace Testimony) indicates that New Money Bonds could be used for several purposes, including contributions to Debt Service Fund Reserves (DSR).

1. Are those contributions to DSR made by the Corporation or by PREPA?

2. Are those contributions in addition to those that are to be made by the Monoline Insurers? Please explain your response.

3. Is Mr. Mace using the term New Money Bonds to designate the difference between Restructuring debt that will replace existing PREPA debt versus debt issued as a result of the Restructuring which will not be used to retire old debt? If not, please explain Mr. Maces use of the term New Money Bonds.

4. Are the interest and principal associated with the New Money Bonds to be recovered through the Transition Charge?

CEPR
COMISIÓN DE ENERGÍA DE PUERTO RICO
2 0 1 4

V. Does the proposed transaction "satisfy the savings test set forth in Section 35 and Chapter IV of the PREPA Revitalization Act," as required by Section 6.25A(e)(5)?

A. Concerning the list (Petition at pp. 9-10) of $12.028 billion in bonds that could be issued as part of the Restructuring.

1. Page 13 of the Petition indicates that the statutorily identified transactions described in the Restructuring Resolution will result in at least $725 Million of present value savings. Is it correct to understand that the statutorily identified transactions are the Exchange Offer Bonds and the Cash Offer Bonds in the above list? (see Petition, p. 13, footnote 16) If not, please explain and provide a corrected list.

2. With regard to the projections of interest and principal provided in the filing (e.g., Attachments No. 3.01, 3.03), which of the debt issues listed in the Petition at pp. 9-10 are included in those projections? Please provide supporting documentation.

VI. Are "the servicing costs proposed to be recovered by PREPA as Servicer ... sufficient to compensate PREPA for the reasonable incremental costs related to its servicing functions," as required by Section 6.25(e)(6)?

A. Concerning this statement (Ex 5.00 p.12, L246): "Based upon the documents that Navigant has reviewed relating to the functions that are expected to be performed by PREPA as part of the Servicing Agreement and the current environment at PREPA, these costs reflect the level of effort required, the existing capabilities of PREPA systems, and the additional support that PREPA will require to effectively and seamlessly implement the Transition Charge process and servicing." What documents were reviewed by Navigant?

B. Resolution page 18, Paragraph 48 (Servicing fee)

1. Is the Corporation asking the Commission to find that a Servicing fee for PREPA of 0.05% of the principal of the Restructuring debt is necessary and reasonable?

2. Is the annual Servicing fee expected to be $3.4 Million (Attachment 2.02)? If not, please explain why not.

CEPR
COMISIÓN DE ENERGÍA DE PUERTO RICO
2 0 1 4

3. Is Mr. Stathos testifying that that PREPA's expected incremental annual Servicing costs would be approximately $185,000. If not, please explain why not.

4. Is the Corporation's position that the expected start-up costs for PREPA as the Servicer is $1.65 Million, and that that amount ($1.65 Million) was estimated by Mr. Stathos in Corporation Ex. 5.00?

C. Statute Section 6.25A(b)(3) states that servicing costs must be "necessary, reasonable and sufficient." What procedures do you recommend for the Commission to determine that servicing costs are "necessary, reasonable and sufficient"?

D. Service Agreement 5.09: Subservicing: "The fees and expenses of the subservicer shall be as agreed between the Servicer and its subservicer from time to time, and none of the Issuer, the Trustee, the Bondholders, the parties to the Ancillary Agreements or the owner of Restructuring Property shall have any responsibility therefor. Any such appointment shall not constitute a Servicer resignation under Section 5.06. In addition to the foregoing, the Issuer may, upon being advised by its consultants, appoint one or more subservicers or co-servicers, if the Issuer determines that such appointment is likely to (i) prevent or delay an imminent negative ratings action by any Rating Agency, (ii) facilitate a reversal of any such negative ratings action, or (iii) result in a positive ratings action by any Rating Agency. The Issuer may also appoint one or more back-up servicers...."

1. Clarify that any costs associated with the appointment of a subservicer or co-servicer are subject to the overall cost cap imposed on the servicer.

2. Provide any legal basis for why the appointment of a subservicer or co-servicer is not subject to notice to approval of the Commission.

E. Service Agreement Section 5.10 states: "PREPA, in its capacity as Servicer hereunder, shall have the option to make advances to the Issuer, upon request by the Issuer or the Trustee, with respect to Transition Charge Revenues, provided that such advances are made on an arm's length basis...."

CEPA
COMISION DE ENERGIA DE PUERTO RICO
2 0 1 4

1. Clarify that the phrases "shall have the option" and "upon request" signal that any decision by PREPA to make an advance is a discretionary decision.

2. Explain why a decision by PREPA to make such an advance is a decision made "in its capacity as a Servicer," as distinct from its role, existing prior to Act 4, as provider of electric service.

3. Under what circumstances would Issuer or Trustee "request" an advance?

F. Resolution Finding of Fact: "49. In the event a successor Servicer must be appointed by the Corporation, or by the Trustee on behalf of the Bondholders in accordance with the terms of the Trust Agreement, the annual fee of a successor Servicer may not exceed 1% of the initial principal amount of all series of Bonds. Any fee in excess of such amount is subject to the prior approval of the Commission."

1. What is the analytical basis for the 1% figure? Distinguish fixed costs from variable costs and explain why the cost of servicing has any causal relationship with the principal amount.

2. What is the legal basis for the 1% figure?

3. What is the legal basis for implying that the Commission has no power over the fee except to the extent it exceeds 1%?

4. Explain the contradiction between the first sentence (which says the fee may not exceed 1%) with the second sentence (which authorizes the Commission to approve a fee exceeding 1%).

VII. Will the servicing contract ensure that the servicer will be "prudent in addressing late payments, past-due bills and non-payments," as required by Article 6.25A(d)(ii)(3)?

A. Refer to the Petition at page 28, paragraphs 35 and 36.

1. Please explain what information the Corporation will collect, analyze and provide "to demonstrate that PREPA (or such other Servicer) has

CEPR
COMISIÓN DE ENERGÍA DE PUERTO RICO
2014

been prudent in addressing late payments, past-due bills and non-payments."

2. For purposes of this demonstration, how will the Corporation define "prudent"? How will the standard underlying the definition change over time?

B. Refer to paragraph 36 of the Petition and to Corporation Ex. 6.00.

1. Please clarify: How will collections of amounts that were not paid within 120 days of billing be addressed? Specifically, how will any revenue that is ultimately collected for accounts past 120 days be reflected in TC calculations?

2. What efforts will be made by PREPA as the Servicer to collect amounts that were not paid within 120 days of billing?

3. Will the amounts that have not been paid within 120 days of billing be recorded as Uncollectible Accounts by PREPA? If not, explain the accounting PREPA will use for amounts that have not been paid within 120 days of billing.

C. Service Agreement 3.01(a)(xiii): "(xiii) take any actions permitted by the law to collect unpaid bills and terminate service to Customers who are delinquent in the payment of their Transition Charge on the same basis as termination of service is permitted for nonpayment of electric or other rates by PREPA, and which would otherwise be consistent with Best Efforts, but none of the Issuer, the Trustee, the Bondholders or any party to an Ancillary Agreement may directly terminate service to any Customer;"

1. Clarify that nothing in the Service Agreement or in statutes limits orders the Commission can otherwise issue to PREPA in its customary role as the entity that collects payments and terminates service.

2. Clarify that under existing statutes, neither PREPA nor a successor servicing entity may terminate service except according to rules established by the Commission.

D. Service Agreement 3.06: Concerning the one-page certificate at Exhibit E, in which the Servicer's Officer certifies compliance.

CEPR
COMISION DE ENERGIA DE PUERTO RICO
2014

1. What is the specific value of the certificate?

2. Clarify that such certificate in no way limits the Commission's powers.

E. Service Agreement 2.01: "... This appointment and the Servicer's acceptance thereof may not be revoked except in accordance with the express terms of this Agreement." Clarify that the agreement cannot limit the Commission's statutory power to replace the Servicer.

F. Service Agreement Section 6.01, relating to default, provides that an any of five situations (described in Section 6.01(a)-(e)), either the Issuer or the Trustee will give a written termination notice to the Servicer.

1. Since the Corporation has no employees, how would it learn that either of the five events has occurred and how would it then provide the written termination notice?

2. Section 6.01, after clause (e), states: "In the event of any conflict between the direction of the Commission and the designation of the Trustee, the holders of the Bonds or a party to any Ancillary Agreement, the designation of the Trustee, holders or such party, as the case may be, shall control." What is the statutory basis for this sentence"

AL
JHRM

G. Resolution Conclusion of Law: "58. Any successor Servicing Agreements will not be subject to review or approval by the Commission. Any Basic Document or agreement approved in this Restructuring Resolution shall be subject to change and completion without Commission approval, other than any change to the Servicing Agreement which materially alters the fees payable to PREPA, as the Initial Servicer."

1. What are the statutory basis and public interest basis for this restriction on Commission powers?

2. Explain why, in addition to material alteration of the fees, the Commission should not also have review of any material alteration of the servicer's standard of conduct.

H. Resolution Conclusion of Law: "62. Nothing in Article 6.25A of Act 57 2014, as amended, authorizes the Commission to take any action (including replacement of the Servicer) which would impair rights of the Bondholders or which would be contrary to, or conflict with, the prior and paramount rights

CEPR
COMISIÓN DE ENERGÍA DE PUERTO RICO
2 0 1 4

of Bondholders as provided in the Trust Agreement, including, but not limited to the rights of the Trustee or Bondholders to override an order of the Commission replacing the Servicer."

What is the legal source of the asserted "rights of the Trustee or Bondholders to override an order of the Commission replacing the Servicer"? The relevant statutory language appears in Section 6.25A(g):

"The Commission shall be authorized to direct the Corporation to replace PREPA as Servicer, *motu proprio*, pursuant to an order based on substantial evidence or at the request of the bond trustee or the bondholders, if PREPA shall default in its obligations under the Servicing Agreement, as long as the naming of said substitute Servicer complies with the requirements and other conditions of the Servicing Agreement. Nothing contemplated herein shall diminish the rights of the bond trustee, the bondholders or any credit enhancer of the Restructuring Bonds to replace the Servicer under the terms of any trust agreement or any other financing document relating to the Restructuring Bonds."

I. Resolution Finding of Fact: "41. In the event of a dispute between the Servicer and the Calculation Agent, the Corporation, as and to the extent provided in any Trust Agreement, shall promptly appoint an independent third party expert to resolve the matter."

Assuming this dispute concerns the mathematical accuracy of the Transition Charge, why is there a need for an "independent third party expert" given the Commission's statutory power to determine the result?

CEPR
COMISION DE ENERGIA DE PUERTO RICO
2 0 1 4

ALLOCATION OF COSTS AMONG CUSTOMERS

VIII. Does the calculation methodology distribute the financing costs among classes of customers "based on historical kWh usage of each class of customers during the most recent twelve (12) months for which such information is reasonably available," as required by Article 6.25A(d)(ii)(1)?

A. Municipal customers' consumption under CILT: The Commission's regulation on "contribution in lieu of taxes" (CILT) establishes that municipal installations that are not covered by CILT (e.g. for-profit installations) must be billed by PREPA like other non-residential customers. Concerning the definition of "Customer" in Article 31(9) of Act 4:

1. Has the Corporation ensured that municipal installations not covered by CILT (e.g. for-profit installations) will pay transition charges like other non-residential customers?

2. If so, how does the definition produce that result?

3. If not, what language is necessary to ensure that result? For example, would each municipal for-profit installation be considered a separate non-residential customer?

4. On 31 March 2016, PREPA submitted to the Commission a list of municipal installations that will not be covered by CILT based on the above-mentioned classification. How will the Transition Charge calculation apply to these installations?

IX. Is the calculation methodology and adjustment mechanism for distributing the financing costs among classes of customers practicable to administer, as required by Article 6.25A(d)(ii)(1)?

A. Refer to Corporation Ex. 6.03, Tab KWH & SERVICE AGREEMENT DATA, Col. L.

1. Please explain why it is reasonable to assume that the number of residential customers is constant. Provide the source of those data and the rationale behind the assumption of a constant number of number of customers?

CEPR
COMISIÓN DE ENERGÍA DE PUERTO RICO
2014

2. If the average number of residential customers is 1.328 Million and the per customer Transition Charge is $11.98 for the third quarter of 2016 (Attachment 3.02), is the total average monthly projected Transition Charge for PREPA's residential customers approximately $15.9 Million? [1.328 Mill. X $11.98] If not, please explain why not.

3. If the average monthly number of kWh purchased by residential consumers between July 2014 and June 2015 was approximately 520.8 Million kWh (Corporation Ex. 6.03, Tab KWH & SERVICE AGREEMENT DATA, Cell E-19w12), is it correct, then, that the monthly average Transition Charge per kWh for residential Customers would be $0.03 [$15.9 Million/520.8 Million]? If not, please explain why not.

X. Once the financing costs have been distributed among classes of customers, is the calculation of Transition Charges, and the operation of the adjustment mechanism, "calculated in such manner which is practicable to administer and which ensures the full and timely payment of the Restructuring Bonds in accordance with their terms and other Ongoing Financing Costs," as required by Article 6.25A(d)(ii)(2)?

JHRM

A. Corporation Ex. 6.03 indicates that the average monthly revenue per residential customer is $99.34, and that the Transition Charge ($11.98) represents approximately 12% of that average monthly rate. What is the monthly-average rate for PREPA residential customers at the lowest and highest quartile of usage?

B. What percentage of that rate would be represented by an $11.98 monthly Transition Charge? Please provide supporting documentation.

C. If the Corporation or PREPA is unable to supply those data, please explain why.

XI. Is the Corporation's election to calculate Transition Charges for residential customers on a per service agreement basis an election "which is practicable to administer and which ensures the full and timely payment of the Restructuring Bonds in accordance with their terms and other Ongoing Financing Costs," as required by Article 6.25A(d)(ii)(2)?

A. Corporation Ex 6.00, at p. 17 notes three factors which indicate a per service agreement charge is appropriate: (1) ease of implementation, (2) low income

CEPR
COMISIÓN DE ENERGÍA DE PUERTO RICO
2014

users have higher kWh usage, and (3) a kWh-based charge would place a significantly higher burden on low-income customers. Please provide the facts relied on to make these judgments.

B. **Effects on Commission rate design authority**

1. In what ways, if any, would the proposed $11.98/month/service agreement Transition Charge for residential customers constrain the Commission's practical ability to design residential rates in PREPA's initial rate case and in subsequent PREPA rate cases? Explain fully?

2. Please refer to Attachment 3.02. Please confirm that the $99.34 "Average Monthly Revenue per Customer - FY2014" shown for residential customers is an overall average, and that the average FY2014 revenues for PREPA's residential rate classes vary widely from $31.19 to $177.00 per month, as summarized below:

Rate Code Definition	Class	FY2014 Average Bill per Customer
RH3 103	Residential	$ 177.00
RH3 104	Residential	$ 40.09
RFR 105	Residential	$ 31.19
RFR 106	Residential	$ 42.71
RFR 107	Residential	$ 54.86
LRS 109	Residential	$ 53.52
LRS 110	Residential	$ 143.45
GRS 111	Residential	$ 45.98
GRS 112	Residential	$ 120.83
Overall average		$ 99.34

If this cannot be confirmed, explain fully and provide the average FY2014 revenue for each residential rate class, along with the supporting calculations.

CEPR
COMISION DE ENERGIA DE PUERTO RICO
2014

3. Did PREPA RC or its consultants conduct any bill-impact analysis for the proposed $11.98 per month initial Transition Charge or for any of the other Transition Charge amounts in subsequent periods listed on Attachment 3.02 by the residential rate classes on a residential rate class basis?

   a. If not, explain fully why not.

   b. If so, please provide the bill impact analysis for each of the current PREPA residential rate classes listed above.

4. Please confirm that the current Residential customer fixed charge and minimum bill is $3 per month, e.g., for GENERAL RESIDENTIAL SERVICE, rate designation GRS and is $3 per month for LIFELINE RESIDENTIAL SERVICE, Rate LRS. If this cannot be confirmed explain fully and provide the PREPA current tariff provisions that apply to rates GRS and LRS.

AG
JHRM

5. Please confirm that the proposed $11.98/month/service agreement Transition Charge for residential customers would be in addition to the Residential customer fixed charge for PREPA's base rates. If this cannot be confirmed explain fully.

6. Assume that the Commission determines in the rate case that the appropriate monthly fixed charge for residential customers, such as the residential customers currently taking electric service from PREPA under rates GRS and LRS should be less than $11.98/month (taking into account the Transition Charge and the remaining portion of PREPA's revenue requirement), with all remaining PREPA fixed and variable costs to be recovered on a per kWh basis. How would that rate design determination by the Commission in the PREPA rate case interact with the Corporation's proposed Transition Charge for residential customers of $11.98/month/service? Explain fully.

7. To the extent not addressed in the response to the immediately preceding question, please provide your assessment of the interaction of the residential Transition Charge and the Commission's responsibility to evaluate proposed rate design. Your answer should take into account this clause in Section 6.25A(d)(2): "provided that the allocation of responsibility for the Transition Charge among Customers classes and Customers does not limit the discretion of the Commission

CEPA
COMISIÓN DE ENERGÍA DE PUERTO RICO
2014

when evaluating the allocation of responsibility with respect to the PREPA revenue requirement in any PREPA rate case."

8. If the existing fixed charge for Residential customers taking service under Rates GRS and LRS of $3.00 per month is continued upon imposition of the PREPA RC-proposed Transition Charge, will such customers be billed for two fixed charges, the Monthly Fixed Charge of $3.00 plus the Transition Charge of $11.98, totaling $14.98, regardless of their kWh usage? Indicate whether this is the intended result of the Corporation's proposal, and describe the pros and cons of this approach.

9. If the Residential Transition Charge were to be stated on a per-kWh basis, please provide the Transition Charge rate that would apply to each of the current residential tariff rates, and show in detail how that would be calculated for each such rate and the overall Residential average:

JHRM

Rate Code Definition	Class
RH3 103	Residential
RH3 104	Residential
RFR 105	Residential
RFR 106	Residential
RFR 107	Residential
LRS 109	Residential
LRS 110	Residential
GRS 111	Residential
GRS 112	Residential
Overall average	

10. Please address how the Residential Transition Charge would be impacted if the Commission, in deciding the Transition Charge case, allows the Corporation to elect the per customer approach to the

CEPR
COMISIÓN DE ENERGÍA DE PUERTO RICO
2 0 1 4

Residential Transition Charge, but only to the extent the Transition Charge does not exceed the minimum bill that the Commission, in the PREPA rate case, determines is appropriate. Indicate whether and how the intended result of the Corporation's proposal will interact with and impact upon the Commission's determinations concerning residential fixed charge amounts in the PREPA rate case, and describe the pros and cons of this approach.

11. Provide a display that compares, for each category of residential consumers, the proposed $11.98 charge with the current fixed charge, with a reference to the tariff provision at issue.

12. In electing the per service agreement option and proposing to set the initial Residential Transition Charge at $11.98, what rate design principles were considered, and how were they applied?

a. Please list each rate design principle that was considered by PREPA RC and its consultants in developing and proposing a flat monthly rate per month for all residential customers. For each rate design principle that was considered, please identify the principle and explain in detail how it was considered.

b. In developing the proposed Transition Charges, were each of the following utility rate design objectives considered and applied, and if so, describe how each was considered:

i. To ensure and stabilize cash flow
ii. To promote end-use efficiency
iii. To shape demand or system load
iv. To internalize environmental externalities
v. To provide a social safety net
vi. Gradualism and avoiding rate shock
vii. Fairness in cost allocation (consumer equity)
viii. Practicality (understanding, acceptance)
ix. Interpretability (non-controversial)
x. Revenue stability to the utility

CEPR
COMISION DE ENERGIA DE PUERTO RICO
2014

xi. Rate stability to the customer

xii. Avoidance of undue discrimination among customers

13. In electing the per service agreement option and proposing to set the initial Residential Transition Charge at $11.98, what consideration was given to the magnitude of the percentage increase in a residential customer's minimum bill, including customers' possible reactions? Explain fully.

14. Discuss the pros and cons of making the Residential Transition Charge a combination of per customer and per kWh designs.

15. Discuss the pros and cons of making the Residential Transition Charge a per kWh design.

16. If the Residential Transition Charge were to be in the form of a per-kWh monthly charge, how would behind the meter generation be estimated and billed?

17. What amount of Residential behind-the-meter generation does PREPA estimate occurred in total for Residential clients and for each of the following Residential rate categories in FY2014?

Rate Code Definition	Class
RH3 103	Residential
RH3 104	Residential
RFR 105	Residential
RFR 106	Residential
RFR 107	Residential
LRS 109	Residential
LRS 110	Residential
GRS 111	Residential
GRS 112	Residential
Overall Residential	

CEPR
COMISION DE ENERGIA DE PUERTO RICO
2014

XII. If the Corporation elects to use the "estimated load served by net metering or distributed generation" when calculating customer usage, is "the methodology for such inclusion ... practical to administer, and will [it] ensure the full and timely payment of the Restructuring Bonds in accordance with their terms and other Ongoing Financing Costs," as required by Article 6.25A(d)(ii)(4)?

A. Approximately what portion of PREPA's residential customers currently have behind-the-meter generation?

B. Is the current residential behind-the-meter generation primarily in the form of rooftop solar? What else besides rooftop solar?

C. How will PREPA estimate the behind-the-meter generation?

D. Currently approximately what portion of PREPA residential billings are based on estimates of electric usage?

E. What is PREPA's track record with respect to estimating residential customer usage for billing purposes?

F. Is PREPA anticipating complaints from customers with behind-the-meter generation, such as complaints about how PREPA is estimating their electric consumption? Explain.

G. Concerning this statement (Exhibit 3.00, p.9, Line 171): "The reasons behind this determination [to use behind-the-meter load] and the conclusion that it will not interfere with the full and timely payment of the Bonds in accordance with their terms and all other Ongoing Financing Costs during the term of the Bonds, derive from the expert advice received from the Authority and Navigant Consulting, Inc., as further explained in the testimony of Corporation witness Ralph Zarumba (Corporation Ex. 6.00)." What expert advice was received from the Authority (i.e., PREPA)?

H. Petition page 32, Paragraph 43: What is this paragraph asking the Commission to do? How would granting this request constrain the Commission's decision-making in a PREPA rate case?