COMISIÓN DE ENERGÍA DE PUERTO RICO
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COMMONWEALTH OF PUERTO RICO
PUERTO RICO ENERGY COMMISSION

IN RE: PUERTO RICO ELECTRIC POWER AUTHORITY REVITALIZATION CORPORATION, Petitioner.	NO. CEPR-AP-2016-0001 **SUBJECT:** Response in Compliance with Commission Order; Supplemental Information

THE PREPA REVITALIZATION CORPORATION'S SUBMISSION OF INFORMATION IN COMPLIANCE WITH THE <u>COMMISSION'S RESOLUTION AND ORDER OF APRIL 18, 2016</u>

Comes now the Petitioner Puerto Rico Electric Power Authority Revitalization Corporation (the "Corporation") and respectfully submits this response and the electronic information identified herein to the honorable Puerto Rico Energy Commission (the "Commission") in timely compliance with the Commission's Resolution and Order of April 18, 2016 (the "April 18 Order") and the second request for clarification made therein.

The April 18 Order sets forth specific questions in Attachment A thereto and directs the Corporation to "… provide its answers to the questions included in Attachment A." April 18 Order at 2. The questions and the Corporation's responses are included herein. By responding to these Questions, the Corporation does not concede that all of the inquiries are germane to the statutory jurisdiction of the Commission or the findings the Commission is required or authorized to make under the Puerto Rico Electric Power Authority ("PREPA") Revitalization Act, Act 4-2016 (the "Revitalization Act").

The Corporation's responses do not include or rely upon any information or materials that are legally privileged or protected from discovery by the work product doctrine. Where the Commission asks about legal theories and claims, the Corporation has responded in a manner that does not disclose privileged information or legal work product. The Corporation believes that these responses fully and fairly respond to those questions. The Corporation does not, however, waive any legal arguments or waive or limit the right to raise other and further legal theories, arguments, and authorities, in briefs or otherwise, including in response to arguments, evidentiary submissions, pleadings, and briefs of other parties and in response to the continued evolution of the record.

In order to provide further information concerning several of its Responses, the Corporation is providing an updated and supplemented version of the Excel work papers file that was served with the Corporation's April 15, 2016 "Submission of Information in Compliance with the Commission's Resolution and Order of April 13, 2016" ("April 15 Responses") that was labeled "2016-04-15 SPV Petition - Exhibits Backup vSHARE.xlsx". The amended and updated version is labeled "2016-04-25 SPV Petition - Exhibits Backup vUPDATE.xlsx." It contains the same tabs and data as the previously produced version that was the testimonial work paper, but now also includes four new appendix tabs to address questions raised in the April 18 Order and subsequent inquiries.

Finally, no documents were omitted or redacted on such grounds, and no confidential treatment is sought. Capitalized terms in the responses have the meanings defined in the Revitalization Act and the Petition.

QUESTIONS AND RESPONSES

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?

RESPONSE: PREPA's total existing debt balance is $8.839 billion, which consists of $8.108 billion of bonded debt and $0.731 billion of Fuel Lines and Government Development Bank for Puerto Rico ("GDB") Letters of Credit ("LOC"). PREPA's bonded debt consists of $5.694 of uninsured bonds and $2.414 of insured bonds. For PREPA's total existing debt balance, please see cell F25 of the tab entitled "Principal" in the Excel file labeled "2016-03-29 PREPA Debt Service Projections v3.xlsx," that was served with the Corporation's April 15 Responses.

If the restructuring transaction closes, approximately $1.595 billion of debt, including both bonds and bank loans, could remain outstanding at PREPA. That balance comprises $164 million of legacy Syncora-insured bonds (assuming no agreement is reached concerning Syncora), a maximum of $700 million of non-forbearing uninsured bonds and $731 million of Fuel Lines and GDB Letters of Credit. For PREPA's expected debt balance following the transaction, please *see* cell G35 of the tab entitled "Principal" in the Excel file labeled "2016-03-29 PREPA Debt Service Projections v3.xlsx".

The "Status Quo" principal amount included in Attachment 3.03 of $7.921 billion refers to the current balances of debt that would be "affected" (exchanged or defeased) by the transaction plus the refinancing of additional debt incurred as a result of not completing the transaction. Specifically, it includes (i) the pre-transaction amounts related to bonds that will be exchanged or defeased under the restructuring transaction, equal to $7.020 billion, and (ii) an assumed refinancing balance that would be required under the "Status Quo" should the restructuring transaction not occur, equal to $0.901 billion.

The "Status Quo" in Attachment 3.03 is provided as a comparison of the obligations that would be "affected" as a result of the restructuring transaction *should the restructuring* *transaction not occur.* Therefore, the "Status Quo" does not include obligations that would remain at PREPA ("unaffected") under the restructuring scenario. For the avoidance of doubt, the $7.921 billion is not the current debt balance of PREPA and the $0.901 billion refinancing under the "Status Quo" is a purely illustrative concept, as it does not represent debt that has been issued. Please *see* the Corporation's Response to Question III.C.6, below, for further details on the refinancing concept.

The Commission may attempt to reconcile the $0.901 billion refinancing provided in Attachment 3.03 with the $1.808 billion in cell G23 of the tab entitled "Principal" in the Excel file labeled "2016-03-29 PREPA Debt Service Projections v3.xlsx". The $1.808 billion amount exceeds the refinancing amount in Attachment 3.03 because it reflects all of PREPA's status quo refinancing needs, rather than only those associated with the bonds expected to be part of the transaction.

A similar explanation can be provided for the difference between the $7.921 billion total Status Quo amount in Attachment 3.03 and the $9.692 billion total Status Quo amount in cell G25 of the tab entitled "Principal" in the Excel file labeled "2016-03-29 PREPA Debt Service Projections v3.xlsx". Again, the $9.692 billion amount exceeds the amount in Attachment 3.03 because it reflects all of PREPA's estimated debt outstanding, rather than the amounts only associated with bonds expected to be part of the transaction.

> ***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.***

RESPONSE: The amounts listed under the categories specified in the Petition at pp. 9-10 (¶¶ 11-12) do not represent estimates for the Corporation's beginning debt balance, but rather the maximum number of Bonds that could be issued under various scenarios, many of which are mutually exclusive. In particular, if the Corporation were to issue the maximum number of Exchange Offer Bonds, it would not issue any Cash Offer Bonds as there would be no need to tender for legacy obligations with Cash Offer Bonds. In such a scenario, the Cash Offer Bonds would be eliminated entirely. Similarly, if the Corporation were required to issue the maximum number of Cash Offer Bonds, the number of Exchange Offer Bonds required would be significantly reduced. Because of uncertainties regarding market preferences for cash payments versus exchanging for new Exchange Offer Bonds in place of legacy obligations, the Corporation requires the flexibility to issue bonds in either category; however, aggregating these categories does not reflect an actual scenario for the Corporation.

The current estimate for the Corporation's debt balance is $6.846 billion. One factor the Corporation considered in calculating the maximum issuance amounts is the possibility of a delay in closing date for the restructuring transaction. Under this scenario, accrued interest would be added to the current estimate under several issuance categories, effectively converting status quo interest into principal.

In calculating the maximum issuance amounts, the Corporation also allowed for participation in the restructuring transaction in excess of the minimum participation. Such an outcome would result from any or all of the following scenarios: (i) an agreement with Syncora that requires some issuance of Corporation bonds to satisfy its claims, (ii) participation of uninsured legacy bonds in excess of the minimum threshold, or (iii) the Fuel Line Lenders and/or GDB opt to exchange their claims into Lender Bonds of the Corporation as instead of taking a PREPA repayment plan. For each of these scenarios, the amounts for the categories listed in the Petition at pp. 9-10 would increase from their currently estimated levels. It is important to note, however, that the increase of debt at the Corporation would be offset by a greater decrease in principal and or interest at PREPA, resulting in an overall benefit to Customers.

As mentioned previously, the current estimate for the total Corporation debt balance is $6.846 billion. The breakdown of this estimate has been mapped to the categories listed in the Petition on pp. 9-10 and can be found in cell G20 of the tab entitled "Post-Close Balance" in the file labeled "2016-04-25 SPV Petition - Exhibits Backup vUPDATE.xlsx" provided to the Commission on 4/25/2016.

The following provides an explanation of the need for contingencies above currently estimated levels for each of the following categories:

- **Exchange Offer Bonds (Uninsured):** The current estimate of Exchange Offer Bonds is $2.722 billion. The amount of Exchange Offer Bonds may increase up to the contingency amount if (i) participation exceeds current expectations (which could reduce the amount of Cash Offer Bonds); and/or (ii) the Closing Date is delayed and accrued interest is included in the exchange, effectively converting interest paid under the Status Quo into principal.

- **Mirror Bonds (Monoline / Insured):** The current estimate is $2.086 billion. The Corporation does not require contingencies for this amount.

- **Other Mirror Bonds:** The current estimate is $0.392 billion. The amount of Other Mirror Bonds may increase up to the contingency amount (i) if the Closing Date is delayed and additional mirror bonds must be issued to enable PREPA to fund future debt service payments through the Closing Date; and/or (ii) if the amount of PREPA bonds purchased to provide liquidity relief at the time of the July 2016 debt service payment exceeds current expectations.

- **PREPA Self-Insurance:** The current estimate is $0.050 billion. The Corporation does not require contingencies for this amount.

- **Cash Offer Bonds:** The current estimate is $1.471 billion. The amount of Cash Offer Bonds may increase up to the contingency amount (i) to achieve the minimum exchange participation rate by the non-forbearing bondholders in a tender and/or (ii) if the Closing Date is delayed and accrued interest is included in the cash tender. Alternatively, the amount of Cash Offer Bonds may decrease if the non-forbearing participating bonds accept the offer of Exchange Offer Bonds as opposed to tendering their legacy bonds for cash, and receiving Cash Offer Bonds.

- **Lender Bonds (re: Credit Agreement):** The current estimate is $0. The amount of Lender Bonds may increase up to the contingency amount if the Fuel Line Lenders and/or GDB decide to participate in the exchange. This would simultaneously reduce the amount of debt outstanding at PREPA following the transaction, as we currently assume that these parties will opt for a PREPA repayment plan.

- **Syncora Bonds:** The current estimate is $0. The amount of Syncora Bonds may increase up to the contingency amount if an agreement is reached with Syncora. This would simultaneously reduce the amount of debt outstanding at PREPA following the transaction, as the current estimates assume that an agreement is not reached and Syncora legacy bonds remain outstanding. PREPA would only agree to a transaction that requires the Corporation to issue Syncora Bonds if it is to PREPA and the Corporation's benefit.

- **Bonds Not-to-Exceed 6.25% (Reserve / IRS / etc.):** The current estimate is $0.124 billion. The amount of Bonds Not-to-Exceed 6.25% may increase up to the contingency amount if the size of the securitization increases for any of the reasons listed above, which would cause certain Upfront Financing Costs and the Debt Service Reserve Fund ("DSRF") Securitization to increase. Additionally, the Upfront Financing Costs could increase in the event that (i) the Monolines do not increase the amount of sureties provided beyond the respective amounts specified in the Restructuring Support Agreement ("RSA"), requiring PREPA to increase the DSRF Securitization further; (ii) fees increase due to timing delays or other factors; and/or (iii) the Corporation pays a fee to the Ad Hoc Group to backstop the Cash Offer Bonds.

As mentioned previously, the contingency amounts of the categories listed above are not additive. However, during the April 21, 2016 Conference Call, the Commission requested that the Corporation provide upper limits and/or ranges for the maximum aggregate debt balance at the Corporation following the restructuring transactions. Such a request is difficult, as there are a multitude of scenarios that are possible that involve different combinations of bond issuance amounts for each of the categories listed in the Petition at pp. 9-10 (¶¶ 11-12).

In order to provide a response to a relatively narrow request, the Corporation has provided below and in Appendix B of the tab "Post-Close Balance" in the file labeled "2016-04-25 SPV Petition – Exhibit Backup vUPDATE.xlsx" an illustrative scenario in which the Corporation would issue bonds beyond the amount currently estimated. It is intended to provide an illustration of a potential maximum aggregate debt balance at the Corporation subsequent to the restructuring transactions, but it is important to note that the Corporation is not currently contemplating such a scenario and does not intend to issue the maximum amount shown. If the provided scenario were actually being contemplated by the Corporation, a thorough evaluation of the economic implications for PREPA, the Corporation, and the PREPA ratepayer would be conducted with extensive scrutiny. The scenario below may ultimately be deemed economically unfavorable and thereafter dismissed if every fully contemplated. Moreover, the Corporation notes that it is not able to foresee all potential transaction scenarios that could require additional Restructuring Bonds within the amounts authorized. Though it has endeavored to evaluate the maximum potential debt balance here, the Corporation reserves the right to issue a greater aggregate amount of bonds, so long as it is authorized to do so under the Restructuring Resolution and the Restructuring Order.

The illustrative scenario contemplates a delay in closing and/or funding of the July 1 payment to July 2017 (which causes the inclusion of accrued interest in the securitization as well as the issuance of additional mirror bonds to fund future debt service payments through transaction close), maximum participation in the transaction, elevated fees (with flexibility above estimated levels), and the highest possible exchange/tender price for non-forbearing bonds (bound by the PV Savings Test). The result is an illustrative maximum aggregate debt level of $9.537 billion. While this represents an increase from PREPA's current debt level, it is important to note that other considerations aside from debt levels must be considered under such a scenario, including present value of debt service savings over the life of the bonds, absolute savings in the short-to-medium term to allow for essential investment, the conversion of accrued interest into principal and other important considerations. With all that said, again, the above scenario is not currently contemplated and may ultimately prove economically irrational under further evaluation.

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. ***Cash 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***

RESPONSE: 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 (¶¶ 11-12) can be found in the tab entitled "Debt Service" in the file labeled "2016-04-25 SPV Petition - Exhibits Backup vUPDATE.xlsx." Additionally, the projected annual principal balances can be found in the tab entitled "Principal Balances" of the same file. Note that these projections are included for the currently estimated issuance amounts for each of the categories listed below.

The debt service schedules provided in the aforementioned tabs correspond to the debt service schedules previously provided to the commission in the tab entitled "Ex. 3.03 – DS Schedules" in the file labeled "2016-04-15 SPV Petition - Exhibits Backup vSHARE.xlsx" served with the April 15 Response. That same tab is included in the updated working paper file labeled "2016-04-25 SPV Petition - Exhibits Backup vUPDATE.xlsx", but has been re-grouped in the "Debt Service" tab to match the categories listed above.

For more information on current estimates, please refer to the Corporation's Response to Question I.A.2, above.

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

RESPONSE: All of the Bonds identified in Question I.A.3 would be obligations of the Corporation, not of PREPA.

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.***

RESPONSE: While the total average service charge will change over time, the purpose of Attachment 3.02 was to project future transition charges and compare those charges to a constant base point of reference, for which the most recent fiscal year ("FY") 2014 total charges was used. Any presumed change in future revenues for residential and non-residential Customers would simply scale those percentages. Many changes in costs and consumption are likely to occur, most significantly costs of fuel and purchased power, and the Corporation cannot forecast of other PREPA charges over the term of the Bonds.

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

RESPONSE: Please see the table below.

Item	FY 2014 Residential Avg Bill Per Customer	FY 2014 Non Residential Avg Bill per kWh
Fuel	$ 58.87	$ 0.1467
Purchased Power	$ 20.36	$ 0.0507
Basic Revenue	$ 20.11	$ 0.0668
Total	$ 99.34	$ 0.26418

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

RESPONSE: Revenue intended to cover (PREPA's revenues are currently not covering all of its costs) PREPA's debt service and debt service coverage in FY 2014 is collected from the base rate. PREPA was scheduled to pay $612 million in debt service on Power Revenue Bonds in FY 2014 and had revenues of approximated $4,690 million. On this basis, approximately 13.2% of revenues was used for debt service, which is $13.13 of the FY 2014 Residential Average Bill per Customer and $0.03492 per kWh of FY 2014 Non-Residential Average Bill per Customer.

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.***

RESPONSE: Yes.

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

RESPONSE: FY 2014 was used because it is the most recent fiscal year with available audited financials. This was also the most recent year in which we have complete billing determinants. In order to obtain complete billing determinants for FY 2015, we would need updated demand data, billing frequency data, minimum bills, and bill adjustments by tariff (*i.e.*, late bills, multiple bills, Special Rate discounts). All of these are necessary in order to verify that data exported out of PREPA's billing system are correct.

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

RESPONSE: Yes.

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

RESPONSE: The most recent complete fiscal year is FY 2015, ending June 30th, 2015. It is not yet audited.

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.***

RESPONSE: It was not the intent of Attachment 3.02 to suggest that the total ratepayer bill will be the same for the life of the Transition Charge. The intent of the attachment is to simply compare the Transition Charge to a recent Customer average bill to provide a frame of reference. It is by no means intended to suggest that the Transition Charge as a percentage of a future average rate is or can be known precisely at this point in time. *See* Response to Question I.C.1.

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?***

RESPONSE: This issue will be addressed in PREPA's Rate Case, which will include a request for provisional rates. However, the Corporation understands that PREPA will request recovery of PREPA revenues that exclude debt service for bonds expected to be legally or economically defeased as a result of the issuance of the Bonds. The Bonds will be paid not by funds from PREPA rates but from Transition Charge Revenues.

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.***

RESPONSE: The analysis extends to FY 2026 as it is intended to be a summary of debt service over the first 10 years following the transaction. The ten year period reflects the transaction rationale of providing near-term liquidity relief, particularly during the first five years, while also demonstrating longer-term effects. The same analysis can be calculated for a longer time period using the full debt service schedule provided in the tab entitled "Ex. 3.03 – DS Schedules" in the file labeled "2016-04-25 SPV Petition - Exhibits Backup vUPDATE.xlsx". Note that quarterly payments and some annual payments have been hidden from view but can be viewed by selecting all cells and then navigating to the "Home" menu on the Excel Ribbon; and clicking "Format", "Hide & Unhide", "Unhide Columns."

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

RESPONSE: Please refer to the Corporation's Response to Question I.D.1, above.

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?***

RESPONSE: To address risks that the benefits shown in Attachment 3.03 could be impacted by other factors, our analysis included certain assumptions, including assumptions that could lead to results that are not as favorable as could occur. Moreover, it is important to note that the $725 million threshold of the statutory Savings Test establishes a *minimum* acceptable economic result for the restructuring. Following is a discussion of assumptions for which actual results may vary relative to the current assumptions.

First, the terms of the Exchange Offer, Cash Offer, and New Money Bonds assume the lowest credit rating contemplated in the RSA, which corresponds to the highest contemplated interest rate. If an investment grade rating is not achieved, the RSA would have to be renegotiated; however, the PV Savings Test limits this risk due to the $725 million PV savings requirement under the PREPA Revitalization Act.

Second, the current estimates assume the minimum required participation in the restructuring transaction. As such, $700 million of non-forbearing uninsured legacy bonds, $164 million of legacy insured Syncora bonds, and $731 million of Fuel Lines and GDB LOC are estimated to remain obligation of PREPA following the restructuring transaction. It is possible that some or all of these parties will elect to receive debt of the Corporation as a result of participating in the restructuring transaction.

Neither the "Status Quo Debt Service" nor the "Restructured Debt Service", as estimated in the Petition, includes the aforementioned nonparticipating debt service – rather, the comparison in Attachment 3.03 is intended to compare only the obligations affected (exchanged or defeased) or that *would be affected* by the restructuring transaction. As such, if any of the legacy bonds or other PREPA obligations that are currently assumed not to participate, do indeed participate in the transaction, there would be an increase in both the "Status Quo Debt Service" and the "Restructured Debt Service", because the amount of "affected" obligations would increase. However, since the restructuring contemplates a principal haircut, decrease in weighted average interest rate, and/or five year principal deferment, the increase in debt service over the time periods in Attachment 3.03 would be relatively larger in the Status Quo. Therefore, the savings when comparing the Restructured Debt Service to the Status Quo Debt Service would increase. For a more thorough description of the "Status Quo" and "Restructuring Scenario" as highlighted in Attachment 3.03 table entitled "Benefits of Restructuring", please refer to the responses provided to Questions I.A.1 and I.A.2 of the April 18 Order.

Third, the current estimates assume that the non-forbearing participating legacy bonds tender for cash at a price of 85% (though PREPA has the option to tender or exchange and will choose such option as is economically optimal at the time of Closing). This represents a premium to current market prices for uninsured PREPA bonds, which currently trade at a weighted average price of 56 (per Bloomberg MSRB pricing as of 4/25/2016). The Corporation may ultimately be able to tender for these bonds at a cash price that is lower than 85% if legacy bondholders prefer cash over Exchange Offer Bonds.

Finally, since Attachment 3.03 shows per kWh savings, it is important to note that these figures are calculated using a flat demand curve that does not incorporate collections projections (*i.e.*, assumes 100% collections). If this analysis were to incorporate collections projections, the per kWh savings analysis would appear more favorable for PREPA ratepayers. This analysis is not intended to represent rate savings, but it is important to note the conservative assumptions embedded therein.

One risk that is not shown in Attachment 3.03 is the option for holders of uninsured bonds to select Convertible Capital Appreciation Bonds (CCABs) as opposed to Current Interest Bonds (CIBs). Since the CCABs have a higher interest rate, the election to receive additional CCABs increases total debt service over the life of the Bonds. However, the CCABs also provide significant 5-year debt service savings as compared to CIBs due to the fact that they do not have any cash debt service requirements during the first five years they are outstanding (since interest on CCABs accrues but is not pair currently, while interest on CIBs is paid currently in cash). The current estimate for CCABs outstanding at transaction close is $1.151 billion.

Please note there is an implicit limit in the amount of CCABs that may be issued due to the $725 million PV savings requirement per the PREPA Revitalization Act. Because of the higher interest rate, increasing the number of CCABs reduces the PV Savings of the transaction. Thus, the PV Savings test limits the risk associated with issuing additional CCABs. To that end, however, the PV Savings Test does not mitigate risks associated with Mirror Bonds, the 2016 issuance or other New Money Bonds, as those issues are not included in the PV Savings Test.

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

RESPONSE: Please refer to the Corporation's Response to Question I.D.3, above.

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?***

RESPONSE (to all subparts): The "consultation" step referred to above is not required by law. However, it is consistent with the law and its purposes, and its value to the public interest and to the transaction is described in the answer to Question F-1 below.

The Corporation also notes that the referenced "consultation" sentence was intended to refer to Ordering Paragraph 2 of the proposed form of Commission Order, which reads as follows: "If the Commission has reason to believe that there is a mathematical error in the calculation of the Transition Charges, before issuing an order requiring the Corporation to correct such error, the Commission may provide a preliminary finding to the Servicer and the Calculation Agent." The word "consult" was only intended to refer to this commitment.

Accordingly, subject to the Response to Question I.F, below, an acceptable Conclusion of Law would read as follows: "If the Commission has reason to believe that there is a mathematical error in the calculation of the Transition Charges, before issuing an order requiring the Corporation to correct such error, the Commission may provide a preliminary finding to the Servicer and the Calculation Agent."

However, if the Commission is willing to commit to provide its preliminary findings to the Servicer and the Calculation Agent, which the Corporation and PREPA would encourage the Commission to do, then the Corporation would propose the said Ordering Paragraph be changed, to substitute the word "will" for "may", and the Restructuring Resolution would then remain unchanged. Such a commitment by the Commission would be welcomed by the creditors and is in the public interest because it would assist in demonstrating to investors that the Commission is determined to act cooperatively with the Servicer to resolve any discrepancy in calculations. If the Commission is unwilling to make this change, then the Corporation will revise its Finding of Fact 36 quoted below in the response to Question I.F, below.

The remainder of the answer is provided in the Corporation's response to Question I.F, below.

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"?***

RESPONSE (to all subparts): The purpose of the Commission providing a preliminary finding to the Servicer and to the Calculation Agent is to give these parties, who are responsible for the calculation and verification of the transition charge, an "early warning notice" of the Commission's preliminary finding before the finding is manifested in a commission order.

In the unlikely event that PREPA, as servicer, or the Calculation Agent disagree with the correction, then these parties can make that fact known to the Commission before the issuance of a formal Commission order. At that point the Commission can issue its order correcting any mathematical correction with full knowledge of the position of PREPA and the Calculation Agent.

Any Commission order correcting a mathematical error would be a non-discretionary, ministerial act of the Commission. The Commission order would not be the subject of any prior notice or any hearing requirement, as contemplated by Article 34 of the Revitalization Act and in accordance with the proposed Commission Order. In the unlikely event that the Servicer or the Calculation Agent continued to maintain that the correction was incorrect, these parties could do so in a formal filing. As the correction is not required to be implemented until the next succeeding adjustment date, which is three months later, the parties will have time to sort out the matter. The Corporation notes that, as the Adjustment Mechanism is a mathematical formula, it is hard to envision how the calculation of a mathematical error would not be readily apparent to all and quickly and agreeably fixed.

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 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.

RESPONSE: In the event that the Corporation determined that additional Restructuring Bonds should be issued beyond those identified in the Petition and the proposed Restructuring Resolution (Attachment 1.00), the Corporation would initiate a separate proceeding with the Commission to make the findings required by Article 6.25A of the Revitalization Act with respect to such bonds. That proceeding would be initiated by a separate Petition, would be accompanied by supporting materials meeting the requirements of Article 6.25A of the Revitalization Act with respect to those additional bonds, and would seek an additional Restructuring Order under Article 6.25A. The Transition Charges supporting such additional bonds would be calculated and adjusted pursuant to a calculation methodology and adjustment mechanism specified in the filing. The resulting Transition Charges would be separate and distinct from the Transition Charges supporting the Bonds at issue in this proceeding. As provided by Article 35(h) of the Revitalization Act, once the Bonds are issued, the related Transition Charges and the applicable Adjustment Mechanism are final and irrevocable.

The Corporation has not reached a conclusion as to whether the distinct and independent Transition Charges (*i.e.*, those related to the Bonds and those related to any future issuance of Restructuring Bonds not authorized by the Restructuring Resolution at issue in this proceeding) would have to be recovered through separate charges on a Customer's bill. If the mechanisms through which the two Transition Charges are calculated and adjusted are sufficiently similar (*e.g.*, they both result in per capita charges to Residential Customers), there is no *a priori* reason why the separate and distinct charges could not be recovered through an appropriately described combined line item on Customers' bills that sums the two distinct Transition Charges.

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

RESPONSE: No. To the Corporation's knowledge, PREPA's financial plans do not currently include a plan for issuance of additional Restructuring Bonds issued beyond those identified in the Petition and the proposed Restructuring Resolution (Attachment 1.00). However, PREPA's plans do include investments (*e.g.*, AOGP) that could be financed, in whole or part, via the issuance of such additional 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:

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	***$11.321B***
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 $7.921B (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.***

RESPONSE: Please refer to the Corporation's Responses provided to Questions I.A.1 and I.A.2, above. Under no circumstance will all of the authorized debt detailed for each of the categories listed in the Petition at pp. 9-10 be issued.

While Attachment 3.03 evaluates only the "affected" obligations (to be exchanged or defeased under the restructuring transaction), the file labeled "2016-03-29 PREPA Debt Service Projections v3.xlsx" includes projections for both "affected" and "unaffected" obligations. Essentially, this file evaluates the debt service and principal balances at both PREPA and the Corporation.

The existing debt balance of PREPA, including both "affected" and "unaffected" debt, is $8.839 billion. Following the transaction, the debt balance is estimated to be $8.442 billion. *See* cells F45 and G45 of the tab entitled "Principal" in the file labeled "2016-03-29 PREPA Debt Service Projections v3.xlsx". For the avoidance of doubt, $7.921 billion is not PREPA's current debt balance.

The existing debt balance of "affected" obligations (to be exchanged or defeased under the restructuring scenario) is $7.170 billion. Following the transaction, the debt balance at the Corporation is estimated to be $6.846 billion. *See* cells F43 and G43 of the tab entitled "Principal" in the file labeled "2016-03-29 PREPA Debt Service Projections v3.xlsx". Please also *see* responses to questions I.A.1 and I.A.2 for further details.

The existing debt balance of "unaffected" obligations (to remain at PREPA under the restructuring scenario) is $1.669 billion. Following the transaction and the July 2016 maturities, the debt balance at PREPA is estimated to be $1.595 billion. *See* cells F35 and G35 of the tab entitled "Principal" in the file labeled "2016-03-29 PREPA Debt Service Projections v3.xlsx".

By contrast, under the "Status Quo" (*i.e.*, no restructuring transaction), the total debt at PREPA is estimated to *increase* from $8.839 billion to $9.692 billion, which includes a $1.808 billion refinancing required to replenish the debt service reserve fund and SIF, refinance the legacy Fuel Lines and GDB LOC, and to fund a portion of the July 1 debt service. Please note that the $1.808 billion is an illustrative concept reflecting PREPA's refinancing needs if it were not to complete the restructuring transaction. Please note further that this amount exceeds the refinancing amount in Attachment 3.03 because it reflects all of PREPA's status quo refinancing needs, rather than only those associated with the bonds expected to be part of the transaction. *See* cells F25 and G25 of the tab entitled "Principal" in the file labeled "2016-03-29 PREPA Debt Service Projections v3.xlsx".

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

RESPONSE: Please refer to the Corporation's Responses to Questions I.A.1, I.A.2, and III.A.1, above. Under no circumstance will all of the authorized debt detailed for each of the categories listed in the Petition at pp. 9-10 be 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.***

RESPONSE: All interest and principal associated with each of those debt issuances would be included as Ongoing Financing Costs and recovered from the Transition Charge.

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

RESPONSE: The Ongoing Financing Costs of all such Bonds would be, and certain Upfront Financing Costs could also be, included in Transmission Charges paid by PREPA Customers.

B. ***Attachment 2.10 [2.01] shows the list of services totaling $124.325 million in Upfront financing costs.***

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

RESPONSE: With the exception of PREPA's role as the initial servicer, the providers of services listed on Attachment 2.01 (*i.e.*, the items other than the reserve account deposit) have been, or are expected to be, selected based on factors including their qualifications and their cost. The providers already selected were chosen under lawful procurement processes and, in many cases, were already selected to work with Commonwealth government entities. While the engagements relating to this project were not been subject to competitive bidding given the nature of their professional and highly technical services, the rates and charges were evaluated and were negotiated with competitive market costs in mind.

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

RESPONSE: Binding agreements or contracts exist for the following services outlined in Attachment 2.01:

- PFM: The Government Development Bank for Puerto Rico ("GDB") has retained Public Financial Management ("PFM") as the Independent Registered Municipal Advisor, or IRMA, for GDB and the public corporations in Puerto Rico. PFM provides transaction-related and general municipal financial advice to GDB and the public corporations. In that context, PFM is providing financial advice related to the issuance of the Bonds.

- Navigant: PREPA has retained Navigant to design of the Transition Charge and Adjustment Mechanism and to provide support in the regulatory proceedings before the PREC.

- R3: PREPA has retained Rooney Rippie & Ratnaswamy LLP ("R3") as special regulatory counsel in connection with the Corporation's petition and related matters.

- Sidley: PREPA has retained Sidley Austin LLP as "financing counsel" in connection with the securitization.

- Q&A: PREPA has retained Quinones & Arbona, PSC as local counsel in conjunction and in cooperation with the legal firm of R3 and other advisers.

- Millstein: GDB has retained Millstein & Co. to provide financial advisory services to the Commonwealth and its instrumentalities, including a contract specifically pertaining to the restructuring of PREPA.

- PMA: GDB has retained Pietrantoni Méndez & Alvarez LLC ("PMA") to advise in connection with the restructuring of the Commonwealth and its public corporations debt, including PREPA. In connection with the issuance of the Bonds, PMA will also act as the Corporation local counsel and disclosure counsel.

Under an Interagency Agreement between PREPA and the Corporation executed on March 14, 2016 (the "SPV Interagency Agreement") included as Appendix III.O.2-A, PREPA agreed to make available to the Corporation financial and legal advisors available to it, including PFM, Navigant, R3, Sidley and other advisors, including advisors that GDB has engaged and which GDB has involved in connection with the restructuring of PREPA, such as PMA and Millstein. The Corporation is obligated to use the proceeds from the issuance of Bonds to reimburse PREPA for such expenses related to the Corporation and the consummation of the restructuring.

Each of the above professional organization have provided the Corporation with preliminary fee estimates for its services related to this proceeding and the issuance of the Bonds. These estimates are non-binding, preliminary estimates subject to requisite board approvals.

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

RESPONSE: Assured Guaranty Corporation and Assured Guaranty Municipal Corporation (collectively, "Assured") and National Public Finance Guarantee Corporation ("National").

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

RESPONSE: The 2% surety premium is the result of numerous negotiations between PREPA and the monoline insurers.

A surety is a form of an insurance policy. As such, it is reasonable to expect that a premium would be paid. However, due to the unique nature of the restructuring transactions proposed in the Petition, there are limited data points available to determine that the 2% annual surety premium is "standard practice". However, in 2014, the City of Detroit Michigan, Detroit Water and Sewerage Department ("Detroit Water") agreed to a surety premium of 15% of the initial face amount for each DSRF surety provided, payable upon delivery.

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

RESPONSE: Yes.

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

RESPONSE: Yes. PFM serves as the Independent Registered Municipal Advisor to Puerto Rico's GDB, the Commonwealth of Puerto Rico and the public corporations in the Commonwealth. PFM has been providing financial advice related to various components of the PREPA restructuring. PFM has been providing its services pursuant to its contract with GDB. PFM was requested to provide a non-binding estimate of its fees related the provision of financial advisory services related to the execution of the various financial transaction components of the restructuring. PFM has provided the $1 million estimate.

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

RESPONSE: While PFM's financial advisory fees could be greater or less than the $1 million estimate, PFM will not provide services other than financial advisory services. For example, PFM may provide financial advisory services related to bond tenders, bond exchanges and/or bond underwriting; however, PFM will not receive any portion of the estimated fees that have been specifically listed for these categories.

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

RESPONSE: No.

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

RESPONSE: No.

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

RESPONSE: Yes. PREPA is the Initial Servicer.

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?***

RESPONSE: The referenced costs are not currently reflected in the estimates for Upfront Financing Costs and Ongoing Financing Costs as provided in the Petition. The Corporation intends to reimburse the Commission for these costs as part of the Upfront Financing Costs and Ongoing Financing Costs.

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?***

RESPONSE: Professional fees incurred to date are estimated to be between $1.1 million and $1.5 million. Amounts not incurred including UW/Exchange Agent Fees, fees allocated to Millstein, retail solicitation fees and line items with no specific firms / names attached remain deal contingent and will not be incurred until transaction launch/close.

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?***

RESPONSE: All fees not incurred at the time the deal is terminated will be avoided. In addition, estimated fees with no specific firms / names associated with it will be avoided and remain deal contingent fees. This is inclusive of fees set aside for Millstein, UW/Exchange Agent and retail solicitation fees, among others.

14. ***Does the Corporation 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?***

RESPONSE: The Corporation expects to finance the entirety of the Upfront Financing Costs by issuing new Bonds.

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

RESPONSE: The costs and fees associated with large, complex debt restructurings are typically a function of the size, structure and time demands of the transaction(s). Based on current expectation for the size, structure and time demands of the PREPA restructuring and the issuance of the Bonds, the fee estimates are believed to be reasonable and are not expected to vary substantially from these estimates. However, as with any large, complex financial transaction, there are conditions that could lead to changes in the size, structure and time demands of the eventual transactions. Changes in market conditions, transaction schedules, and transaction structure relative to current expectations could lead to substantial changes in costs and fees. An example of significant transaction structure variations would be the inclusion or exclusion of a significant public tender offer that would be funded through the issuance of publicly sold Cash Offer Bonds.

For example, if there were a successful public tender for roughly $1 billion of PREPA's publicly held bonds, the tender offer dealer manager fees and retail broker solicitation fees could approach $3-4 million in total. The underwriting fees associated with ~$1 billion of publicly-sold bonds to finance the tender would be roughly $5 million – for total public tender and financing fees of $8-9 million. It is possible that the overall PREPA restructuring transaction could be completed without this financing component. However, were it possible to execute such a public tender financed through a public bond sale, the incremental savings on these financing components would far exceed the incremental costs. The fee estimates listed above for dealer manager, retail broker solicitation and underwriting services would be within the range of what PFM would describe as reasonable for components of a large complex transaction. It is not currently possible to determine to what extent these potential transaction components will be necessary or available as restructuring components. This is one example of potential substantial cost variability based on market conditions, transaction size/structure and/or time demands.

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 1of 4? If so, please provide.

RESPONSE: Yes, a copy of the letter, dated April 7, 2016, referred to in this Question is attached, along with PREPA's response, dated April 12, 2016, as Appendix III.C.1.

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

RESPONSE: PREPA anticipates issuing the 2016A bonds on or prior to April 27, 2016 and the 2016B bonds on or prior to May 2, 2016, upon the satisfaction of the relevant conditions precedent specified in the Bond Purchase Agreement, dated as of January 27, 2016 (as amended, the "Bond Purchase Agreement"), between PREPA and those supporting creditors that are purchasing such bonds.

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

RESPONSE: PREPA is facing significant liquidity constraints. When PREPA paid approximately $200 million in interest due under the power revenue bonds on January 1, 2016, it anticipated that the Supporting Creditors receiving a portion of such interest payments would "relend" such portion by purchasing the 2016A and 2016B bonds in accordance with the terms of the Bond Purchase Agreement. PREPA currently has approximately $450 million in cash, of which approximately $146 million is deposited in GDB accounts. On July 1, 2016, PREPA owes approximately $1.1 billion in principal and interest under its existing revolving credit lines and power revenue bonds.

PREPA is in discussions with the supporting creditors to have the creditors extend the existing revolving credit line maturities and to relend amounts paid to supporting creditors under the power revenue bonds. If PREPA does not issue the 2016A and 2016B bonds, its cash position would be reduced by the principal amount of such bonds (approximately $111 million).

In addition, if the 2016A and 2016B bonds are not issued, the interest under the restructuring scenario would decrease by approximately ~$11 million per year through July 2019. Also, there would no longer be a ~$111 million principal payment due in July 2019.

While the debt service in the restructuring scenario would decrease, it is important to note that the assumed refinancing in the status quo would also decrease. This is because part of the refinancing is intended to address the immediate maturity of the 2016A and 2016B legacy bonds upon termination of the RSA. Should the 2016A and 2016B bonds not be issued, the illustrative assumed refinancing could be downsized by ~$112 million (~$111 million representing the 2016A and 2016B non-issuance plus the assumed 1% cost of issuance associated with the refinancing), which would decrease annual debt service by a level ~$20 million per year until July 2026.

Because total debt service related to the 2016A and 2016B legacy bonds is assumed to be higher under the status quo scenario (~$199mm in total debt service) than the restructuring scenario (~147 million in total debt service), a non-issuance would be unfavorable for PREPA and the Corporation (since the issuance of the 2016A and 2016B legacy bonds provides relative savings as compared to the assumed refinancing in the Status Quo). That said, it is important to note that the refinancing concept included in the Status Quo scenario is illustrative and conceptual. There is no assurance that PREPA would be able to finance the liquidity needed from the 2016A and 2016B bonds. For additional detail, please also see the Corporation's Response to Question III.C.6.

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

RESPONSE: The filing assumes that the 2016A and 2016B bonds will be issued according with the terms of the Bond Purchase Agreement. Under such assumption, the 2016A and 2016B bonds will be due and payable in full upon termination of the RSA. If PREPA does not issue the 2016A and 2016B bonds, no payments will be due in connection with such bonds, but PREPA's liquidity constraints would be heightened. *See* Response to Question III.C.3, above.

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

RESPONSE: Footnote C indicates that the 2016A and 2016B bonds will mature upon the expiration of the RSA. This means that if the RSA terminates for any reason and therefore the contemplated restructuring does not close, the 2016A and 2016B bonds would be due and payable in full upon such termination. The current outside date of the RSA is June 30, 2016; however, such date may be extended with the consent of the requisite supporting creditors. In addition, the RSA may terminate prior to June 30, 2016 if any of the termination events thereunder are triggered.

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?***

RESPONSE: This is an assumption made for modeling purposes only for the "status quo" scenario where there is no RSA in place. In this scenario, PREPA would not benefit from the protections offered by the RSA and would therefore need to not only refinance its July 1 debt service, but also fund the replenishment of the DSRF and the SIF.

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

RESPONSE: The issuance of 2016C bonds will depend on negotiations with supporting creditors. PREPA has not yet reached agreement with creditors to issue 2016C bonds. If the 2016C bonds are not issued, however, PREPA will face significant liquidity issues, as described in the Response to Question III.C.3, above.

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.*

RESPONSE: Yes. It is the Upfront Financing Costs before the "Reserve Account Deposit" of ~$80 million.

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

a. *Does PREPA currently have a "Self-Insured Fund"?*

RESPONSE: PREPA has historically maintained a "Self-Insurance Fund" as a contingency to deal with potential damage to the transmission and distribution systems caused by extreme weather related events. The most recent withdrawal of funds for self-insurance purposes was following Hurricane George in 1999, where approximately US$ 30 million of funds were used to repair the system.

b. *What is the current balance in that fund?*

RESPONSE: There are currently no funds in the "Self-Insurance Fund."

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

RESPONSE: The DSRF Securitization is the New Money Bond issuance that will cover PREPA's 1% portion of the DSRF (in addition to the full 10% debt service reserve fund for several relatively smaller issuances to fund (a) the Upfront Financing Costs, which were not contemplated at the time Assured and National signed onto the RSA, and (b) the 1% debt service reserve on the issuance of the DSRF Securitization itself). The Corporation plans to fund the full 1% through a New Money Issuance referred to in the Petition as the "DSRF Securitization". The remaining portion of the debt service reserve fund will be covered by the sureties provided by National and Assured.

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?***

RESPONSE: The Monolines are providing sureties, to provide for a large portion of the debt service reserve fund required for the transaction. A large debt service reserve fund is thought to be necessary in order to achieve an investment grade rating on the Bonds. The analysis included with the Petition estimated such sureties to be ~$444 million in total.

In exchange for providing the sureties, the Monolines will receive a $1.25 million quarterly fee, up to $7 million. Additionally, the Monolines will receive a 2% annual surety premium on the then outstanding surety balance. The sureties are to be replaced by the Corporation over nine years beginning in the third year after transaction close or over seven years beginning in the seventh year should PREPA call or tender for certain insured legacy bonds. The analysis included in the Petition assumes that the sureties are replaced over nine years beginning in third year after transaction close.

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?***

RESPONSE: Negotiations are ongoing with Syncora, but if an agreement is reached, it would likely include treatment similar to that received by other Parties to the RSA and would ultimately be beneficial to PREPA, the Corporation, and PREPA Customers.

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.***

RESPONSE: Yes. Principal and interest payments constitute one type of Ongoing Financing Cost, and are fully recoverable from the Transition Charge. *See* Revitalization Act, Art. 31(13) and 31(16).

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.***

RESPONSE: Financing Entities include the Servicer, the Trustee, Calculation Agent, the Depository, or "any other person acting for the benefit of holders of the Restructuring Bonds or the Corporation that may hold Restructuring Property or have rights to receive proceeds of Restructuring Bonds." Revitalization Act, Art. 31(17). Amounts payable to financing entities are a subcategory of Ongoing Financing Costs. *Id.,* Art. 31(13). A breakdown of Ongoing Financing Costs is found in Attachment 2.02 to the Petition. –

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

RESPONSE: It is anticipated that all Upfront Financing Costs will be recovered from Bond proceeds, although the Corporation retains the right to recover such costs through Transition Charges.

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?***

RESPONSE: The weighted average interest rates of the legacy bonds to be refinanced or defeased by Exchange Offer Bonds, Mirror Bonds and Cash Offer Bonds are currently 5.25%, 4.91%, and 4.97%, respectively. The total weighted average interest rate of the bonds to be refinanced or defeased equates to 5.08%.

It is important to note that in the status quo, a refinancing or some other measure would be required to help PREPA make its upcoming July debt service payment as well as to cover the cost of replenishing PREPA's debt service reserve and Self-Insurance Fund. The illustrative refinancing concept previously described herein and in numerous exhibits throughout the Petition is used to provide an "apples-to-apples" comparison of the restructuring and status quo scenarios. As such, the illustrative refinancing's assumed 12% interest rate, representing the statutory cap on debt issued by the government of Puerto Rico, including by PREPA and the Corporation, must be considered when discussing the status quo weighted average interest rate.

When accounting for the illustrative refinancing, the status quo weighted average interest rate is 5.86%.

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

RESPONSE: The weighted average interest rate of the Exchange Offer Bonds (including $1.151 billion of CCABs at an assumed 5.50% interest rate and $1.571 billion of CIBs at an assumed 4.75% interest rate) is 5.07%. The weighted average interest rate of the Mirror Bonds is 4.91% and is the same rate as in the status quo. The weighted average interest rate of the Cash Offer Bonds is assumed to be 4.75%. Aside from the Mirror Bonds and CCABs, at issuance all bonds being refinanced or defeased in the restructuring transaction are expected to have a lower weighted average interest rate as compared to the status quo.

The weighted average interest rate of new issuances under the restructuring transaction is 8.38%, which includes the assumed 4.75% interest rate on New Money bonds (including the PREPA Self-Insurance and Bonds Not-to-Exceed 6.25%) as well as the 10% rate on the 2016A and 2016B legacy bonds and the assumed 10% rate on the Assumed 2016C (collectively, the "Other Mirror Bonds").

The total weighted average interest rate under the restructuring transaction including both refunding bonds and new issuances is 5.22%, which represents a 0.64% decrease from the status quo, when comparing the two scenarios on an "apples-to-apples" basis by including the refinancing/defeasance concept.

3. ***Please provide supporting documentation for that response.***

RESPONSE: Please *see* the tab entitled "Wtd. Avg. Int. Rate" of the file labeled "2016-04-25 SPV Petition – Exhibits Backup vUPDATE.xlsx".

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?***

RESPONSE: No.

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

RESPONSE: While all of the securitizations in recent history have achieved an investment-grade rating, due to the unique scope and nature of the restructuring transactions proposed in the Petition, such historical experience is not comparable and therefore does not provide indication that the expectation of an investment-grade rating is or is not reasonable.

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).***

RESPONSE: Achieving an investment-grade rating is a condition precedent to the RSA. PREPA and the Corporation will make all reasonable efforts to achieve such rating; however, there is no guarantee that it will achieve an investment grade rating.

Additionally, in regard to the interest rate portion of the above question, as the Commission is aware, the Corporation is required to achieve a minimum of $725 million in present value debt service savings as required by the PREPA Revitalization Act.

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?***

RESPONSE: The referenced Conclusion of Law addresses the Transition Charges, not the costs of any contractor.

However, more generally with respect to the potential imposition by the Commission of limits on payments to contractors, such an action is both unauthorized and contrary to law. The Revitalization Act defines the Adjustment Mechanism as a mechanism which will adjust the Transition Charge "to ensure the collection of Transition Charge Revenues sufficient to provide for the timely payment of Ongoing Financing Costs." Revitalization Act, Art. 31(23). With the specific exception of certain charges of PREPA as Servicer, the Revitalization Act does not authorize the Commission to regulate the costs of contractors, other than the servicing fee of PREPA.

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

RESPONSE: The bondholders would be less certain whether, or when, their Restructuring Bonds would be paid. Contractors are entitled to be compensated in accordance with their contracts. The purpose of providing for a formulaic mechanism to adjust the Transition Charge, without any limit on the amount of the charge, is to assure bondholders that their Bonds will be paid on a timely basis, and to obtain the highest possible rating on the Bonds. A limit on Transition Charges would not only be inconsistent with the Act, but would likely result in a higher interest rate, and lower credit rating, on the Bonds, and thus higher costs to PREPA customers.

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."

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.

RESPONSE: First, we note that the referenced statement in Finding of Fact 63 was intended to confirm that all Ongoing Financing Costs are recoverable from Transition Charges, whether or not they exceeded the initial years' estimates. It does not imply that the Corporation will not, before entering into any additional contract related to the post closing date bonds, assess the reasonableness of those contracts.

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.

RESPONSE: Yes. The Corporation does not believe that PREPA may act in a manner which is not at arm's-length from the Corporation. Articles 32(b)(5) and 33(c) through 33(j) of the Revitalization Act spell out statutory requirements ensuring that PREPA and the Corporation will be established, governed, and operated as legal entities separate and apart from one another. Article 35(i) of the Revitalization Act also requires PREPA to be compensated for its servicing fees at not less than its incremental costs to perform the servicing functions.

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?***

RESPONSE: *See* Response to Question III.K.2, below.

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

RESPONSE: Article32(c) of the Revitalization Act requires the indemnification of the Corporation board, its directors, and officers from civil liability relating to the Act. Article 31(13) defines "Financing Costs" to include any costs relating to administering the Corporation, the Restructuring Bonds or the Restructuring Property, including Trustee and other fiduciary costs. "Financing Costs" also include any costs relating to protecting the status of the Restructuring Property, including any cost related to any judicial or similar proceedings that the Corporation or the Trustee or any bondholder may bring to enforce their respective rights to the property. Finally, "Financing Costs" also include "any other cost relating to …administering and servicing the Restructuring Property … including Trustee (or similar fiduciary) fees and expenses, legal fees and expenses … or any other cost approved by the Board as necessary or desirable for the accomplishment of the purposes of the Act."

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

RESPONSE: The Corporation anticipates that the Trustee, the Calculation Agent, the Depository, and other financing parties and parties to Ancillary Contracts (such as the monoline insurers issuing surety bonds) may require indemnification as a condition to entering into contracts with or for the benefit of the Corporation and its bondholders. Any indemnification payment would be payable solely from the assets of the Corporation, which consist entirely of

Transition Charge revenues. The Corporation believes that these indemnity payments are contemplated by the Act, are necessary and desirable for the accomplishment of the purposes of the Act, and will be authorized by the Corporation in its Restructuring Resolution. Indemnification provisions such as this are usual and customary in securitizations transactions.

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

RESPONSE: Generally, the indemnity payments would be payable where a contracting party was the subject of a lawsuit or claim arising out of its performance of a contract with the Corporation or for the benefit of its bondholders.

> ***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.***

RESPONSE: The Corporation commits to revise this sentence, in an errata filing, to read as follows: "The Corporation may issue one or more series of 'Restructuring Bonds,' in addition to the Bonds, secured by 'Restructuring Property' created pursuant to one or more additional 'Restructuring Resolutions' (other than the Restructuring Resolution attached to the Petition as Attachment 1.00) 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."

> ***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?***

RESPONSE: The Corporation proposes to replace Conclusion of Law, in an errata filing, to mirror Conclusion of Law 6 found in the draft form of Commission Order, to wit: "Resolution 19 of the Restructuring Resolution sets forth all commitments of the Corporation that are enforceable against the Corporation by the Commission under Article 6.25A of Act 57-2014, as amended, through judicial action directing that the Corporation act in accordance with their terms."

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.***

RESPONSE: The Corporation will submit any additional Restructuring Resolution to the Commission for review and approval in accordance with Article 6.25A of the Revitalization Act.

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."

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

RESPONSE: Since the Corporation is a special purpose entity without any source of revenue other than Transition Charge revenues, PREPA has made advances, for legal and other consultant and advisor costs in connection with the establishment of the Corporation and the submission of the Petition to the Commission. It is anticipated that all of these costs will be reimbursed to PREPA from the proceeds of the Bonds. However, in connection with the RSA, PREPA may also agree with the Corporation and the creditors to fund certain of the Upfront Financing Costs, which would be recovered from Transition Charges.

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

RESPONSE: Section 6(f) of PREPA's enabling legislation, Act No. 83 of May 2, 1941, as amended, authorizes PREPA to make contracts and execute all instruments necessary or convenient in the exercise of any of its powers, and Section 6(u) of that enabling legislation gives PREPA the power to perform all acts or things necessary or convenient to carry out the powers granted to PREPA in that enabling legislation. Under the Interagency Agreement pursuant to which PREPA has agreed to perform services for and on behalf of the Corporation as are reasonably necessary or appropriate for the Corporation to comply with, and effectuate the restructuring transactions contemplated in, the RSA and the PREPA Revitalization Act and for the Corporation to reimburse PREPA for any expenses incurred or moneys advanced by PREPA in performing such services. The interagency agreement is attached hereto as Appendix III.O.2-A.

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

RESPONSE: PREPA general revenues.

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."

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?*

RESPONSE: The referenced language is intended to deal with immaterial changes to the Calculation Methodology or the Adjustment Mechanism proposed after adoption of the Commission Order. However, in view of the Ordering Paragraph 7 in the proposed form of Commission Order requested by the Corporation, the Corporation commits to submit as an errata filing a revised Restructuring Resolution containing the following replacement language: "This Restructuring Resolution may be amended by the Corporation prior to the issuance of any Bonds without the approval of the Commission; provided, however, that no such amendment may alter in any material respect the Calculation Methodology for the initial Transition Charge or the Adjustment Mechanism, or diminish in any respect the powers and rights of the Commission under this Order, or alter the fee of the Initial Servicer or increase the maximum fee of any successor Servicer from the amounts approved in this Order." This will clarify the intention of the referenced language and make the Restructuring Resolution more precisely consistent with the proposed form of Commission Order.

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.*

RESPONSE: Attached hereto as Appendix IV.A.1 is an agreed-upon-procedures letter from another utility securitization. The Corporation believes this letter is indicative of the form of letter which will be requested in this transaction.

2. ***When is the auditor's report due?***

RESPONSE: The report is due prior to pricing of the Bonds.

3. ***Please provide copy when available.***

RESPONSE: A copy will be provided when available.

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?***

RESPONSE: These principal payments correspond to mirror bond principal payments and principal payments on the 2016A, 2016B, and Assumed 2016C legacy bonds.

Please *see* tab "Ex. 2.03" in the file labeled "2016-04-25 SPV Petition – Exhibits Backup vUPDATE.xlsx" and trace cell D18 to its source in the "Ex. 3.03- DS Schedules tab" to see the breakout of the $140 million payment. Note that quarterly payments have been hidden from view but can be viewed by selecting all cells and then navigating to the "Home" menu on the Excel Ribbon and clicking "Format", "Hide & Unhide", and "Unhide Columns".

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.***

RESPONSE: The projections are largely consistent with the terms of the RSA; however, there are certain slight deviations due to the fact that negotiations with creditors are ongoing with respect to some items that were not agreed upon upfront with creditors in the RSA.

Specifically, the RSA did not stipulate how the July 2016 debt service payment would be made. Due to the large size of the payment and PREPA's diminishing cash balances, PREPA must find a way to address this payment with its creditors. As such, the Assumed 2016C financing represents one possible solution.

On a related note, the RSA did not specifically stipulate that the surety provided by the monolines would increase due to an issuance to fund the July 2016 debt service payment. However, the current estimate assumes that the surety size would, in fact, increase by 2.5% for such issuance. As negotiations surrounding the Assumed 2016C are ongoing, this treatment may be subject to change.

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

RESPONSE: The "Legal Final Maturity" date is two years after the "Scheduled Final Maturity" date for both the Securitization Bonds and Mirror Bonds, per the RSA. Thus the "Legal Final Maturity" date for the bonds maturing 6/30/2041 is 6/30/2043. The two year lag is designed to provide for the securitization's true-up mechanism to repay any collection shortfalls without creating a contractual default.

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

RESPONSE: Yes, the "Legal Final Maturity" extends the potential payment period two years beyond 2041 to 6/30/2043, but it does not alter the requirement that the Corporation impose Transition Charges to pay the Bonds more quickly.

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?***

RESPONSE: Amounts listed on Attachment 2.02 under "Ongoing Costs" are estimates, and PREPARC has not yet negotiated contracts or conducted bidding processes for any of these costs. Amounts listed under "Other Ongoing Fees" were negotiated as part of the RSA with PREPA's monoline insurers.

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

RESPONSE: Amounts listed under "Other Ongoing Fees" were negotiated as part of the RSA with PREPA's monoline insurers and are subject to the terms governing the RSA.

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.***

RESPONSE: No.

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?***

RESPONSE: At this point in time all of the estimated ongoing fees 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?***

RESPONSE: If the transactions were terminated prior to issuance of the Bonds, there should be no Ongoing Financing Costs.

D. Uncollectibles 2014

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%).***

RESPONSE: Although Attachment 4.0 was created before the enactment of the Revitalization Act, it was provided to rating agencies and was therefore provided by the Corporation to the Commission in accordance with the requirements of Article 6.25A. While Corporation does not have access to the underlying model, which was prepared by a third-party, the Corporation understands that it included inputs and assumptions that do not portray the operation of the Calculation Methodology and Adjustment Mechanism as proposed in the Petition or the data now available. In particular, new and better data is now available on customer collections and charge-offs. Attachment 6.03 accurately portrays the calculation of the Transition Charge and the data it reflects is the most current. Differences between the two documents are not discrepancies, but reflect differences in the timing and purposes of the two documents.

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

RESPONSE: Assuming the Commission is referring to collection curves used to develop the 9.83%, the answer is yes. The "Coll Curve Sheet 1" and "Coll Curve Sheet 2" tabs included in the Exhibit 6.03 Excel model provided to the Commission show the collection data used to develop the 9.83%.

If the Commission is referring to the collection curves used to develop the Collection Lag factor shown on Tab 6 of Exhibit 6.03, the answer is also yes. Part of determining the Collection Lag factor consists of removing billed amounts that are assumed to be uncollected (9.83%) and then calculating the payment/collection lag associated with the remaining amounts that are assumed to be paid/collected.

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

RESPONSE: The 9.83% represents the percentage of customers (excluding contributions in lieu of taxes ("CILT")) for FY 2015 that did not pay within 120 days of being billed. The use of 120 days was a result of discussions with certain participating creditors of PREPA, and was deemed by PREPA management and its advisors to be sufficient for use in calculating the Transition Charge. Because the Transition Charge Collection Curve will be reconciled to actual collection data on a quarterly basis, the assumption and data were deemed to be adequate.

E. Surety Replacement Schedule. Refer to Attachment 2.04:

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

RESPONSE: The schedule provided in Attachment 2.04 illustrates the replacement of the surety over nine years beginning in year three. However, per the RSA, If PREPA calls or tenders for certain legacy bonds insured by National and/or Assured, the surety will be replaced over seven years beginning in year seven.

The surety is to be replaced by the Corporation in order to maintain a 10% debt service reserve fund for the Exchange Offer, Cash Offer, and New Money Bonds as well as a 3.5% debt service reserve fund for Mirror Bonds. The size of the reserve funds has been calculated using issuance amounts and is conservatively assumed to remain level over the life of the bonds.

At the outset, the Corporation will be responsible for the first 1% of the debt service reserve fund for all categories of Bonds (in addition to the full 10% debt service reserve fund for several relatively smaller issuances to fund (a) the Upfront Financing Costs, which were not contemplated at the time Assured and National signed onto the RSA, and (b) the 1% debt service reserve on the issuance of the DSRF Securitization). The Corporation plans to fund the full 1% through a New Money Issuance referred to in the Petition as the "DSRF Securitization".

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?***

RESPONSE: The sureties provide immediate funding for a portion of the debt service reserve fund. The sureties allow the Corporation to avoid funding the reserve in cash on the day of issuance. The payments shown through 6/30/2027 are payments into the debt service reserve fund to replace the sureties with the required cash amounts. The debt service reserve fund itself is assumed to remain outstanding until 6/30/41.

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?***

RESPONSE: The Corporation.

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

RESPONSE: Yes, the Corporation is responsible for the first 1% of the DSRF on the Exchange Offer Bonds, Cash Offer Bonds, and Mirror Bonds (in addition to the full 10% debt service reserve fund for several relatively smaller issuances to fund (a) the Upfront Financing Costs, which were not contemplated at the time Assured and National signed onto the RSA, and (b) the 10% debt service reserve on the issuance of the DSRF Securitization). The Corporation plans to fund the full 1% through a New Money Issuance referred to in the Petition as the "DSRF Securitization".

The Monoline Insurers are providing sureties, which are currently estimated to be $444 million. The Corporation will replace the surety over time according to the schedule in Attachment 2.04 of the Petition.

Please note that the estimated surety exceeds the amount contemplated in the RSA due the Assumed 2016C bonds to refinance the July 1 payment. In the event that the Monolines do not agree to provide sureties for the assumed 2016C legacy bonds, the Corporation may have to fund the full reserve requirements on this amount.

For more information, please refer to the Corporation's Response to Question IV.E.2.

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.***

RESPONSE: Yes.

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

RESPONSE: Yes.

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.***

RESPONSE: The Bonds that meet the Savings Test are the Exchange Offer Bonds and the Cash Offer Bonds.

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.***

RESPONSE: Per the definition of the PV Savings Test in the PREPA Revitalization Act, Attachment 3.01 includes only Exchange Offer and Cash Offer Bonds.

The projections in Attachment 3.03 implicitly include all of the debt issues listed in the Petition at pp. 9-10, though the labels shown differ. Additionally, the maximum amounts listed in the Petition at pp. 9-10 do not correspond to the current estimates for each category. Certain categories are not expected to be issued at this time and are therefore excluded. Please also *see* the Corporation's Response to Question I.D.3, above.

The projected debt service from issuance through retirement by year showing principal and interest payment amounts and dates for each of the bond issuances (listed in the Petition at pp. 9-10 (¶¶ 11-12) can be found in the tab entitled "Debt Service" in the file labeled "2016-04-25 SPV Petition - Exhibits Backup vUPDATE.xlsx". Additionally, the projected annual principal balances can be found in the tab entitled "Principal Balances" of the same file. Note that these projections are included for the currently estimated issuance amounts for each of the categories listed and not for the maximum amounts listed in the Petition at pp. 9-10 (¶¶ 11-12). Also note that the debt service schedules provided in the aforementioned tabs correspond to the debt service schedules previously provided to the Commission in the tab entitled "Ex. 3.03 – DS Schedules" in the file labeled "2016-04-15 SPV Petition - Exhibits Backup vSHARE.xlsx". The line items have merely been re-categorized to map to the categories listed in Petition at pp. 9-10 (¶¶ 11-12). Please also *see* the Corporation's response to Question I.D.3, above.

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, 1246): "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?

RESPONSE: Please refer to the work papers for Exhibit 5.04 provided in response to the April 13 Order.

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?

RESPONSE: Article 6.25(A) of the Revitalization Act requires the Commission to determine as follows: the servicing costs proposed to be recovered by PREPA in its role Servicer are necessary, reasonable, and sufficient to compensate PREPA for the incremental costs of performing its functions as Servicer. The Corporation has proposed a servicing fee of .05% of the initial principal amount of the Bonds, subject to annual CPI adjustment. If the Commission finds this proposed fee to be necessary, reasonable, and sufficient to compensate PREPA for the incremental costs of performing its functions as the Initial Servicer, then the Corporation is requesting the Commission make that finding. Otherwise, the Corporation is asking the Commission to make the same finding with respect to any alternative fee the Commission approves.

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

RESPONSE: Under the form of Servicing Agreement proposed, yes.

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.

RESPONSE: Yes. This estimate is based upon responses from PREPA Customer Service, IT, and Finance functions after several meetings in which the expected activities as a

Servicer were identified. The PREPA staff was asked to identify additional activities that would be required, and to identify additional costs of these activities. As far as the ongoing costs, approximately 1/3 of those costs are bank charges for servicing activities, while the remainder represents labor activities from IT and Finance to support the servicing processes and systems on an annual basis.

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?***

RESPONSE: Yes. Following the same processes described above, activities and costs of initial set up and implementation were identified and priced. As it relates to initial set up costs, approximately one-half of the costs represent costs to set up a test environment to test the changes to the billing system, and to provide data warehousing capabilities that will support the monthly and daily reporting required for the servicing activities.

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"?***

RESPONSE: The Commission should act on the evidence presented. The servicing costs have been shown to relate to necessary steps in the servicing of the Bonds and the calculation, imposition, and collection of Transition Charges. The Servicing Agreement and the resulting costs have been shown to be reasonable and comparable to other such arrangements in the market. And the identified servicing costs recoverable under the form Serving Agreement are sufficient to recover PREPA's incremental servicing costs.

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.

RESPONSE: Yes, the fees of any subservicer are within the annual servicing fee of PREPA. In the event that PREPA elects to utilize the services of a subservicer, the Servicing Agreement does not contemplate any increase in compensation to PREPA.

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.

RESPONSE: The servicing functions are for the benefit of the bondholders. The appointment of a subservicer would be premised upon preserving or enhancing the credit quality and rating on the Bonds. That being said, the Corporation will be willing to provide the Commission with prior notice of the retention of a subservicer for information purposes. In addition, should the appointment of a subservicer increase the required compensation of PREPA, such a change in compensation would be subject to Commission review and approval. *See* Ordering Paragraph 5 of Corporation's proposed form of Commission Order (Attachment 8.00).

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...."

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.

RESPONSE: The RSA requires that PREPA include in the Servicing Agreement, an option on the part of PREPA to make advances. The decision to make advances is in the sole discretion of PREPA, and the repayment terms of any advance must be at "arm-length" to preserve the separateness of PREPA from the Corporation.

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.***

RESPONSE: PREPA would make an advance premised upon facilitating its services under the Servicing Agreement, and not for any other reason.

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

RESPONSE: The Corporation does not anticipate that the Corporation or the Trustee would request an advance. In the knowledge of the Corporation and the experience of its advisors, no utility has ever advanced funds under a servicing arrangement for a utility "stranded cost" securitization. However, it is conceivable that circumstances might exist that would justify an advance. For example, PREPA might underestimate the delinquency rate for Customers, causing a cash flow shortfall to the Corporation. Under those circumstances, the Corporation and PREPA might be incentivized to provide cash flow relief to avoid a default on the Bonds, pending a true-up of the Transition Charge.

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?***

RESPONSE: There is no way to accurately estimate the fee which might be imposed by a successor Servicer, where the successor Servicer is not an entity already imposing or collecting fees from PREPA Customers. At the extreme, a successor Servicer would be required to replicate the entire billing and collection system of PREPA (in effect creating a parallel collection system). The costs of such a system could be substantial. The rating agencies and bond investors want assurances that in the event that a successor Servicer must be appointed, there is pre-existing authority to pay the successor Servicer's fees. As a consequence, the Corporation understands that in all utility securitizations to date, state regulatory commissions have contemplated or approved a significantly higher servicing fee for a successor servicer. The Corporation believes that the highest successor servicer fee approved to date is 0.6% of the initial principal amount of the Bonds. Based upon the advice from its financial advisors, the Corporation believes that the higher fee (1% of the initial principal amount of the Bonds) is appropriate to address the unique risks in Puerto Rico, as perceived by investors and the rating agencies.

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

RESPONSE: The purpose of the provision is not to imply that the Commission has no power over the fee except to the extent it exceeds 1%. If the Commission orders the Corporation to replace PREPA as servicer, the Commission can approve a successor servicer arrangement, including the fee of the successor servicer. However, any such Commission action will be subject to the prior consent or contrary direction of the Trustee on behalf of or as directed by the Bondholders and/or parties to an Ancillary Agreement, in accordance with the terms of the Trust Agreement or any Ancillary Agreement. *See* Ordering Paragraph 4 of proposed form of Commission Order.

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%).

RESPONSE: No contradiction was intended. A higher fee may be authorized by the Commission.

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 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?

RESPONSE: The RSA requires PREPA to use its "best efforts" to collect all Transition Charges. The current draft of the Servicing Agreement, which draft is the subject of ongoing negotiations between PREPA and the Creditors, defines "best efforts" to mean "reasonable best efforts consistent with customary electric utility practices in the United States."

In addition Section 3.04(a) of the draft of the Servicing Agreement provided with the Petition (Attachment 1.00, Schedule 4) requires PREPA to: "manage, service, administer and make collections in respect of the Restructuring Property with reasonable care and in compliance with applicable law, including all applicable Commission Regulations, using the same degree of care and diligence that the Servicer exercises with respect to billing and collection activities that the Servicer conducts for itself and others." (Section 3.04).

Once the Servicing Agreement is executed, the current draft provides that it will not be subject to amendment without the consent of the Trustee and satisfaction of the requirement that the ratings not be adversely affected by the amendment. (Section 8.01).

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?

RESPONSE: Revenue collected for accounts past 120 days will be considered excess collections and be factored into the quarterly adjustment mechanism. All other factors remaining constant, the net effect of this will be a reduced revenue requirement for the following billing period resulting in a reduced TC.

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

RESPONSE: For Government Customers, PREPA continues to make collection calls and letters and ultimately suspend service, following applicable laws and regulations. For General Customers, after service suspension is executed, PREPA refers unpaid balances to third party Collection Agencies currently engaged by PREPA for this specific purpose. If amounts remain uncollected, delinquent customers are ultimately referred to Credit Bureau.

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.

RESPONSE: Amounts not paid within 120 days remain as accounts payable. PREPA sets-up a reserve for uncollectible accounts that is a percentage of the amount uncollected, and varies with aging. The term for an account to be considered uncollectible and a 100% write-off is currently 15 years.

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.***

RESPONSE: Nothing in the Servicing Agreement was intended to limit the promulgation of any lawful orders of the Commission with respect to the uniform collection of electric service payments or the termination of service. The Corporation commits to clarify any provision in the Servicing Agreement to the contrary. That being said, the Corporation notes that all actions of the Commission are subject to provisions of the Revitalization Act, including without limitation, the non-impairment clause of Articles 34 and 41.

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

RESPONSE: The Corporation will so clarify.

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

1. ***What is the specific value of the certificate?***

RESPONSE: It is customary to have an officer of the Servicer review the Servicer's performance on an annual basis and attest to its compliance with the Servicing Agreement.

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

RESPONSE: The certificate does not limit the Commission's powers to audit the performance of the Servicer.

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.

RESPONSE: The Corporation will make this clarification, subject in all respects to the provisions of the Revitalization Act.

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?***

RESPONSE: Given its lack of staff, the Corporation will be relying upon third parties, such as the Depository, the Calculation Agent, the Trustee, Bondholders, parties to Ancillary Agreements, and the Commission to alert the Corporation of any default by the Servicer. This is customary in a securitization transaction.

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"***

RESPONSE: The Corporation believes a sufficient statutory basis is found in the limitations imposed upon the Commission under paragraph (f)(5) and (g) of Article 6.25A of the Revitalization Act and the non-impairment clause contained in Article 41 of the Revitalization Act, among other provisions of the Revitalization Act.

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?***

RESPONSE: With respect to the first sentence, the Corporation did not intend to imply that a successor Servicer agreement entered into, solely upon order of the Commission, would not be subject to its review and approval. It was only intended to confirm a limitation on the Commission's review and approval if and to the extent that such review or approval would diminish the rights of the Trustee, the Bondholders, or any party to an Ancillary Agreement to replace the Servicer under the terms of any the Trust Agreement or any other financing document relating to the Bonds. *See* Article 6.25A(g) of the Revitalization Act . The Corporation will so amend the first sentence.

> ***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.***

RESPONSE: This Servicer's standard of conduct raises complex issues unrelated to the issues committed to the Commission's jurisdiction, and it is subject to ongoing negotiations with Creditors. PREPA and the Corporation need the ability to resolve this issue in the context of these negotiations. In any event, the Servicing Agreement is for the benefit of the Trustee, bondholders, and parties to any Ancillary Agreement. Further, subject to the provisions of the Act, the Commission retains the power to issue its own regulations regarding PREPA's 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 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"?

RESPONSE: The Corporation believes a sufficient statutory basis is found in the limitations imposed upon the Commission under paragraph (f)(5) and (g) of Article 6.25A of the Revitalization Act and the non-impairment clause contained in Article 41 of the Revitalization Act, among other provisions of the Revitalization Act.

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?

RESPONSE: Creditors have requested that such a procedure be authorized in the Trust Agreement. The terms are subject to further negotiation. As the Calculation Methodology is a mathematical formula, the Corporation does not expect any dispute between the Servicer, the Calculation Agent, and/or the Corporation concerning the calculation of amount of the Transition Charge that cannot be quickly resolved. The Corporation notes that the Commission's jurisdiction is limited to verifying the mathematical accuracy of such calculation.

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?

RESPONSE: Yes.

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

RESPONSE: PREPA does not owe "municipal installations that are not covered by CILT" any CILT payments. Therefore, they are Non-Residential Customers without regard to the dollar value of their use under Article 31(7) of the Revitalization Act, and are treated like any other Non-Residential Customer for the purposes of the calculation of Transition Charges.

> 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?***

RESPONSE: Not applicable.

> 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?***

RESPONSE: The calculation will be applied in the same way for these Customers as for any other Non-Residential Customer.

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?***

RESPONSE: As noted on excel row 4 of the "KWH &SERVICE AGREEMENT DATA" tab, the 1,327,733 service agreement count used for each month of FY 2015 is equal to the average customer service agreement count for all of FY 2015. It is not expected that the average service agreement count for all of FY 2015 would vary in a material way from actual 2015 monthly average service agreement values since service agreement count is not subject to seasonality as would be the case with kWhs. The service agreement counts shown in the tab for months outside of FY 2015 are for illustrative purposes only. In actuality, when true-up adjustment filings are made, the actual historical monthly average service agreement values applicable to the true-up filing will be used.

As noted on excel row 4 of "KWH &SERVICE AGREEMENT DATA" tab, the source of the 1,327,733 figure is from the "Consumption and Revenues (total y gov) Fiscal 2014-15-Certified by Planning" excel file (*see* the attached file) which was provided by PREPA. Specifically, please refer to excel row 30 of the "Total" tab in the attached excel file.

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.

RESPONSE: The $15.9 million would represent the amount billed to residential customers for one month.

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.

RESPONSE: Yes, the calculation described would yield the result indicated, which is an average of $0.03 per kWh.

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)?

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?

RESPONSE: The Corporation has not performed such a calculation and does not have the data required to perform it. The Corporation is inquiring whether such a calculation can be performed without unreasonable delay, expense, and burden and, if it can, will supplement this response.

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

RESPONSE: The Corporation has not performed such a calculation and does not have the data required to perform it. The Corporation is inquiring whether such a calculation can be performed without unreasonable delay, expense, and burden and, if it can, will supplement this response.

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

RESPONSE: Given the time allotted to respond to this data request, sufficient resources and adequate data are not available to respond in the time allotted.

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

RESPONSE: The Transition Charge for residential customers is proposed to be fixed for the following reasons: (1) ease of implementation as previously stated; (2) certain groups of low income customers (i.e. Tariff RFR) have higher than average consumption; and (3) Tariff RFR customers are prohibited from being charged a KWH charge for base usage. The root cause is the RFR tariff. RFR customers pay a fixed charge up to a certain kWh threshold, and a 5 cent/kWh charge for anything over the threshold. As such, they do not pay a general energy charge and the fixed charges are now required by law. Therefore, it is Mr. Zarumba's opinion that a KWH transition charge for residential tariffs would leave one group of customers who would be immune from paying the Transition Charge.

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?

RESPONSE: During the initial Rate Filing for adjustment in PREPA rates, it is anticipated that the Transition Charge being collected will be taken into consideration in the rate design phase of the PREPA rate case. The design of the PREPA base rates for fixed and variable charges that the Commission prefers can be reflected during that process.

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*	*FY 2014 Average Bill per Customer*
RH3103	*Residential*	*$177.00*
RH3104	*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.

RESPONSE: Yes, the $99.34 is an average of FY 2014 Residential Customers as stated and reflected in Attachment 3.02.

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.***

RESPONSE: No. Any total bill impact will be a function of the PREPA rate design. It was anticipated that this issue will be addressed PREPA rate case, and therefore was not addressed in this filing.

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.***

RESPONSE: Confirmed.

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.***

RESPONSE: Confirmed.

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.

RESPONSE: The Corporation, PREPA and the Witness (Mr. Zarumba) is offering no opinion at this time regarding the appropriate fixed charge for Residential Customers under the PREPA rate. However, if The Commission determined that Transition Charge for residential customers exceeded the appropriate fixed charge the Commission would have the option of reducing the monthly fixed charge under the PREPA tariff. The Transition Charge would still be recovered as a fixed charge. The Customer's total bill would reflect the PREPA rate design approved by the Commission.

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

RESPONSE: As stated in Mr. Zarumba's direct testimony (Corporation Ex. 6.00, Zarumba Dir., 19:455 – 20:469), when undertaking a full Rate Adjustment proceeding, taking consideration of the Transition Charge as a part of what is already being paid by the customer would allow the Commission to exercise its discretion while not violating the provisions of the RSA.

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 PREPARC-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.***

RESPONSE: Yes.

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:***

Rate Code Definition	***Class***
RH3103	***Residential***
RH3104	***Residential***
RFR 105	***Residential***
RFR 106	***Residential***
RFR 107	***Residential***
LRS 109	***Residential***
LRS 110	***Residential***
GRS 111	***Residential***
GRS 112	***Residential***
Overall average	

RESPONSE: The Corporation respectfully believes that the Commission does not have the authority to alter this aspect of the Transition Charge. Under Article 6.25A of the Revitalization Act, the Corporation has determined that Residential Transition should be calculated on a per Service Agreement basis. Subject to this statement, the Corporation states that the hypothetical per kWh Transition Charges would be approximately as shown on the table below:

Rate Code	Average kWhr per Customer Month	Average Bill per Customer	% of Average Bill	Cents/kWhr Transition Charge
RH3 103	715	177.00	6.8%	0.0168
RH3 104	179	40.09	29.9%	0.0669
RFR 105	310	31.19	38.4%	0.0387
RFR 106	525	42.71	28.0%	0.0228
RFR 107	747	54.86	21.8%	0.0160
LRS 109	223	53.52	22.4%	0.0536
LRS 110	595	143.45	8.4%	0.0201
GRS 111	171	45.98	26.1%	0.0701
GRS 112	458	120.83	9.9%	0.0262

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 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.***

RESPONSE: The Corporation respectfully believes that this aspect of the Transition Charge proposal is not within the Commission's jurisdiction to modify. Under Article 6.25A of the Revitalization Act, the Corporation has determined that Residential Transition should be calculated on a per customer basis. The Corporation also believes that the Commission cannot lawfully permit any Customer to bypass or avoid the Transition Charge that is applicable to that customer under the Calculation Methodology and Adjustment Mechanism. However, the particular design of the Residential Transition Charges should not impact the Commission's determinations concerning residential fixed charge amounts in the PREPA rate case.

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.***

RESPONSE: Please see the table below.

Name	**Tariff**	**Existing Fixed Customer Charge**	**Transition Charge**
General Residential Service	GRS	$3.00	$11.98
Residential Service For Public Housing Projects	RH3	$2.00	$11.98
Lifeline Residential Rate	LRS	$3.00	$11.98
Resiential Fixed Rate for Public Housing	RFR w/ 600 kWh/month maximum consumption	$30.00	$11.98
Resiential Fixed Rate for Public Housing	RFR w/ 800 kWh/month maximum consumption	$40.00	$11.98
Resiential Fixed Rate for Public Housing	RFR w/ 1000 kWh/month maximum consumption	$50.00	$11.98

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***

      xi. ***Rate stability to the customer***

      xii. ***Avoidance of undue discrimination among customers***

RESPONSE: Many of these factors were not applicable to the design of the Residential Transition Charge, given that the effect on Customers' bills will be determined by the PREPA base rate design and the PREPA base rate revenue requirement. Others were neutral, *e.g.*, avoidance of undue discrimination, assurance of adequate revenue. However, several of these factors correspond closely to the compelling reasons that led the Corporation to determine, and its advisors to recommend, that the Per Service Agreement design be chosen. These include the need to provide a social safety net by avoiding the imposition of greater Transition Charges on low income public housing customers and practicality, all as explained in Mr. Zarumba's testimony (Corporation Ex. 6.00).

> ***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.***

RESPONSE: No. PREPA will be proposing a redesign of all tariffs, including the residential tariffs, all will address bill impacts at that time.

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

RESPONSE: Under Article 6.25A of the Revitalization Act, the Corporation has determined that Residential Transition Charge should be calculated on a per Service Agreement basis. The Corporation respectfully believes that the Commission does not have the authority to alter this aspect of the Transition Charge. The Corporation also does not believe that the Commission has the authority to approve a "combination" design. However, the Corporation's advisors believe that such a hypothetical design would primarily dilute the benefits of a pure design while multiplying the costs. For example, the implementation of a blended design would incur the implementation costs and require the implementation steps of both pure designs.

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

RESPONSE: The principal disadvantages of a kWh design is the loss of the benefits of the per Service Agreement design described in Mr. Zarumba's testimony (Corporation Ex. 6.00). The Corporation is not aware of any material benefits of such a design that cannot be achieved with a per Service Agreement design and appropriate PREPA rates.

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?***

RESPONSE: Under Article 6.25A of the Revitalization Act, the Corporation has determined that Residential Transition should be calculated on a per Service Agreement basis. The Corporation respectfully believes that the Commission does not have the authority to alter this aspect of the Transition Charge. Subject to this statement, the Corporation states that in this hypothetical situation, the behind the meter generation would be estimated and measured for the purposes of calculation Transition Charges in the same manner as it will be estimated and measured for the purposes of revenue requirement allocation between Residential and Non-Residential Customers. There would be no change.

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***
RH3103	***Residential***
RH3104	***Residential HFR***
105	***Residential RFR***
106	***Residential RFR***
107	***Residential***
WS 109	***Residential***
LRS 110	***Residential***
GRS 111	***Residential***
GRS 112	***Residential***
Overall average	

RESPONSE: Please see the table below. The behind the meter generation is estimated based upon the number of installations and a system average capacity factor of 20%. Please note the table provided below lists all residential rate codes in existence in FY2014.

Rate Code Definition	Class	Service Agreement - Months	Estimated Behind Meter Generation - Total Output of DER (KWH)
RH3 - 103	Residential RH3	-	-
RH3 - 104	Residential RH3	-	-
105	Residential RFR	-	-
106	Residential RFR	-	-
107	Residential	-	-
LRS 109	Residential	-	-
LRS 110	Residential	22	12,338
GRS 111	Residential	823	387,102
GRS 112	Residential	7,214	6,209,329
Average (110-112)			820

XII. If the Corporation elects to use the "estimated load served by net metering for 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?

RESPONSE: For the year end FY2014 the portion of residential customers who currently have behind-the-meter generation is as follows.

Item	Residential Net Metering Customers	Total Residential Customers	Percentage
Jul-14	932	1,328,249	0.070%
Mar-16	4,255	1,329,387	0.320%

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

RESPONSE: The primary technology it rooftop solar.

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

RESPONSE: PREPA will "estimate" behind the meter generation using actual meter readings. As described, initially PREPA will simply exclude any reduction in use for energy exports. While this is an "estimate" of the gross use including behind the meter generation, it is based entirely on actual meter data and requires no use of what is normally considered "billing determinant estimation" or "estimated bill" creation. Subsequently, as the generation itself becomes metered, that actual meter data will be used as well.

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

RESPONSE: For the last four months the estimated Residential usage is 4.19%.

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

RESPONSE: Please *see* the Corporation's Response to Question XII.C, above. The estimation proposed uses only actual meter reading data and is fundamentally unlike billing determinant or bill estimation used for other 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.

RESPONSE: No. Again because only actual meter data are used for the estimate, the Corporation does not anticipate that PREPA will receive increased complaints.

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)?

RESPONSE: Mr. Zarumba did not receive advice from the Authority. The statement is the opinion of Mr. Zarumba. The expert advice he gave is described in his testimony (Corporation Ex. 6.00) at 27:632 – 28:640.

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?

RESPONSE: The Corporation believes, for the reasons stated in the Petition and Mr. Zarumba's testimony, that the Transition Charges proposed "will be just and ... will cover operational and administrative costs of network services that the consumer received with the Net Metering Agreement" and that the Transition Charge will "never will be excessive or established in such a way that it becomes an obstacle to the deployment of renewable energy projects." *See, e.g.,* Petition, ¶ 41. Therefore, it is unnecessary to resolve the question of whether Article 4 of Act 114-2007, as amended ("Article 4"), applies to Transition Charges or what action should be taken in the event of a conflict between that statute and Article 6.25A of the Revitalization Act with respect to the design of Transition Charges. The Petition, therefore, asks the Commission in Paragraph 43 to take notice of the fact that the criteria of Article 4 are met and should adopt a Restructuring Order that makes such finding. The Commission will thereby make clear that there is no potential conflict between the statutes as applied.

WE HEREBY CERTIFY that the foregoing was sent via email to: José Pérez-Velez, Esq., Director, OIPC (jperez@oipc.pr.gov) and Coral M. Odiot-Rivera, Esq., codiot@oipc.pr.gov; Fernando E. Agrait, Esq. (agraitfe@agraitlawpr.com); Edwin Quiñones Porrata, Esq. (Edwin.Quinones@aae.pr.gov); Alicia P. Perez Caballero, Esq. (aperez@fgrlaw.com); and Melissa Hernandez Carrasquillo, Esq. (mehernandez@fgrlaw.com).

RESPECTFULLY SUBMITTED,

IN SAN JUAN, PUERTO RICO, THIS 25th DAY OF APRIL, 2016

PUERTO RICO ELECTRIC POWER AUTHORITY REVITALIZATION CORPORATION

Edwin Quiñones
Víctor D. Candelario-Vega
Giselle M. Martínez-Velázquez
Richard Hemphill Cabrera
QUIÑONES & ARBONA, PSC
Doral Bank Plaza
33 calle Resolución, Suite 701-A
San Juan, PR 00920

By: ______________________

E. Glenn Rippie*
Michael Guerra*
Mario E. Dominguez*
ROONEY RIPPIE & RATNASWAMY LLP
Kingsbury Center, Suite 600
350 West Hubbard Street
Chicago, Illinois 60654
* Pursuant to Moción Suplementaria de Solicitud de Admisión por Cortesía (pending)

By: ______________________

INTERAGENCY AGREEMENT BETWEEN

**THE PUERTO RICO ELECTRIC POWER AUTHORITY
AND
THE PUERTO RICO ELECTRIC POWER AUTHORITY REVITALIZATION CORPORATION**

This interagency agreement (hereinafter, the "Agreement") is entered into as of this 14 day of March, 2016 by:

THE PUERTO RICO ELECTRIC POWER AUTHORITY, a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico, created by virtue of Act No. 83 of May 2, 1941, as amended, herein represented by its Executive Director, Javier Quintana, of legal age, married, engineer and resident of Guaynabo, Puerto Rico (hereinafter the "Authority" or "PREPA"); and

THE CORPORATION FOR THE REVITALIZATION OF THE PUERTO RICO ELECTRIC POWER AUTHORITY, a special purpose public corporation and governmental instrumentality of the Commonwealth of Puerto Rico created under the PREPA Revitalization Act, Law No. 4-2016, enacted on February 16, 2016 ("Law 4-2016" or the "Act"), herein represented by its authorized representative Melba Acosta Febo, of legal age, single, lawyer and resident of San Juan, Puerto Rico (hereinafter the "Corporation").

The Authority and the Corporation shall be jointly referred to herein as the "Parties". Terms not otherwise defined herein shall have the meaning ascribed to such term in the Act.

RECITALS

WHEREAS: By virtue of the Act, the Corporation was created to issue securitization bonds (referred to therein as the "Restructuring Bonds") and effect certain other actions in conjunction with and as part of the contemplated restructuring transactions agreed to by the Authority with certain of its creditors under the Restructuring Support Agreement, dated as of January 27, 2016 (as it may be amended or modified from time to time, the "RSA"), among the Authority and the creditors named therein;

WHEREAS: The Corporation intends to join the RSA as a party no later than March 14, 2016;

WHEREAS: Pursuant to the Act and the RSA, the Corporation anticipates issuing the Restructuring Bonds to refinance or economically defease all or a portion of the Authority's revenue bonds and other indebtedness;

WHEREAS: The restructuring transactions contemplated by the Act and the RSA will provide substantial economic and operational benefits to the Authority, including but not limited to, significant debt service savings and liquidity that would not be available absent such transactions;

WHEREAS: The Corporation has no operations, employees or monetary resources until such time as the Restructuring Bonds are issued, at which time the Corporation may recover financing costs and other issuance costs incurred in connection with the issuance of the Restructuring Bonds and other activities required or authorized by the Act, including costs relating to proceedings before the Puerto Rico Energy Commission (the "Energy Commission") and the Courts of the Commonwealth of Puerto Rico, the United States Federal Courts, and other regulatory bodies, as may be necessary and appropriate in connection with the transactions contemplated by the RSA and the Act;

WHEREAS: Under the RSA and in accordance with the Act, the Corporation must file a petition with the Energy Commission (the "EC Petition") before the Corporation may authorize and issue the Restructuring Bonds, which petition may seek approval, among other things, of the calculation methodology to determine the charges to be imposed on PREPA clients and the mechanism to ensure proper periodic adjustments to such charges for the full and timely repayment of the Restructuring Bonds;

WHEREAS: PREPA has the information, know-how, financial and technical resources, internally and through external advisors, to assist the Corporation in the preparation of the EC Petition and in all other activities to be performed in connection with the issuance of the Restructuring Bonds; and

WHEREAS: The Parties have determined to enter into this Agreement whereby PREPA shall provide the services and support reasonably necessary for the Corporation to perform the duties authorized under the Act, and the Corporation shall reimburse PREPA for the reasonable and documented expenses incurred in the provision of such support services, as provided in this Agreement;

NOW, THEREFORE: By virtue of the foregoing, the Parties hereby enter into this Agreement subject to the following:

TERMS AND CONDITIONS

Article I. Authorization to Represent the Corporation.

Section 1.1. External Resources Authorization. The Corporation hereby authorizes (a) PREPA to perform services for and on behalf of the Corporation as are reasonably necessary or appropriate for the Corporation to comply with, and effectuate the restructuring transactions contemplated in, the RSA and the Act, and (b) the advisors named below (the "Authorized Advisors"), previously contracted or to be contracted by PREPA and/or directly by the Corporation, to act on behalf of and represent the Corporation in any matters related to the contemplated restructuring transactions, including but not limited to any applicable proceedings before the Energy Commission, the Courts of the Commonwealth of Puerto Rico, the United States Federal Courts, and other regulatory bodies, as may be necessary and appropriate in connection with the transactions contemplated by the RSA and the Act, and as the Corporation or PREPA shall determine and authorize on behalf of the Corporation:

ROONEY RIPPIE & RATNASWAMY LLP
SIDLEY AUSTIN LLP
NAVIGANT CONSULTING INC.
GOLDMAN SACHS & Co.
MILLSTEIN & CO.

In addition to the above, as part of the Authorized Advisors, PREPA shall identify and contract, in consultation with the Corporation, or the Corporation shall directly contract, local counsel to work alongside regulatory counsel in the processes before the Energy Commission, in the litigation that may arise as part of the validation process contemplated in the Act and to assist in such other aspects of the restructuring transactions as PREPA, in consultation with the Corporation, shall determine. Upon selection of such firm or firms, PREPA shall notify the Corporation in writing and the Corporation shall evaluate such selection. If the Corporation consents to such addition of Authorized Advisors hereunder, it shall notify PREPA in writing. If the Corporation wishes to directly contract additional Authorized Advisors, the Corporation shall notify PREPA in writing. If PREPA consents to such addition of Authorized Advisors, hereunder, it shall notify the Corporation in writing.

The Authorized Advisors may be changed from time to time, as the Corporation may determine in its reasonable discretion; provided, however, that the Corporation shall promptly notify PREPA in writing of any such changes.

The Corporation has appointed the President of the Government Development Bank for Puerto Rico as its authorized representative under this Agreement, to perform all necessary actions on behalf of the Corporation, including coordinating with PREPA, receiving and approving amounts to be reimbursed by the Corporation to PREPA, signing any authorization, contract or document on behalf of the Corporation, and performing on behalf of the Corporation any other action contemplated hereunder, under the Act and the RSA.

Article II. Acknowledgment of Prior Services Provided.

Section 2.1 Acknowledgment. The Corporation acknowledges, after having verified available records, that PREPA has made available and used certain internal and external resources to start preparing for the eventual filing of the EC Petition. Up to this date, the Authority has used its own funds to cover the costs of external advisors for the benefit of the Corporation, which amounts the Corporation agrees to reimburse to PREPA in accordance with Section 3.4 below and as part of the Maximum Reimbursable Amount.

Article III. Availability, Contracting and Payment of PREPA External Resources.

Section 3.1. Availability of Internal Resources. The Authority shall continue to make available to the Corporation all relevant information and employees with technical knowledge necessary for the completion of the EC Petition for filing and to defend the EC Petition before the Energy Commission and any other court or body of competent jurisdiction.

Section 3.2 Availability of External Resources. Subject to the third paragraph of Section 1.1, the Authority will make available and either enter into separate agreements or expand the scope of current agreements, with the Authorized Advisors for the provision of support services to, and to represent and execute such necessary activities on behalf of, the Corporation.

The Authority shall also make available to the Corporation, and receive reimbursement from the Corporation for its related costs and expenses, such other external legal and financial resources as the Government Development Bank for Puerto Rico ("GDB") may make available to the Authority under the interagency agreement entitled *Acuerdo Interagencial entre la Autoridad de Energía Eléctrica y el Banco Gubernamental de Fomento para Puerto Rico,* dated June 17, 2015, as it may be amended from time to time, and any other interagency agreements that the GDB and PREPA may have entered or may enter into for the GDB to provide additional support resources in connection with implementing the terms and conditions of the RSA and the mandates of the Act. Such advisors provided by GDB to PREPA who may assist the Corporation shall also be considered Authorized Advisors under this Agreement.

Professional services contracts with, and invoices of, Authorized Advisors shall comply with government contracting requirements, including under Act 237-2004, as amended, and regulations, guidance, circular letters and other directives issued thereunder. Compensation payable to Authorized Advisors shall include the fees and expenses as negotiated in their respective contracts. Payment of expenses must be directly related to the services rendered and shall be limited to the amounts reimbursable in accordance with the PREPA and/or GDB expense policies, as applicable.

If the Corporation directly enters into contracts with the Authorized Advisors, PREPA shall administer such contracts, review and approve invoices and pay for the services rendered thereunder on behalf of the Corporation, as provided in Section 3.3 of this Agreement. The Corporation shall reimburse PREPA for such payments in accordance with Section 3.4 below.

Section 3.3 Invoicing of External Resources Costs to the Corporation. Within 90 days from the execution of this Agreement, PREPA shall notify the Corporation of the invoices previously paid by PREPA and to be reimbursed by the Corporation in accordance with Section 2.1. Subsequent to the execution of this Agreement, PREPA shall monthly notify the Corporation of the invoices authorized and paid to the Authorized Advisors by PREPA during such month. PREPA shall accompany each submittal to the Corporation with a certification whereby PREPA shall confirm to the Corporation that the services invoiced by the Authorized Advisors and paid by PREPA were provided in accordance with their respective contracts and that invoices have been approved by PREPA for services rendered and in compliance with all contracting requirements under applicable law. In the case of invoices to be reimbursed by the Corporation for services that were executed under any of the GDB memoranda of understanding or interagency agreements, PREPA shall comply with the reimbursement requirements established in such memoranda of understanding or interagency agreements.

PREPA shall also attach to the invoice submittals to the Corporation, the underlying invoices received from Authorized Advisors (with evidence of PREPA payment of them), signed, dated and referencing the applicable contract number and name, and: (i) detailing the services rendered, (ii) the number of hours spent on each matter (for those tasks and resources compensated based on an hourly rate), (iii) details of the appropriate milestones for fixed-price tasks, if applicable; (iv) pertinent supporting receipts of all reimbursable expenses, and (v) any required reports, and any description of payables as provided for in the contract applicable to the invoices ("Complete Invoices"). PREPA agrees to instruct the Authorized Advisors to clearly identify services provided to or on behalf of the Corporation, distinguishable and separate from services provided to PREPA.

The Corporation shall reimburse PREPA for all fees and expenses paid by PREPA pursuant to a Complete Invoice and in accordance with the provisions of Section 3.4 below.

Section 3.4 Reimbursement to the Authority. No later than three (3) days after the issuance of the Restructuring Bonds, the Corporation shall reimburse the Authority from the proceeds of such Restructuring Bonds for all fees and expenses incurred in contracting and administering the Corporation's contracts with, the Authorized Advisors through the date of issuance of the Restructuring Bonds. Reimbursable amounts unpaid to PREPA as of the thirtieth (30^{th}) day from the issuance of the Restructuring Bonds shall bear interest at an annual rate equal to 3% until fully reimbursed, which interest shall be payable immediately together with the reimbursable amounts. Reimbursable amounts hereunder by the Corporation to PREPA to cover the costs of the services authorized in this Agreement, including under Section 1.1, Section 2.1 and Section 3.2, shall not exceed the amount of TWO MILLION DOLLARS ($2,000,000) ("Maximum Reimbursable Amount"), subject to the corresponding review of invoices for services rendered, as provided above under Section 3.3. The Parties acknowledge that the Maximum Reimbursable Amount is an estimate based on projected load of work and shall be subject to amendment based on the ongoing development of proceedings before the Energy Commission, interactions with creditors, rating agencies and other activities to cause the issuance of the Restructuring Bonds and the mandates of the Act and the RSA.

Article IV. Effectiveness of Agreement

Section 4.1. Effective Date. This Agreement is effective from the date of its execution first above written until December 31^{st}, 2016. Prior to the termination of this Agreement the Corporation shall have reimbursed PREPA for all the Authorized Advisors' invoiced fees and expenses pursuant to Complete Invoices as provided in Section 3.4.

Section 4.2 Termination. Any of the Parties may terminate this Agreement at any time by providing the other party with a forty-five (45) days prior notice by registered mail, return receipt requested, or overnight express mail. The rights, duties and responsibilities of the Parties shall continue in full force and effect during the forty-five (45) day notice period. A termination or the expiration of this Agreement shall not be construed to release the Corporation from reimbursing

PREPA for the total amount that has been incurred and invoiced by PREPA until such termination date.

Article V. Miscellaneous Provisions

Section 5.1. Assignment. Neither Party may assign its rights or delegate its duties under this Agreement without the prior written consent of the other Party.

Section 5.2. Entire Agreement. This document contains the entire agreement between the Parties. Neither Party has relied on any other representation not expressly contained in this Agreement. No agent, employee or representative of any Party is authorized to modify or amend the terms herein, except by written amendment to the Agreement, which must be signed by an authorized representative of the Parties.

Section 5.3. No Third Party Rights. Nothing in this Agreement expressed or implied is intended or shall be construed to confer upon any person, firm or corporation, other than the Parties hereto, any right, remedy or claim, legal or equitable, under or by reason of this Agreement, and all its provisions are intended to be and are for the sole and exclusive benefit of the Parties hereto.

Section 5.4 Severability. If any one or more of the provisions of this Agreement is held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Agreement, and this Agreement shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

Section 5.5 Conflicts of Interest. The Parties hereby declare that, to the best of their knowledge, no public officer or employee of the contracting Parties has any direct or indirect interest in this Agreement or in the contracts with External Resources.

Section 5.6. Governing Law. This Agreement shall be governed by applicable laws of the Commonwealth of Puerto Rico. Also, the contracting parties expressly agree that only the state courts of Puerto Rico will be the courts of competent and exclusive jurisdiction to decide over the judicial controversies that the appearing parties may have among them regarding the terms and conditions of this Contract.

Section 5.7 Notices. All notices, documents and other communications to be delivered pursuant to this Agreement between PREPA and the Corporation shall be directed to:

If to PREPA:

Javier Quintana
Executive Director
Puerto Rico Electric Power Authority
PO Box 364267
San Juan, Puerto Rico 00936-4267

If to the Corporation:

Melba Acosta Febo
Chairman Board of Directors
Corporation for the Revitalization of PREPA
Government Development Bank for Puerto Rico
Centro Gubernamental Roberto Sánchez Vilella (Minillas)
Ave. De Diego, Parada 22
San Juan, PR 00907

Section 5.8 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same document. Delivery of any executed signature pages of this Agreement by facsimile or email transmission shall be effective as delivery of a manually executed counterpart hereof.

Section 5.9 Filing with the Office of the Comptroller. The obligations agreed upon under the provisions of this Agreement may not be enforced until this Agreement has been recorded at the Comptroller's Office, as required by Act No. 18 of October 30, 1975, as amended.

Section 5.10. Agreement Not to Adversely Affect Parties' Separateness. The Parties agree that nothing in this Agreement is intended in any way to modify the obligation of the Parties to maintain separate books, financial records and accounts, operations, corporate procedures and formalities and the other attributes of separateness set forth in Sections 33(e) through 33(j) of the Act.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Puerto Rico Electric Power Authority and the Corporation for the Revitalization of the Puerto Rico Electric Power Authority have caused this Agreement to be executed by their respective authorized representatives as of the date first above written.

PUERTO RICO ELECTRIC POWER AUTHORITY

By: Javier A. Quintana Méndez
Title: Executive Director
SS No: REDACTED

CORPORATION FOR THE REVITALIZATION OF THE PUERTO RICO ELECTRIC POWER AUTHORITY

By: Melba Acosta Febo
Title: Chairman, Board of Directors
SS No: REDACTED

[redacted]

Independent Accountants' Report on Applying Agreed-Upon Procedures

[redacted]
(collectively, the "Specified Parties")

Re: [redacted]

We have performed the procedures described below, which were agreed to by the Specified Parties, solely to assist the Specified Parties with the offering of the Bonds covered by the Preliminary Official Statement, subject to completion, dated [redacted] (the "Preliminary Official Statement"), the Preliminary Term Sheet dated [redacted] (the "Preliminary Term Sheet"), the [redacted] Investor Presentation dated [redacted] (the "Investor Presentation"), the Pricing Term Sheet dated [redacted] (the "Pricing Term Sheet"), and the Official Statement dated [redacted] (the "Official Statement") (collectively, the "Offering Documents"). [redacted]'s management is responsible for the Offering Documents, and the information set forth in the Data Files, the Servicer Review Report, and the Modeling Assumptions (each defined below). This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Specified Parties. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. All capitalized terms used herein, which are defined in the Offering Documents, are used with the meanings set forth therein.

Unless otherwise indicated, the following definitions have been adopted in presenting our procedures and findings:

- The term "compared" means compared to the information shown and found it to be in agreement, unless otherwise noted. Such compared information was deemed to be in agreement if differences were attributable to rounding.
- The term "recomputed" means recalculated and compared the result to the information shown and found it to be in agreement, unless otherwise noted. Such recomputed information was deemed to be in agreement if differences were attributable to rounding.
- The phrase "Data Files" means the following unaudited schedules provided to us by [redacted] on [redacted]:
    - Deposits on Hand
    - Customer Remittance
    - Electric Sales, Revenue and Meters by Town and Sector
    - Annual Forecast Variance
    - Days Sales Outstanding & Write off %

[redacted]

[redacted]

- BALE Report
- Reserve for Uncollectibles

- The phrase "Servicer Review Report" means the on-site servicer review report provided to us by [redacted] on [redacted].
- The phrase "Modeling Assumptions" means the modeling assumptions provided to us by [redacted] on behalf of [redacted] related to the respective transaction structure presented in the Preliminary Term Sheet, Investor Presentation, Pricing Term Sheet and Official Statement, including:
  - A schedule of Restructuring Charge Rate assumptions for Base Case, 5% Forecast Error, and 15% Forecast Error scenarios;
  - A schedule of Collectible Billings (kWh) assumptions for Base Case;
  - Monthly write-off assumption; and
  - Collection delay assumption.

I. THE PRELIMINARY OFFICIAL STATEMENT

We performed the procedures described below, with respect to certain information appearing in the Preliminary Official Statement (the relevant pages of which are attached as Exhibit A to this report), as indicated by the following symbols marked next to such information.

Symbol	Procedures and Findings
PA	Compared to or recomputed the corresponding number of deposits and dollar amount of deposits information set forth on or derived from the Data Files.
PB	Compared to or recomputed the corresponding number of [redacted]'s customer information based the Servicer Review Report.
PC	Compared to the corresponding payments by type information set forth on or derived from the Data Files.
PD	Compared to or recomputed the retail electric usage, billed retail electricity delivery service revenue and number of metered customers set forth on or derived from the Data Files.
PE	Compared to or recomputed the corresponding annual forecast variance information set forth on or derived from the Data Files.
PF	Compared to or recomputed the corresponding billed electric revenue, net charge-offs and average days sales outstanding information set forth on or derived from the Data Files.

[redacted]

PG Compared to or recomputed the corresponding average monthly delinquencies of total annual billed retail electricity delivery service revenues set forth on or derived from the Data Files.

II. THE PRELIMINARY TERM SHEET

We performed the procedures described below, with respect to certain information appearing in the Preliminary Term Sheet (the relevant pages of which are attached as Exhibit B to this report), as indicated by the following symbols marked next to such information.

Symbol	Procedures and Findings
PT	Recomputed the corresponding Scheduled Maturity Dates, Actual Final Payment dates and Change (Days), the Expected Weighted Average Lives (Years), and changes in the Expected Weighted Average Lives information using modeling methodologies, assumptions and information set forth in Preliminary Official Statement and the Modeling Assumptions.

III. THE INVESTOR PRESENTATION

We performed the procedures described below, with respect to certain information appearing in the Investor Presentation (the relevant pages of which are attached as Exhibit C to this report), as indicated by the following symbols marked next to such information.

Symbol	Procedures and Findings
I1	Recomputed the corresponding Scheduled Maturity Dates, Actual Final Payment dates and Change (Days) information using modeling methodologies, assumptions and information set forth in Preliminary Official Statement and the Modeling Assumptions.
I2	Compared to or recomputed the number of customers in the service area set forth on or derived from the Data Files.
I3	Compared to or recomputed the annual customers by class, annual sales by customer class, and revenues by customer class set forth on or derived from the Data Files.
I4	Compared to or recomputed the corresponding annual forecast variance information set forth on or derived from the Data Files.
I5	Compared to or recomputed the corresponding billed electric revenue, net charge-offs and average days sales outstanding information set forth on or derived from the Data Files.

[redacted]

IV. THE PRICING TERM SHEET

We performed the procedures described below, with respect to certain information appearing in the Pricing Term Sheet (the relevant pages of which are attached as Exhibit D to this report). as indicated by the following symbols marked next to such information.

Symbol	Procedures and Findings
TI	Recomputed the corresponding Scheduled Maturity Dates and Expected Weighted Average Lives (Years) information using modeling methodologies, assumptions and information set forth in the Official Statement and the Modeling Assumptions.

V. THE OFFICIAL STATEMENT

We performed the procedures described below, with respect to certain information appearing in the Official Statement (the relevant pages of which are attached as Exhibit E to this report), as indicated by the following symbols marked next to such information.

Symbol	Procedures and Findings
OA	Compared to or recomputed the corresponding number of deposits and dollar amount of deposits information set forth on or derived from the Data Files.
OB	Compared to or recomputed the corresponding number of [redacted]'s customer information based the Servicer Review Report.
OC	Compared to the corresponding payments by type information set forth on or derived from the Data Files.
OD	Compared to or recomputed the retail electric usage, billed retail electricity delivery service revenue and number of metered customers set forth on or derived from the Data Files.
OE	Compared to or recomputed the corresponding annual forecast variance information set forth on or derived from the Data Files.
OF	Compared to or recomputed the corresponding billed electric revenue, net charge-offs and average days sales outstanding information set forth on or derived from the Data Files.
OG	Compared to or recomputed the corresponding average monthly delinquencies of total annual billed retail electricity delivery service revenues set forth on or derived from the Data Files.
OH	Recomputed the corresponding Scheduled Maturity Dates, Actual Final Payment dates and Change (Days), Expected Weighted Average Lives (Years) , and changes in the Expected Weighted Average Lives information using modeling methodologies, assumptions and information set forth in Official Statement and the Modeling Assumptions.

[redacted]

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the data referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The procedures performed were applied based on the methodologies, assumptions and information indicated in the Offering Documents, or provided by the Specified Parties, without verification or evaluation of such methodologies, assumptions and information by us; therefore, we express no opinion or any other form of assurance regarding (i) the reasonableness of the methodologies, assumptions, or projected outcomes set forth in the Offering Documents, or provided by the Specified Parties, (ii) whether the actual payments on the Bonds will correspond to the payments calculated in accordance with the assumptions and methodologies set forth in the Offering Documents, or provided by the Specified Parties, (iii) the reliability or accuracy of the Data Files, Servicer Review Report, and Modeling Assumptions furnished to us or instructions provided to us by the Specified Parties which were used in our procedures, or (iv) the adequacy of the disclosures in the Offering Documents, or as to whether any of the statements expressed therein omit any material facts.

The terms in our engagement are such that we have no obligation to update this report because of events and transactions that may subsequently occur.

This report is intended solely for the information and use of the Specified Parties and is not intended to be and should not be used by anyone other than the Specified Parties.

[redacted]

Mr. Sean A. O'Neal
Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, NY 10006
soneal@cgsh.com

Mr. Lawrence A. Bauer
Sidley Austin LLP
787 Seventh Avenue
New York, NY 10019
lbauer@sidley.com

Counsel to the Puerto Rico Electric Power Company

BY EMAIL

April 7, 2016

Dear Sean and Larry:

The Purchasers (as defined below) have been asked to amend the Bond Purchase Agreement, dated as of January 27, 2016 (as heretofore amended, the "BPA"), by and among Puerto Rico Electric Power Company ("PREPA"), Assured Guaranty Corp., Assured Guaranty Municipal Corp., National Public Finance Guarantee Corporation and certain members of the Ad Hoc Group as Participating Holders (collectively, the "Purchasers"), to extend the outside closing date for the issuance and purchase of the 2016A Bonds (the "Outside Date") to April 19, 2016. The closing was scheduled to occur on April 6, 2016, and, pursuant to the terms of the BPA, could occur no later than April 7, 2016. On April 7, 2016, the Purchasers agreed to extend the Outside Date to April 19, 2016, pursuant to an amendment to the BPA attached hereto.

On April 6, 2016, Act 21 of 2016, the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (the "Moratorium Act") was enacted into law, less than 48 hours after being initially introduced as a bill in the Senate on April 5, 2016 (the "Moratorium Bill"). Among other things, the Moratorium Act provides that the Governor of Puerto Rico may, in his sole discretion, declare a moratorium at any time after the enactment of the Moratorium Act through January 31, 2017, subject to an extension at the Governor's discretion, during which certain governmental entities (each, a "Governmental Entity") are prohibited from making payments on certain covered obligations (each, a "Covered Obligation"). The Governor alone has the right to make a determination as to whether to impose any such a moratorium and as to which Governmental Entities and Covered Obligations such a moratorium will be applicable. Critically, PREPA is included in the definition of "Governmental Entity" under the Moratorium Act and none of PREPA's debt obligations have otherwise been excluded from the definition of "Covered Obligations." Accordingly, it is possible, and perhaps likely, that payments with respect to any current or future bond debt issued pursuant to the Trust Agreement, dated as of

January 1, 1974, between PREPA and U.S. Bank National Association, as trustee (as heretofore amended, the "Trust Agreement") will be prohibited under the Moratorium Act simply upon the determination of the Governor and without any input or action on the part of PREPA. In its current form, the Moratorium Act clearly implicates, impairs and restricts the ability of PREPA to perform its obligations under the Trust Agreement and any existing or future bonds issued under the Trust Agreement (collectively, "PREPA Bonds") by potentially prohibiting the payment of interest and/or principal on the PREPA Bonds as and when such payments are due, regardless of whether or not PREPA has available funds with which to make such payments. All discretion regarding payment on the PREPA Bonds has effectively been transferred from PREPA and its board of directors and officers to the Governor.

Although the Moratorium Act includes a provision which enables the Governor to certify that debt issued by a governmental entity subsequent to the enactment of the Moratorium Act will be excluded from the Moratorium Act as a "Covered Obligation," we do not believe this provision alleviates the effect of the Moratorium Act on any of the PREPA Bonds. The introduction of the Moratorium Bill and subsequent enactment of the Moratorium Act have resulted in the failure to be satisfied, as of the date hereof, of several conditions precedent to the issuance and purchase of the 2016A Bonds under the BPA, which failure precludes the closing of that transaction on or prior to the Outside Date. The following highlights certain of the most fundamental conditions precedent that we believe have not been satisfied as of the date hereof. The Purchasers, however, reserve all of their rights under the BPA and otherwise to assert the failure of these and any other conditions precedent or requirements to the closing of the 2016A Bonds.

Fundamentally, the Moratorium Act implicates enforceability of the 2016A Bonds (as well as the 2016B Bonds and all other PREPA Bonds) and the obligations of PREPA thereunder and under the Trust Agreement to make payment on such bonds in accordance with their terms because the Governor has sole discretion, at any time, to suspend the payment of PREPA's debts. In the face of the Moratorium Bill having been proposed (and prior to the enactment of the Moratorium Act), counsel to National was informed by bond counsel to PREPA that bond counsel would not be in a position to deliver an enforceability opinion in connection with the 2016A Bond closing as required under Section 4(1)(f) of the BPA absent modifications to the Moratorium Bill. Such failure clearly permanently excuses the Purchasers from any obligation to purchase the 2016 Bonds.

Any moratorium that prohibits payment of any PREPA Bonds could effectively prohibit payment of all PREPA Bonds under the Trust Agreement because the Trust Agreement provides for payment of PREPA Bonds on a *pari passu* basis. Therefore, a moratorium on any PREPA Bonds violates the Trust Agreement. In order to make the payment of any PREPA Bond enforceable in accordance with its terms and the terms of the Trust Agreement, the payment of *all* PREPA Bonds must be enforceable.

Section 4(1)(j) of the BPA requires, as a condition to closing, that "No federal, state, or Puerto Rico statute hereafter enacted shall have the effect of adversely affecting in any material respect the rights or remedies of the 2016A Bonds or their validity or enforceability." The enactment of the Moratorium Act causes the failure of this additional condition.

Section 4(1)(b) of the BPA provides, as a condition to closing of the 2016A Bonds, that all agreements and covenants required of PREPA to be performed on or prior to the 2016A Closing Date pursuant to the Restructuring Support Agreement shall have been performed. It is clear that this condition has not been satisfied. As detailed in the letter dated April 5, 2016 delivered to PREPA and GDB on behalf of the Purchasers, the Purchasers believe that the introduction of the Moratorium Bill in and of itself is in violation of PREPA's and GDB's obligations under the RSA as more fully set forth in such letter. In fact, counsel to PREPA advised counsel to National that PREPA would neither seek nor would it expect to receive any carve-out from the Moratorium Bill, which clearly violates PREPA's obligation to refrain from directly *or indirectly* promoting or supporting any bill or legislation that would materially and adversely affect any Supporting Creditor in its capacity as a PREPA creditor.

Among the closing documents that are required for the closing of the 2016 Bonds is a certificate from the Director of Legal Affairs of PREPA to the effect that none of the laws enacted during the requisite period (since December 19, 2016 to date) affect in any manner, among other things, the provisions for payment of the 2016A Bonds. In light of the Moratorium Act, we do not see how this certification can be made.

Pursuant to Section 4(1)(o) of the BPA, one of the conditions precedent to the issuance of the 2016A Bonds is that there must not have occurred an event of default under the Trust Agreement except those events of default that are subject to forbearance pursuant to the RSA (absent the waiver of the Purchasers). It is, at best, unclear whether additional events of default have in fact occurred as a result of the Moratorium Act. For example, pursuant to Section 802 (c) of the Trust Agreement, an event of default shall have occurred if PREPA is for any reason rendered incapable of fulfilling its obligations under the Trust Agreement. By vesting power in the Governor to decide whether PREPA may make payments, PREPA is rendered unable to satisfy its obligations under the Trust Agreement.

Furthermore, the pending lawsuit brought by certain bondholders of GDB seeking to enjoin GDB from making any further payments to creditors of GDB (including depositors such as PREPA) subject to certain carve-outs that may or may not enable PREPA to access its funds at GDB, also implicates several closing conditions under the BPA including the condition set forth in Section 4(1)(k) requiring that there be no action, suit or proceeding which, if determined adversely to PREPA could reasonably be expected to have a material adverse effect on the business or operations of PREPA and the deliverability of the no-litigation certificate from PREPA that provides that there is no litigation pending that in any way affects the payment, collection or application of revenues or the pledge thereof pursuant to the Trust Agreement. The Purchasers contend that the issuance of the injunction being sought by the GDB bondholders could certainly have a material adverse effect on the business or operations of PREPA and question whether the no-litigation certificate could be delivered under those circumstances.

Nothing contained herein or in the Amendment to the BPA dated April 7, 2016 shall be deemed to have waived any rights of the Purchasers under the BPA or the RSA, and all rights of the Purchasers are fully reserved. The Purchasers' agreement to extend the Outside Date to April 19, 2016 and any other accommodation agreed to by the Purchasers to provide additional time for PREPA to meet its obligations under the BPA, including satisfying conditions to closing, is subject to all of the Purchaser's existing rights under the BPA and RSA, and shall be without prejudice to the rights of each Purchaser to independently assess whether PREPA has remedied its failures to perform under the BPA and RSA, and whether conditions to closing have been satisfied. Further, as set forth in our letter to Lisa Donahue, Javier Quintana Méndez and Melba Acosta Febo, dated April 5, 2016, defaults under the RSA may have occurred. We are in no way, by extending the BPA or by not having terminated the RSA, waiving those defaults.

Sincerely,

/s/ Marcia Goldstein
Marcia Goldstein, Esq.
Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
on behalf of National Public Finance Guarantee Corporation

/s/ Amy Caton
Amy Caton, Esq.
Kramer Levin Naftalis & Frankel, LLP
1177 Avenue of the Americas
New York, NY 10036
on behalf of the Ad Hoc Group of PREPA Bondholders

/s/ Ivan Loncar
Ivan Loncar, Esq.
Cadwalader, Wickersham & Taft LLP
One World Financial Center
New York, NY 10281
on behalf of Assured Guaranty Corp. & Assured Guaranty Municipal Corp.

AMENDMENT NO. 5 TO BOND PURCHASE AGREEMENT

This Amendment No. 5, dated as of April 6, 2016 ("***Amendment No. 5***"), to the Bond Purchase Agreement dated as of January 27, 2016 (as it may be amended, supplemented or otherwise modified from time to time, including by Amendment No. 1 dated February 19, 2016, Amendment No. 2 dated March 14, 2016, Amendment No. 3 dated March 23, 2016 and Amendment No. 4 dated March 29, 2016, the "***Agreement***"), is made by and among Puerto Rico Electric Power Authority (the "***Authority***"), National Public Finance Guarantee Corporation ("***National***"), Assured Guaranty Corp. ("***AGC***"), Assured Guaranty Municipal Corp. (together with AGC, "***Assured***"), and the undersigned members of the Ad Hoc Group of Bondholders identified on Annex A (each a "***Participating Holder***", and together with Assured and National, the "***Purchasers***" and individually, a "***Purchaser***"),

W I T N E S S E T H:

WHEREAS, the Authority and the Purchasers (collectively, the "***Parties***") desire to amend the Agreement to extend the 2016A Outside Date for funding under the Agreement;

NOW, THEREFORE, in consideration of the mutual promises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

Unless otherwise defined herein or amended hereby, capitalized terms used herein which are defined in the Agreement shall have the meanings ascribed to them in the Agreement.

1. Conditions to Effectiveness. This Amendment No. 5 shall become effective as of the date (the "***Amendment No. 5 Effective Date***") that each of the following shall have occurred:

(a) All Parties shall have duly executed a counterpart of this Amendment No. 5; and

(b) PREPA shall have received and provided written confirmation to all Supporting Creditors of all approvals required to enter into and perform the Agreement, as amended by this Amendment No. 5, including, without limitation, submission to the Supporting Creditors of resolution(s) duly adopted by the board of directors of PREPA authorizing PREPA to enter into and perform the Agreement, as amended by this Amendment No. 5.

2. Amendment. This Amendment No. 5 amends the Agreement as follows:

(a) The definition of "2016A Outside Date" in Section 1 is amended to replace the words "April 7, 2016" with "April 19, 2016".

3. Reservation of rights. Except as expressly set forth herein, (i) nothing contained in this Amendment shall modify, waive or affect any term or condition set forth in the Agreement, and (ii) no party to the Agreement has, nor it shall be deemed to have, waived any rights under the Agreement. Accordingly, all rights of all parties to the Agreement not expressly modified herein, are reserved in full and remain unchanged. Without limitation, this Amendment is without prejudice to the rights of each Purchaser to require the satisfaction of all conditions

precedent to such Purchaser's obligation to purchase 2016 Bonds as provided under the Agreement, and to make its own determination with respect to the satisfaction of such conditions precedent, and all such rights shall be unaffected by this Amendment and shall remain fully reserved.

4. Construction Fund. Proceeds of all 2016 Bonds issued pursuant to the Agreement shall be deposited into the Construction Fund under the Trust Agreement, which proceeds of the 2016 Bonds shall at all times be held pending their disbursement, in accordance with the Trust Agreement, in an account at Citibank N.A., Banco Popular de Puerto Rico or another financial institution mutually agreed by the Parties. The obligation of each Purchaser to pay the 2016A Purchase Price for, and accept delivery of, the 2016A Bonds, and to pay the 2016B Purchase Price for, and accept delivery of, the 2016B Bonds, shall be subject to the execution and delivery by the Authority of an irrevocable undertaking for the benefit of the Trustee and the Purchasers to maintain at all times pending their disbursement, in accordance with the Trust Agreement, of the proceeds of the 2016 Bonds deposited into the Construction Fund as aforesaid in an account at Citibank N.A., Banco Popular de Puerto Rico or another financial institution mutually agreed by the Parties.

5. Effectiveness. On or after the Amendment No. 5 Effective Date, each reference in the Agreement to "this Agreement," "Bond Purchase Agreement," "hereunder," "hereof," "herein," or words of like import referring to the Agreement shall mean and be a reference to the Agreement, as amended by this Amendment No. 5. Except as expressly amended by this Amendment No. 5, the provisions of the Agreement, including, without limitation, all other dates and deadlines provided for in the Agreement, are and shall remain in full force and effect without modification.

6. Governing Law. This Amendment No. 5 shall be governed by and construed in accordance with the laws of the Commonwealth.

7. Counterparts. This Amendment No. 5 may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the Parties hereto may execute this Amendment No. 5 by signing any such counterpart. Delivery of an executed signature page of this Amendment No. 5 by facsimile or email transmission shall be effective as delivery of a manually executed counterpart hereof.

[Signature Pages Follow]

IN WITNESS WHEREOF, this Amendment No. 5 has been duly executed as of the date first written above.

PUERTO RICO ELECTRIC POWER AUTHORITY

By: ______________________________

Name: ______________________________

Title: ______________________________

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

By: ____________________________________

Name:____________________________________

Title: ____________________________________

ASSURED GUARANTY CORP.,

ASSURED GUARANTY MUNICIPAL CORP.

By: ______________________________

Name:______________________________

Title: ______________________________

[PARTICIPATING HOLDER NAME]

By: ______________________________

Name:______________________________

Title: ______________________________

Annex A – Participating Holders

[•]

Amy Caton, Esq.
Kramer Levin Naftalis & Frankel, LLP
1177 Avenue of the Americas
New York, NY 10036
As counsel to Ad Hoc Group of PREPA Bondholders

Marcia Goldstein, Esq.
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767 Fifth Avenue
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As counsel to National Public Finance Guarantee Corporation

Ivan Loncar, Esq.
Cadwalader, Wickersham & Taft LLP
One World Financial Center
New York, NY 10281
As counsel to Assured Guaranty Corp. & Assured Guaranty Municipal Corp.

April 12, 2016

Dear Ms. Goldstein, Ms. Caton and Mr. Loncar:

We received your letter, dated April 7, 2016, concerning the Bond Purchase Agreement, dated as of January 27, 2013 (as amended, the "Bond Purchase Agreement") by and among PREPA and your clients as "Purchasers".

We disagree with virtually everything you said in your letter, but will not belabor the point or waste our time responding to baseless arguments. It is obvious that your clients seek to maintain the benefits of the Restructuring Support Agreement while avoiding their obligations under the Bond Purchase Agreement. To avoid any confusion, we have been authorized to inform you that if the Purchasers do not fund their obligations under the Bond Purchase Agreement, the Restructuring Support Agreement may be terminated, under Section 13(b)(xvi), Section 13(c)(i) and/or Section 13(c)(iii) thereof, and PREPA will be entitled to exercise all rights and remedies thereunder and applicable law, including seeking specific performance of the Purchasers' obligations under the Bond Purchase Agreement and seeking damages arising out of the breach of the Bond Purchase Agreement.

The enactment of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (the "Act") does not result in the failure of any condition for funding under the Bond Purchase Agreement. As you are well aware, the Act expressly permits the Governor to issue a certificate excluding obligations from the scope of "covered obligations" subject to the Act, and we have told you repeatedly that PREPA will not proceed with the 2016A Bonds closing if the Governor has not issued such a certificate with respect to the 2016A Bonds.

Your letter misleadingly suggested that bond counsel informed National's counsel that it could not provide an enforceability opinion unless the Act was amended. As you recall, the issue at that time was whether or not the Act, as enacted, would include an amendment permitting the Governor to carve out subsequently issued bonds from the scope of covered obligations (as described above). The discussion with bond counsel took place before the Act was passed by the House of Representatives of Puerto Rico when it was unclear whether the amendment would be included in the Act. While that amendment was contemplated and was ultimately added to the legislation, it was not a certainty at the time of the discussion.

Contrary to your suggestions, the Act does not "have the effect of adversely affecting in any material respect the rights or remedies of the 2016A Bonds or their validity or enforceability." First, as noted above, PREPA will close the 2016A Bond purchase only if the Governor has excluded them from the scope of covered obligations subject to a moratorium. Second, the Act merely authorizes the Governor to take certain actions, and no such actions with respect to PREPA have been taken. Third, the Act only permits the imposition of a temporary stay, not any permanent stay or adjustment of debt. Fourth, the stay contemplated by the Act is substantially similar to the stay contemplated by the Recovery Act, which existed at the time the Bond Purchase Agreement was executed.

Your letter includes other mischaracterizations and straw-grasping arguments that deserve only cursory responses. The Restructuring Support Agreement in no way requires PREPA to seek an exception for all of PREPA's debt under the Act. If there is any violation of the Restructuring Support Agreement in this situation, it is the Purchasers' attempt to unduly delay and avoid their obligations under the Bond Purchase Agreement. The officer's certificate mentioned in your letter is obviously not implicated by the GDB bondholders' lawsuit because the certificate speaks only to litigation seeking to enjoin the issuance of the 2016A Bonds, questioning the validity of the 2016A Bonds, contesting the corporate existence of PREPA and contesting the collection of revenues or the pledge of such revenues under the Trust Agreement. None of these things has occurred as a result of the Act. You cannot convert this narrow certificate into some kind of a Material Adverse Effect clause that does not exist in the Bond Purchase Agreement (as you recall, during our negotiation, the Purchasers' proposed Material Adverse Clause was stricken from the final documentation).

We have demonstrated time and time again that PREPA is committed to consummating the transactions contemplated by the Restructuring Support Agreement. Great efforts have been made to reach and carry out the agreement with the Supporting Creditors, including, among other actions, to enact the PREPA Revitalization Act, to prepare and file the securitization documentation and to transform PREPA's operations and governance structure. It was just this past week – after the Act was enacted – that the securitization documents were filed with the Energy Commission on the schedule agreed by the creditors.

We expect the Purchasers to demonstrate the same level of commitment to the transactions contemplated by the Restructuring Support Agreement, including their obligation to purchase the 2016A Bonds. The Bond Purchase Agreement was (and remains) an integral part of the Restructuring Support Agreement and PREPA's payment of interest on its outstanding bonds in January 2016 and its continued pursuit of the contemplated transactions. As we have said for many months, PREPA needs the proceeds from the 2016A Bond to fund capital improvements and other related necessary expenses to keep the electric system operating in a safe and reliable manner.

The foregoing is not intended to nor shall it limit, waive or otherwise prejudice in any way any rights or remedies that PREPA may have under the Restructuring Support Agreement, the Bond Purchase Agreement or applicable law.

Sincerely,

Sean O'Neal

Sean A. O' Neal

Lawrence Bauer

Lawrence Bauer

cc: Lisa Donahue
Javier Quintana Mendez