

COMMONWEALTH OF PUERTO RICO
PUERTO RICO ENERGY COMMISSION

**IN RE: REVIEW OF RATES OF THE
PUERTO RICO ELECTRIC POWER
AUTHORITY**

NO. CEPR-AP-2015-0001
**SUBJECT: FIRST REQUIREMENT OF
INFORMATION
INITIAL RATE REVIEW**


**INFORMATION SUBMISSION AND ANSWERS
TO THE FIRST INFORMATION REQUIREMENTS**

TO: PUERTO RICO ENERGY COMMISSION

Through the General Legal Counsel
Mariana Hernández Gutiérrez Esq.
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FROM: PUERTO RICO ELECTRIC POWER AUTHORITY

Through the Acting General Counsel
Nélida Ayala Jiménez, Esq.




COMES NOW the Puerto Rico Electric Power Authority ("PREPA"), and as per the Puerto Rico Energy Commission's (the "Commission") First Requirement of Information of September 25, 2015 ("the September 25 Requirement of Information") pursuant to the provisions in Article VIII of Regulation No. 8543, Regulation on Adjudicative, Notice of Noncompliance, Rate Review and Investigation Proceedings under the captioned matter, submits these answers and documents in response to the September 25 Requirement of Information.

The present answers and documents, as well as any future supplemental productions and/or production of information or documents with respect to pending items are submitted without waiving PREPA's previous objections to the requirements in this or any other matter before the Commission. To the extent applicable, such objections are herein restated and all answers and documents submitted are provided subject to such objections. This answer and production of documents is also made

without waiving privilege or any confidentiality for any of the information or documents submitted. To the extent that PREPA inadvertently produces privileged or confidential documents without marking them as such and/or making the appropriate claim, it reserves the right to amend these answers and production of documents to make the corresponding stamping and/or detailed claim.

The information and documents provided herewith are submitted in the manner in which they are kept by PREPA; to the extent the requirements seek the provision of documents and information that are in a different format, PREPA has produced what is has that is closest to the specific form required. Along with these supplemental answers, PREPA is furnishing a USB drive with relevant documents. To the extent the documents are available in formats other than PDF, they are being submitted in that format as well as in PDF.



Also, in keeping with the Commission's election of English for the requirements, PREPA has attempted to submit these partial answers in English, but without waiving the right to answer in Spanish and/or submit documents in Spanish. For ease of reference, the answers below are included after copying the questions and requirements as set forth by the Commission in the September 25 Requirement of Information.

I. First Information Requirement:


1. Provide a detailed description of the agreement reached in September 2015 between the Ad Hoc Group of Forbearing Bondholders and PREPA, including, but not limited to, information regarding:

a. The terms of each type of the new debt securities offered in the deal (duration, interest rates, interest and principal payment requirements).

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer.

Please find in the attached USB drive, in the folder *Answer 1a*, the file titled "Ad Hoc

Group Forbearance Extension.pdf" (the "Forbearance Extension Agreement"), which includes as an attachment the Ad Hoc Group Term Sheet that sets forth the principal economic terms of a preliminary agreement between PREPA and the Ad Hoc Group of Forbearing Bondholders (the "Ad Hoc Group") as agreed to by PREPA and the Ad Hoc Group on September 1, 2015. As part of an extension of its forbearance agreement with the Ad Hoc Group executed on that date, PREPA and the Ad Hoc Group agreed to work collaboratively and in good faith to reach agreement on a recovery plan that incorporates the terms set forth in the Ad Hoc Group Term Sheet. Implementation of the terms set forth on the Ad Hoc Group Term Sheet remains subject to the parties' entry into a more detailed agreement with the Ad Hoc Group regarding the matters set forth therein and a number of other conditions precedent, including the enactment of certain new legislation, which have not yet occurred.



The Ad Hoc Group Term Sheet requires the Ad Hoc Group to commit to exchange all of its members' uninsured PREPA power revenue bonds for new securitization bonds with a fifteen percent discount in the face amount of the bonds. The securitization bonds, which must receive an investment grade rating, would be issued by a bankruptcy-remote special purpose public corporation in two types, "Option A Notes" and "Option B Notes."

Option A Notes would be scheduled to mature in 2043, with a final legal maturity at least two years after scheduled maturity, or such length of time as is required to obtain an investment grade rating. They would carry a weighted average interest rate across maturities (based on a yield curve) fixed at the specified rates (BBB- and above) subject to the final investment grade rating, as follows: AAA: 4.00%; AA+/AA/AA-:

4.25%; A+/A/A-: 4.50%; BBB+/BBB/BBB-: 4.75%. They would receive interest only, in cash, for the first five years following issuance.

Option B Notes would also be scheduled to mature in 2043, with a final legal maturity at least two years after scheduled maturity, or such length of time as is required to obtain an investment grade rating. They would carry a weighted average interest/accretion rate across maturities (based on a yield curve) fixed at the specified rates (BBB- and above) subject to the final investment grade rating, as follows: AAA: 4.50%; AA+/AA/AA-: 4.75%; A+/A/A-: 5.25%; BBB+/BBB/BBB-: 5.50%. For the first five years after issuance, they would receive interest only, in the form of capital appreciation, and five years after issuance the Option B Notes would convert from capital appreciation bonds to current interest bonds. A forecast of principal and interest payments on securitization bonds is also included in the folder *Answer 1a*, in the tab titled "Debt Schedule" within the document titled "PREPA Bond Information.xlsx" (the "Legacy and Securitization Bond Summary"). A copy of the Legacy and Securitization Bond Summary in *pdf* format is also included in the folder *Answer 1a*.

In connection with issuing the securitization bonds, the securitization issuer would have a debt service reserve of up to 10% of the total amount of securitization bonds issues, as required to receive an investment grade rating.

b. The total amount of securities involved in the negotiation (in aggregate and as a percentage of PREPA total bond debt).

I, Lisa J. Donahue Chief Restructuring Officer for PREPA, provided this answer. According to the Ad Hoc Group, as of October 1, 2015 (as reflected in an extension to its forbearance agreement signed on such date), the total value of bonds held by the Ad Hoc Group is approximately \$2,979,675,000, which represents approximately 36.2% of total PREPA's total bond debt of \$8,233,709,000 as of that date.

c. How, when, and through what entity the new bonds will be offered.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer. The new bonds would be issued through a new Special Purpose Vehicle ("SPV") to be organized by the Commonwealth pursuant to a new Commonwealth law. This SPV would be both the sponsor and the issuer of the new bonds and would not have the power to declare bankruptcy. The bonds would be issued as part of an exchange offer (the "Exchange Offer") that would be offered to current holders of PREPA's uninsured power revenue bonds. As part of the Exchange Offer, the Ad Hoc Group has agreed to exchange all unwrapped legacy bonds (i.e., currently outstanding PREPA Power Revenue Bonds that are not insured) they hold, and uninsured bondholders who are not members of the Ad Hoc Group would have the opportunity to participate in the exchange or tender their legacy bonds for cash. All members of the Ad Hoc Group are required to participate in the Exchange Offer, and it is a condition to closing the restructuring transactions contemplated in the Ad Hoc Group Term Sheet that the principal amount of bonds held by non-participating bondholders following consummation of the transactions not exceed \$700 million (approximately 25% of the outstanding uninsured bonds held by persons who are not parties to the Forbearance Extension Agreement). Please find in the attached USB drive, in the folder *Answer 1c*, a file titled "SP Presentation.pdf", which is a presentation made on behalf of PREPA to Standard & Poor's Rating Services (the "S&P Presentation"). The S&P Presentation includes further details regarding the timing, methodology, and process by which the new bonds would be offered and issued.

d. How the bonds will be securitized.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer. As more fully described in the S&P Presentation, a special purpose, bankruptcy-remote, public corporation issuer created pursuant to special legislation would issue bonds collateralized by newly created "restructuring property," which would consist of revenues from a special charge that would be assessed as part of customer bills pursuant to such legislation. The charge would be serviced by PREPA and would be subject to regular semi-annual revisions prior to expected maturity and optional ongoing and quarterly revision after scheduled final maturity if any bonds are still outstanding.

e. How the new debt will impact or be affected by PREPA's 1974 Trust Agreement.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer. While implementation of the transactions contemplated in the Ad Hoc Group Term Sheet would likely involve amendments to PREPA's 1974 Trust Agreement, PREPA does not at this time have knowledge of the details of such amendments, as negotiations regarding their terms, among other elements related to the potential transactions, remain ongoing.

f. PREPA's best estimates of the annual debt service requirements for the new debt securities.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer. The Legacy and Securitization Bond Summary, in the tab titled "Debt Schedule", sets forth PREPA's current best estimates of the annual debt service requirements for the securitization bonds.


g. PREPA's best estimates of the annual revenue requirements for the debt service and debt service coverage of the new debt securities.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer. The Legacy and Securitization Bond Summary, in the tab titled "Debt Schedule," sets forth PREPA's best estimates of the annual revenue requirements for the debt service and debt service coverage of the securitization bonds.

h. PREPA's best estimates of the amount of proceeds from the new debt securities, and the use of that cash, and PREPA's projections of related cash flow requirements related to the retirement of existing debt securities and servicing the new debt securities.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer. The securitization bonds will be exchange securities (i.e., issued in exchange for PREPA's existing bonds). As such PREPA does not have any estimate of the amount of proceeds from the securitization bonds.

2. Are there any written documents in PREPA's possession concerning the recent bondholder agreement that summarize or state the terms of that agreement? If not, explain fully why not. If so, provide a complete copy of such documents.




I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer. The Forbearance Extension Agreement, including the Ad Hoc Group Term Sheet, and the S&P Presentation are responsive to this Information Requirement. Additionally, please find in the attached USB Drive, in the folder *Answer 2*, the file titled "Ad Hoc Group Press Release.pdf", which is a public press release made by PREPA on September 2, 2015 regarding the agreements set forth in the Ad Hoc Group Term Sheet.

3. Explain how the new bonds will receive an investment grade bond rating and which rating agency will be involved in that process. Has there been correspondence with any rating agency or rating agencies regarding the rating on the new bonds? If not, explain fully why not. If so, provide a complete copy of any and all such correspondence.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer.

The transaction contemplates several key elements featured in successful utility securitizations, as well as certain additional enhancements intended to improve the securitization bonds' credit rating. These features and enhancements include regular charge adjustments to correct potential shortfalls in collections, immediate use of a third party depository agent and calculation agent, allocation of charges across all ratepayer classes, and a Commonwealth pledge not to take any action that alters or impairs the collateral backing the securities. Further information regarding the bonds and their credit enhancement features is included in the S&P Presentation.



In connection with its efforts to obtain an investment grade rating for securities issued as part of PREPA's restructuring, PREPA has engaged Standard & Poor's Rating Services ("Rating Services") to provide a detailed evaluation of the proposed securities, including an initial indicative rating outcome together with supporting rationale, as well as an explanation of any applicable adjustments and assumptions (including cash flows, stresses and credit support to the extent applicable) based on information provided to Rating Services by PREPA. PREPA will use this information to assist in its efforts to design an investment-grade rated security. At present, PREPA has not engaged any other ratings agencies because they do not provide such evaluation services, although PREPA has not at this point ruled out efforts to engage

other ratings agencies in the future. Further information regarding the Rating Services evaluation can be found in the file titled "SP Engagement Letter", in the attached USB drive, in the folder titled *Answer 3*, which is PREPA's engagement letter with Rating Services.

4. Was the Ad Hoc Group of Forbearing Bondholders informed by PREPA that the Commission (CEPR) has final authority over the rates that PREPA may charge? If not, explain why not.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer. PREPA has informed the Ad Hoc Group regarding, and understands the Ad Hoc Group to be aware of, the provisions and requirements of Act 57 of 2014 as such provisions and requirements relate to the ratemaking process. PREPA has discussed such provisions and requirements with the advisors to the Ad Hoc Group and its members on numerous occasions. The securitization charge, however, would not be charged by PREPA and as a result would not be subject to approval by the Energy Commission.

5. Does PREPA intend for the monies not paid out to the Ad Hoc Group of Forbearing Bondholders to be used to finance PREPA's construction budget over the next five years? If not, explain why not.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer. PREPA intends to use monies that are not paid out to the Ad Hoc Group for construction expenses, other debt service, and other general operating expenses.

a. If there has been a sources and uses of funds analysis in that regard, provide a copy of that analysis.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer. There has been no analysis of sources and uses of funds.


6. Provide a listing of the PREPA bonds that are affected by the Ad Hoc Group agreement. Provide the following information with respect to such bonds: (1) date issued, (2) principal, (3) issuance discount or premium (if any), (4) interest rate, (5) duration, (6) annual principal and interest requirements, including amounts and payment due dates, (7) an explanation of whether the annual principal and interest requirements have been paid and a listing of all principal and interest payments that were due by September 30, 2015 but which have not been paid by September 30, 2015.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer.

The Legacy and Securitization Bond Summary, in the tab titled "Legacy Bonds," contains information responsive to this Information Requirement.

7. What is the status of the bondholders that have not, thus far, agreed to renegotiated terms? Will they be able to participate in similar bond swaps? Will PREPA continue to pay interest and principal on those other (non-renegotiated) bonds, or will those payments be suspended?

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer.




Uninsured bondholders who are not part of the Ad Hoc Group will have the opportunity to participate in a simultaneous exchange. PREPA's agreement with the Ad Hoc Group requires that, as a condition of the exchange, no more than \$700 million of uninsured PREPA Power Revenue Bonds remain outstanding following consummation. If PREPA Power Revenue Bonds in excess of that amount remain outstanding following the exchange offer \$700 million, PREPA may elect not to consummate the restructuring transactions. Assuming that the restructuring transactions are consummated, holders of unexchanged uninsured PREPA Power Revenue Bonds would continue receiving principal and interest on their bonds.

8. Provide a listing of PREPA's outstanding bonds that are not affected by the Ad Hoc Group agreement. Provide the following information with respect to such bonds: (1) date issued, (2) principal, (3) issuance discount or premium (if any), (4) interest rate, (5) duration, (6) annual principal and interest requirements, including amounts and payment due dates, (7) whether the bonds are insured and if so by which bond insurance company and (8) an explanation of whether the annual principal and interest requirements have been paid and a listing of all principal and interest payments that were due by September 30, 2015 but which have not been paid by September 30, 2015.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer.

The only bonds not affected by the Ad Hoc Group agreement are (i) insured bonds and (ii) the 2015A bonds. The Legacy and Securitization Bond Summary, in the tab titled "Legacy Bonds," contains information responsive to this Information Requirement.



9. Provide a comprehensive listing of PREPA's outstanding bonds at September 30, 2015. For each outstanding bond (or group of similar outstanding bonds) identify (1) whether it has been the subject of a restructuring agreement that PREPA has reached in principle by September 30, 2015, (2) whether it is expected to be the subject of a restructuring agreement after September 30, 2015, (3) the amount outstanding at September 30, 2015, (4) the scheduled amounts and dates of all remaining interest and principal payments, and (5) whether the bond is insured and the name of the insurer.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer.

The Legacy and Securitization Bond Summary, in the tab titled "Legacy Bonds", contains information responsive to this Information Requirement.

10. Provide a listing of PREPA's fuel line borrowings for each month of 2014 and 2015. Include the following information: (1) amount borrowed from each bank or fuel line lender, (2) interest rate, (3) amount of any fees related to the borrowing, (4) interest expense, (5) principal payments, (6) description of the security or collateral for the fuel line borrowing, and (7) if different from the amount borrowed, the total amount of fuel line debt outstanding at the end of each month.


I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer.

Please find in the attached USB drive, in the folder titled *Answer 10*, the document titled

"Fuel Lines of Credit – Summary," which contains information responsive to this Information Requirement.

11. Identify and provide a copy of the agreements and contracts related to PREPA's fuel line borrowings in 2014 and 2015.

I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer. Please find in the attached USB drive, in the folder titled *Answer 11*, the following documents:

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- "Original Execution Copy Scotia Loan \$500mm Loan Agreement.pdf"
 - "Citibank – Jan. 31, 2014 – Side Letter – Extension of Maturity to Credit Facility.pdf"
 - "Citibank – May 13, 2013 First Amendment to Credit Facility.pdf"
 - "Citibank - \$250m 2012 Credit Agreement (Executed).pdf"
 - "Scotia – 1st PREPA Amending Agreement to Credit Agreement 10-23-12 (Combined Docs).pdf"
 - "Scotia – 2nd PREPA Amendment – Executed.pdf"
 - "Scotia – 3rd PREPA Amendment Extension June 28, 2013.pdf"
 - "Scotia – 4th PREPA Amendment Signed Execution Copy.pdf"
 - "Scotia – PREPA Signed 5th Amendment.pdf"

These documents, taken together, set forth all terms of PREPA's fuel line borrowings in 2014 and 2015.

12. Are there any written documents in PREPA's possession concerning the recent fuel-line lender agreement(s) that summarize or state the terms of that agreement? If not, explain fully why not. If so, provide a complete copy of such documents.


I, Lisa J. Donahue, Chief Restructuring Officer for PREPA, provided this answer. Please in the attached USB drive, in the folder titled *Answer 12*, the following

documents that summarize and/or state the terms of PREPA's agreements with holders of debt arising from PREPA's fuel lines of credit:

- "Solus Term Sheet and Schedule.pdf"
- "Scotia Term Sheet and Schedule.pdf"
- "Fuel Line Press Release.pdf"

13. Identify and provide PREPA's most current analysis of estimated cash inflows and outflows (sources and uses of cash) for fiscal year 2016 and through as far into the future as PREPA has made such projections.

I, Ernesto Ramos-Morales, Acting Chief Financial Officer, provided this answer.



PREPA has not prepared, nor does it possess, an analysis of cash inflows and outflows for fiscal year 2016 or further into the future, due to the uncertain situation that face the Authority related to the agreement with the creditors which affecting payment to debt service and the propose rate structure. However, PREPA has worked with its advisers to prepare a budget. The last year our Governing Board ("the Board") approved the Capital Improvement Program (Capex) Budget for two fiscal years 2014-2015 and 2015-2016. The Board shall not adopt the Operational Annual Budget during the fiscal year 2015-2016, the budget for the preceding fiscal year, shall, until, be deemed to be in force and be treated as the Annual Budget under the Section 504 in the 1974 Trust Agreement. Please find in the attached USB drive, in the folder titled *Answer 13*, the file titled "PREPA Budget," which is PREPA's most current budget.

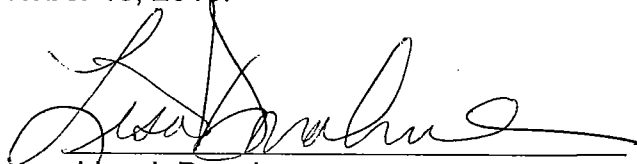
SWORN STATEMENT IN SUPPORT OF ANSWERS
AS PER COMMISSION'S REQUIREMENTS

I, Lisa J. Donahue, of legal age, Managing Director, married, and resident of the State of New York, in my capacity as Chief Restructuring Officer for PREPA, under oath declare as follows:

1. My name and personal circumstances are those set forth above.
2. The information supplied herewith comes from the records and information known by management and is held as true by the Puerto Rico Electric Power Authority.
3. I believe the information included in these answers is true on the basis of my personal knowledge or on the basis of the information supplied to me by employees of the Authority and its Consultants. I have specified for each of the requirements copied above the person and/or department who supplied the relevant information for answering.
4. For all of the requirements set forth above, moreover, the Authority's lawyers assisted in preparing these answers. Such assistance was provided pursuant to the attorney-client privilege and/or work product doctrine, which the Authority does not waive.

RESPECTFULLY SUBMITTED.

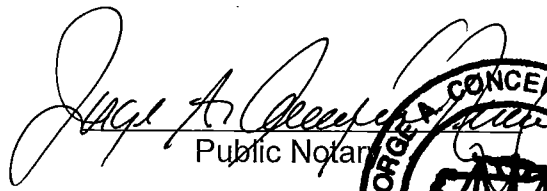
In San Juan, Puerto Rico, on October 15, 2015.




Lisa J. Donahue

Affidavit No. -4,716-

Sworn and subscribed before me by Lisa J. Donahue, of the personal circumstances above mentioned, whom I personally know, in San Juan Puerto Rico, on October 15, 2015.



Public Notary



I hereby certify that I have sent the above Motion to the Commission, through its General Legal Counsel, on October 15, 2015.

A handwritten signature in black ink, appearing to read 'Nelida Ayala Jimenez', is written over a horizontal line.

Nelida Ayala Jimenez
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