COMISIÓN DE ENERGÍA DE PUERTO RICO
Recibido por: Brailyn Muñiz
Fecha: 20/6/16 Hora: 10:07

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: SUBMISSION OF INFORMATION REQUESTED BY THE COMMISSION'S ORDER OF JUNE 15, 2016

PREPA'S SUBMISSION OF INFORMATION REQUESTED BY THE COMMISSION'S ORDER OF JUNE 15, 2016

TO: THE PUERTO RICO ENERGY COMMISSION
Through the Deputy General Counsel
Alejandro Figueroa, Esq.
afigueroa@energia.pr.gov and legal@energia.pr.gov

FROM: PUERTO RICO ELECTRIC POWER AUTHORITY
Through the General Counsel
Nélida Ayala Jiménez, Esq.
n-ayala@aeepr.com

COMES NOW the Puerto Rico Electric Power Authority ("PREPA"), and submits the following information and attached document requested by the Puerto Rico Energy Commission's (the "Commission") Order dated June 15, 2016.[1] For ease of reference, the questions set forth in Attachment A to the order are quoted, in bold, before each answer.

1. **The Petition describes a current gap between revenue requirement and the current revenue of approximately $725 million to $730 million, or an average of 4.2 cents/kWh. The request for provisional rates requires a revenues increase of $222 million, or an average of 1.29 cents/kWh. PREPA's Petition, at Exhibit 12.0, page 5, lists approximately $503 million of revenue from the Transition Charge. However, during the Technical Hearing related to the Verified Petition for Restructuring Order (Case No. CEPR-AP-2016-0001), PREPA's Chief Executive Officer, Dr. Javier Quintana, indicated that the Transition Charge, which was initially envisioned as being in place by July 1, 2016, would not be implemented by PREPA until October 2016, possibly later.**

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[1] PREPA makes a general, standing objection to any request for information or documents to the extent, if any, that it calls for any document or information that is not subject to disclosure or discovery because it is privileged, attorney work product, or subject to any other exemption from disclosure or discovery.

a. **Explain why PREPA seeks a provisional rate increase on part of its revenue deficiency, on an average of 1.29 cents/kWh, rather than the total revenue deficiency, on an average 4.2 cents/kWh, which includes revenues that PREPA was anticipating collecting through the Transition Charge, considering the apparent delays that have been encountered in implementing the securitization and new Transition Charge. In your narrative answer, explain any anticipated consequences and any practical concerns resulting from the approval of a provisional rate designed to recover a portion (approximately $222 million) of PREPA's revenue deficiency, rather than the total revenue deficiency (approximately $725 million).**

Overall, PREPA believes the proposed 1.29 cents/kwh temporary rate increase should be approved for the reasons shown in its rate Petition and the attachments thereto.

In response to the first portion of question 1.a, PREPA answers as follows. PREPA seeks a provisional rate increase of 1.29 cents/kwh, based on its own calculated base rate revenue deficiency for the rate year (FY 2014 as adjusted based on known and measurable changes through FY 2017), as opposed to a deficiency of about 4.2 cents/kwh which includes the costs of debt that PREPA anticipates will be legally or economically defeased through the issuance by the Puerto Rico Electric Power Authority Revitalization Corporation of Restructuring Bonds paid through the Transition Charge, for four overall reasons.

First, the primary function of the temporary rate is to allow the implementation, on a temporary and conditional basis and subject to retroactive reconciliation, of some or all of PREPA's requested permanent rate increase pending a decision by the Commission regarding that increase. It is not structured to recover and retain funds greater than those required to meet the adjusted test year revenue requirement of PREPA. The referenced "total" revenue deficiency of about 4.2 cents/kwh includes costs that are not in the PREPA test year revenue requirement, but rather are restructured debt service costs. The 2.9 cents/kwh initial Transition Charge supports the restructured debt service, assuming a Restructuring Order is approved and validated,

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the restructuring support agreement ("RSA") remains in place, and the Bonds are issues and exchanged as forecast.

Second, PREPA does not necessarily envision a likely scenario in which a delay in implementing the securitization and new Transition Charge will have a material impact on the FY 2017 base rate revenue requirement.

If the securitization closes in October 2016 or later, then PREPA's debt service will be different in the interim than it will be once the SPV transaction is in place. PREPA currently estimates that a six month delay in closing to January 1, 2017 would decrease debt service at PREPA by $42 million in aggregate during the first half of FY 2017. The decline is largely due to the delayed start of the fuel line amortization. Payments in April and July 2017 are estimated to increase from previous estimates by approximately $64 million in aggregate due to updated assumptions that reflect lower anticipated participation amongst holders of 2017 maturities.

Assuming the 1.29 cents/kwh provisional rate is granted promptly, PREPA believes the consequences of any delay in closing the securitization to October 2016 or later can and should be mitigated as necessary without increasing the temporary rate through flexibility built into the structure of the securitization and/or other rate alternatives. The rationale, and potential mitigation techniques, supporting this approach are further outlined as follows:

a. If implementing the securitization and the Transition Charge does not take place in time to fund the January 1st and July 1st, 2017 payments contemplated in the SPV filing, then this is estimated to have a positive impact on PREPA before January 1, 2017, due to the delayed fuel line amortization. This analysis assumes that approximately $121 million of January 1st interest due on bonds participating in the exchange would accrue to the balance of the securitization as part of the exchange.

b. PREPA's potential July 1, 2017, debt service could increase, however, for two reasons. A delay in closing the securitization makes it less likely that holders of 2017 maturities would participate in the exchange. If no 2017 maturity participates in the exchange, then PREPA would have to pay $61 million of additional debt service on July 1st. That said, the ultimate securitization participation levels will remain unknown until the close of the securitization transaction in any event. As a result, costs remaining at PREPA could be substantially lower. The second July 2017 concern relates to timing of the collection of Transition Charges. If the securitization closing is delayed if the Corporation will not have enough time to collect revenues to fund its July 1 debt service, then the Corporation will have to use alternative sources of funding to provide for up to $175 million of mirror bond payments due on July 1, 2017. These sources of funding hypothetically could include re-lending by creditors or other sources.

c. If for some reason the abovementioned risks come to fruition, and these debt service obligations cannot be satisfied by the Corporation, PREPA believes that the additional PREPA revenue requirement could be dealt with via a time limited rate or and an rate adjustment for incremental debt service applied in the rate reconciliation process, assuming that to be legally authorized. We would note that we are already planning on addressing certain elements of debt that will ultimately be defeased, as noted in Schedule D-2 regarding the PREPA legacy debt schedule: "Also includes interest payments through April 1, 2017 for Assured and National Bonds that will be defeased with Mirror Bonds."

d. In addition, PREPA notes that:

   i. PREPA is striving to smooth the required rate increase over multiple years and would like to avoid a situation where the provisional rate is materially higher than the permanent rate.

   ii. PREPA's approach reduces the risk of implementing a provisional rate that proves higher than necessary and then having to reimburse customers significant amounts of money as part of the mandatory reconciliation in relation to the approved permanent rate, as discussed further below.

   iii. It is expected that the reconciliation/reforecasting process will likely need to take place at the time right before the transition to the permanent rate regardless of when the securitization is implemented (mainly driven by fuel prices), so adding any necessary debt service variances should not create unnecessary administration.

<u>Third</u>, PREPA does not believe that the provisional rate structure is intended or designed for the hypothetical use contemplated by the request, under the applicable statutory provisions of Act 57-2014 as amended by Act 4-2016, as implemented by the Commission's Regulation No. 8720. In brief, under the statutory provisions, Sections 6A and 6.25 of Act 57-2014 as amended, the provisional rate structure appears to be intended and designed similar to

mechanisms in other jurisdictions, in which a proposed permanent rate may go into effect on an interim basis, pending the conclusion of the "rate case", and subject to reconciliation. This appears also to be the case under Regulation No. 8720, which defines a provisional rate as a "temporary base rate", and defines "base rates", among other things, as not including "costs included in … the Transition Charge…." *See* Section 1.08(38) and (3).

Moreover, under the statutory provisions, the reconciliation feature, involving reconciliation of the provisional rate in relation to the permanent rate, while not defined in detail in the statute, appears to indicate that an incremental increase in the provisional rate that goes beyond the permanent rate would be offset later on by a refund as part of the reconciliation, and thus, ultimately, such an incremental increase would not generate net additional cash for debt service, although the cash flows would be different in the interim period until the refund was paid. Section 2.02 of Regulation No. 8720 also provides for "upward or downward adjustment[s] ... necessary to ensure the Provisional Rates were just and reasonable", but PREPA, at least to this point, has not understood that provision to be a possible basis for adding to the provisional rate amounts associated with the revenues later to be collected by the Transition Charge.

Fourth, if PREPA must recover from Customers base rate revenues over those proposed to be recovered through the proposed provisional and permanent rates, then PREPA would also consider other mechanisms, such as a new rate request, or an emergency rate under Act 21-1985 (which is referenced in Act 57-2014).

As to potential consequences and concerns, see also the response to request 2, below.

b. The response should include all internal documents considered by PREPA employees, PREPA consultants and PREPA board members relating to the decision to seek a provisional revenue increase of approximately $222 million (on average 1.29 cents/kWh) in its rate case filing.

In response to question 1.b, PREPA understands this portion of the request to be focused on the decision to seek that provisional rate, and not to be intended to call for any and all documents that support the proposed provisional rate and the revenue requirement that underlies it. Because the proposed provisional rate is based on the base rate revenue requirement as well as PREPA's cash flow and liquidity status and concerns, there would be hundreds or thousands of responsive documents if the request were to be read in the latter manner.

The key document associated with the decision is the document associated with the PREPA Governing Board meeting on May 23, 2016, to review and approve the PREPA rate increase. The document presented to the Board included various revenue requirement development analyses used to develop both the permanent and provisional rates. We have attached to this response a copy of that Board document. An important part of that document was an analysis of monthly PREPA cash balances with and without the provisional rate that PREPA has requested. It is depicted on pages 7 and 22. There was a clear determination at that time of the impact of this provisional rate request on PREPA's liquidity, albeit with the Corporation implementation assumptions in place at the time it was prepared.

2. **Explain any negative consequence or outcomes to PREPA's financial condition should the Commission authorize PREPA to charge a provisional rate as requested (approximately 1.29 cent/kWh).**

In response to question 2, PREPA incorporates its response to question 1 and answers further as follows. As the Commission notes, at this stage, uncertainties inherently remain in aspects of the securitization transaction, including its timing, participation rates, and the potential PREPA debt service requirements that could arise in the interim. PREPA's response to question 1.a above, identifies some of these uncertainties and potential mitigating financing strategies. In particular, the Commission should be aware of the following potential risk factors:

PREPA has based the request for a 1.29 cents/kwh temporary rate increase on expected sales volumes, weather patterns, and the like. We have made every attempt with both of these requests (SPV and base rates) to minimize revenue requirements and rate increases. But, the temporary rate requested, like the permanent rate increase requested, is predicated on a series outcomes and events, including achievement of an aggressive business plan, recovery of receivables, elimination of theft, accessibility of PREPA's cash, solvency of the Commonwealth, durability of the RSA, continued collaboration of creditors, PROMESA outcomes, and the like. If these events do not materialize as planned, then there is, of course, risk of adverse financial consequences to PREPA.

The ability of the securitization to accommodate additional debt service requirements is not assured and will be influenced by creditor perceptions of the likelihood and pace of movement toward closing, remaining uncertainties around PREPA, perceptions of validation timing and risks, as well as uncertainty around permanent rate increase level decisions, PROMESA outcomes, and implications, etc.

In addition, this rate request is developed in order to try to manage the near-term rate increases to the Commonwealth (to customers). With it, PREPA still operates on cash and reserve levels that leave little margin for error. While we believe that this is the best course of action given the magnitude of PREPA's issues and aggressiveness of financial recovery program, PREPA's financials – even with the provisional rate – may not be sufficiently cushioned to handle major storm, power plant failures, terrorist acts, or the like, despite the adequacy of these projected cash balances under "normal" circumstances.

SWORN STATEMENT IN SUPPORT OF ANSWERS
AS PER COMMISSION REQUIREMENTS

I, Javier A. Quintana Méndez, of legal age, engineer, married, and resident of Guaynabo Puerto Rico, in my capacity as Executive Director of the Puerto Rico Electric Power Authority, 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 and advisors of the Authority.

4. For all the requirements set forth above, moreover, the Authority's counsel 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 June 18, 2016.

Javier A. Quintana Méndez

Affidavit No. -7,580-

Sworn and subscribed before me by Javier A. Quintana Méndez, of the personal circumstances above mentioned, whom I personally know, in San Juan, Puerto Rico, on June 18, 2016.

Public Notary

EXENTO PAGO ARANCEL
LEY 47
4 DE JUNIO DE 1982

EDWIN E. RIVERA PEREZ
ABOGADO-NOTARIO

CERTIFICATE OF SERVICE

I hereby certify that I have sent the above PREPA'S SUBMISSION OF INFORMATION REQUESTED BY THE COMMISSION'S ORDER OF JUNE 15, 2016, to the Puerto Rico Energy Commission, through its Deputy General Counsel, Alejandro Figueroa, via afigueroa@energia.pr.gov and legal@energia.pr.gov, on June 18, 2016.

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TSPR No. 10896
General Counsel
Puerto Rico Electric Power Authority
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PREPA Rate Case

May 23, 2016

We all agree that we must deeply transform PREPA

Preliminary Draft Subject to Material Change

Outdated infrastructure, dependence on oil, inefficiency and lack of environmental compliance.

Internal Challenges

- Business decisions including staffing and capital investment are often driven by political priorities rather than sound business judgment
- Antiquated rate structure does not effectively capture costs
- High dependence on fuel oil and inability to diversify fuel mix
- Very old generation fleet (42 years old on MW-weighted basis)
- Absence of institutionalized processes and procedures
- Disorganized and ineffective customer service infrastructure
- Transmission and Distribution system old and unreliable

20 years of Politics, Theft, Subsidies, Debt

External Challenges

- Changing direction and policies of different administrations
- Leading to an inability to comply with changing environmental compliance plans
- Prolonged and ongoing recession
- Significant drop in energy sales
- Exposure to certain non-sustainable subsidized rates
- Certain customers not paying for access to power
- Political pressure to not raise rates over time
- PREPA used debt financing to fund operational losses

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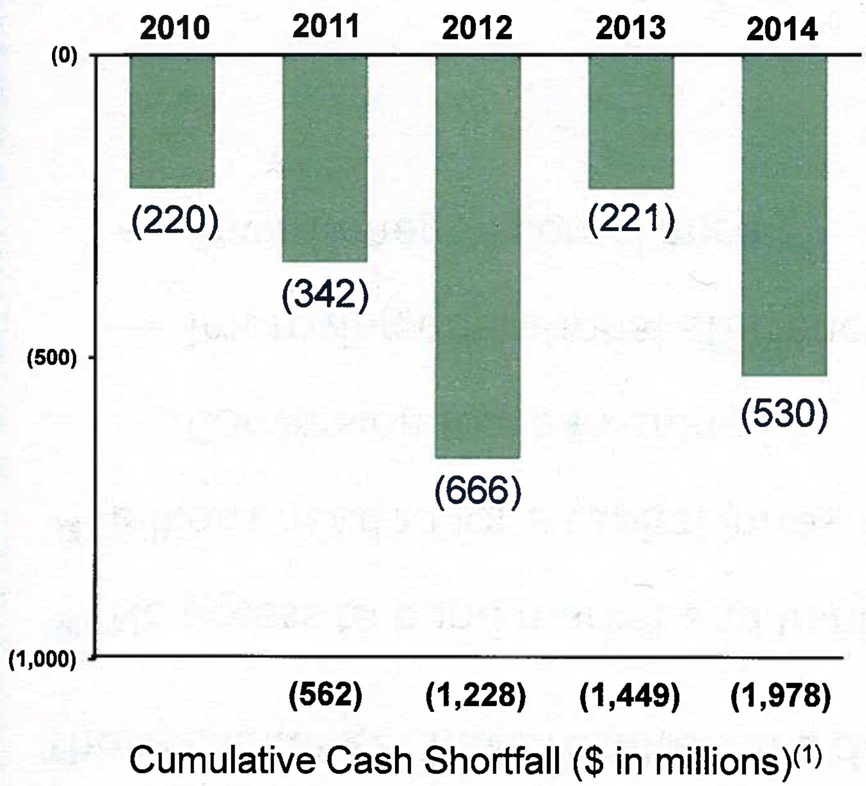
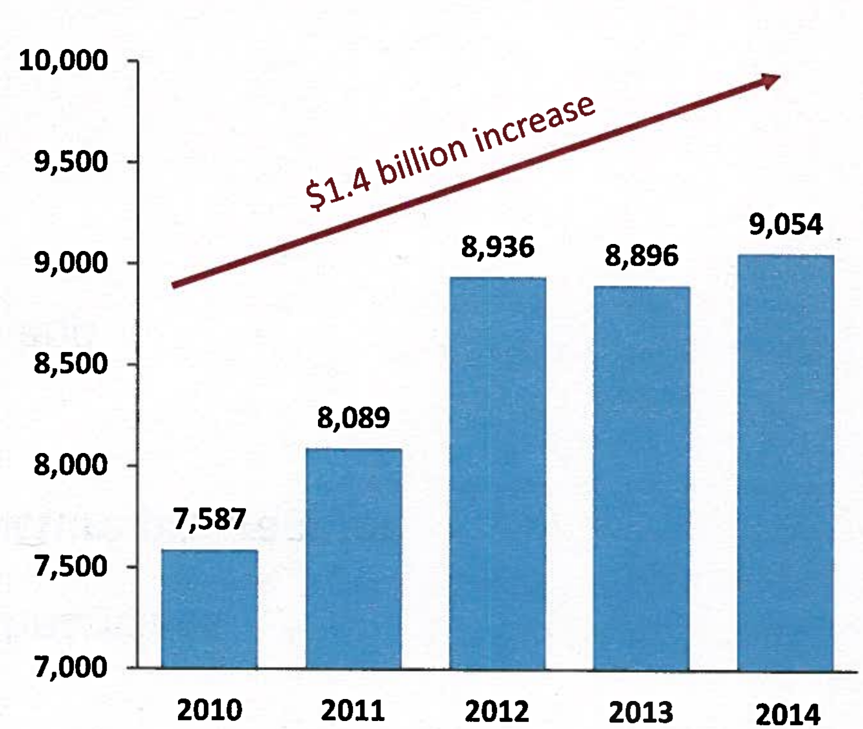
As demand has fallen, financial performance has declined and PREPA has borrowed to fund operating expenses

Free Cash Flow ($ in millions)[1]



Debt Balance ($ in millions)[2]



(1) Defined for fiscal years 2010 to 2013 as Operating Income plus depreciation less CILT, changes in working capital, capex and financing expenses (effectively all cash flows with the exception of principal issuances and repayments), as reported in PREPA's audited financial statements. Fiscal year 2014 reflects a preliminary estimate based on PREPA's statement of net position

(2) Fiscal years 2010-2013 as reported in PREPA's audited financial statements. Current balance reflects PREPA's total bonds outstanding, fuel lines and GDB lines of credit.

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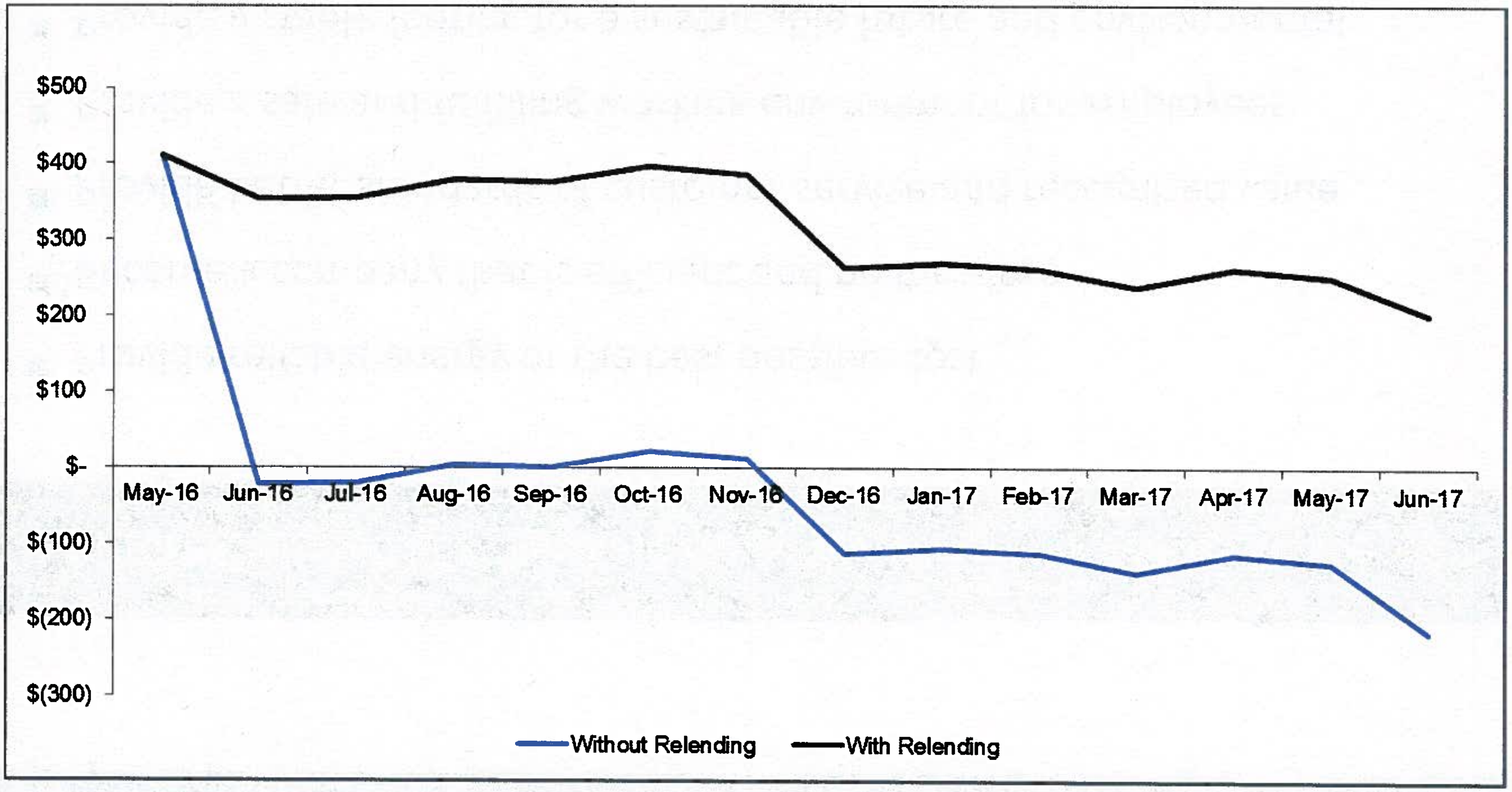
No more access to financing and bond market

These challenges have resulted in a difficult financial situation for PREPA

- No access to bond market and bank financings
- Billions needed for a capital infrastructure program for
  - Conversion to clean energy
  - Improving operational efficiency, and
  - Environmental compliance

And no more cash

Cash Projection without Provisional Rate Increase
Ending Cash Balance (less Cash Balance at GDB)



PREPA lost $146 million with GDB as a result of the moratorium act

(1) $55 million of the $111 million is received in May 2016

(2) Relending includes receipts of ~$375mm in Jun '16 and $42mm in Jun '17. Included in the relending is Series 2016B bonds, Series 2016C bonds and Syncora related bonds. Additionally minimal cash gain from no relending has not been included in the forecast.

Financial and Operational challenges

PREPA must address its financial and operational challenges in order to:

- Provide reliable energy at the best possible cost
- Become a company that is efficient and politics-free
- Provide better standards of customer service and recognized value
- Provide a safe and fulfilling working environment for employees
- Provide a stable footing for a sustainable future and environmental compliance

Building the new energy company we all deserve

Building a new energy company

A balanced solution for PREPA via a sustainable future providing value for consumers

A balanced solution to stabilize, Improve and add value

New mechanisms that guarantee real transformation

- **Depoliticize Governance**
- **Reduce Expenses & Continuing Improvement**
- **Investment in Critical Projects**
- **Stabilize Rates**
- **Introduce Transparent Rate Structure**

Taking politics out of PREPA

- A new Governing board selected by an external recruiting company, based on professional criteria, without political influence.
- Improve PREPA's Organizational Structure; Establish a Culture of Meritocracy
- Employee key performance indicators (KPI's) aligned with overall corporation objectives
- Detailed job descriptions and requirements
- Jobs filled without any political intervention - The right people in the right jobs for the right reasons
- Enhanced employee training and development both in safety and career progression

Preliminary Draft Subject to Material Change

Savings from Agreements with bondholders & fuel lines

Results Already Achieved Through Transformation of PREPA

Bondholders Agreement:
$600M Savings to Outstanding Debt
$700M Savings in First Five Years of Debt Service Relief

Monoline Deal:
>$400 Million surety policy to establish Securitization Debt Service Reserve Fund (DSRF) – reducing PREPA requirement to fund

Fuel Line Lenders Deal:
6-Yr Term Out of Past Due Debt
$730M at Lower Interest Rate

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Savings that allow a long term infrastructure upgrade program

$2.4B 10-Year Investment Program for Critical Upgrades and enhancements – including $1.4 Billion during 2017-19

Capital Expenditures ($ millions)	Benefit	FY 2017	FY 2018	FY 2019
Maintenance Capex[1]	**System reliability**	**$232**	**$190**	**$257**
AOGP	Fuel diversification	56	413	-
New Units / Repowering	Reduce costs, efficiency and system reliability	-	-	67
T&D investment capex	Reduce costs and system reliability	48	83	73
Investment Capex		**$ 104**	**$ 497**	**$140**
Total Capex		$337	$ 687	$ 397
Capex Financing	Rate stability	-	(413)	-
Capex for Revenue Requirement		$ 337	$ 273	$ 397

Source: PREPA Planning and Research, PREPA Business Plan

(1) Maintenance capex includes improvement, expansion, computer systems and other.

Expense reductions since 2014

Results Already Achieved Through Transformation of PREPA

- 51% Reduction on Other O&M (~$93mm)
- 18% Reduction in operating Labor related costs (~$96mm)
- 55% reduction in uncollectable (~$106mm improved collections)

Reductions that allow for an increase in CAPEX to fund critical projects

- ~$1.4 Billion infrastructure investment during 2017-19

Fuel Performance Savings

We focused on 3 areas of fuel: Process, Controls and Costs; on target to achieve $144M in annualized savings and $101M in one time liquidity gains[1]

- Implemented an S&OP process that enabled the optimization of fuels inventory levels and capitalize dispatch optimization of **~$23M** and one-time cash improvement of **~$36M**
- Implemented inventory controls in line with industry standards reconciling fuel movements from receipt all the way to the burner tip.
- Used a strategic RFP process to deliver fuel adder savings of **$22M** to day and a one-time cash improvement of **$50M** from better credit terms. Additional saving of **$9M** and one-time **$15M** cash improvement to be delivered with the fuel contract renewals.
- Negotiated the natural gas contract for the Costa Sur Complex sur with an annual saving of **~$33M**
- Analyzed the root causes of forced outages by power plant and implemented mitigation actions to reduce the frequency and severity of forced outages. This will also support the reduction of spinning reserves. On target to deliver **~$54M** in annual savings

(1) Note: Annualized savings will benefit end customer while the one-time cash improvements will benefit PREPA cash position

Mechanisms to guarantee transformation

- New laws
  - Act 57
  - PREPA Revitalization Law
- An external regulatory body
  - Energy Commission
- Consumer Advocacy position
  - Independent Office for Consumer Protection
- Governing Board without political influence
- Consent decree with EPA
- Agreement with majority of PREPA's creditors on debt restructuring and transformation

And now:

- New transparent rate structure
  - Provide for better monitoring of PREPA's efficiency

A new and transparent rate structure, implemented by phases

Rate Filing Decision-making process/Implementation

Formal Filing Week

May 23rd, 2016

Final Order Date

180 days from date filing deemed complete

November 28th, 2016

60 day Extension

Commission may extend review period by 60 days. If this occurs, **Order date** becomes **January 25th, 2017** and **effective date** of rates is **March 25th, 2017**

May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June

June 27th, 2016

Provisional Rate Order

Could be approved within 30 days of the filing date

January 27th, 2017

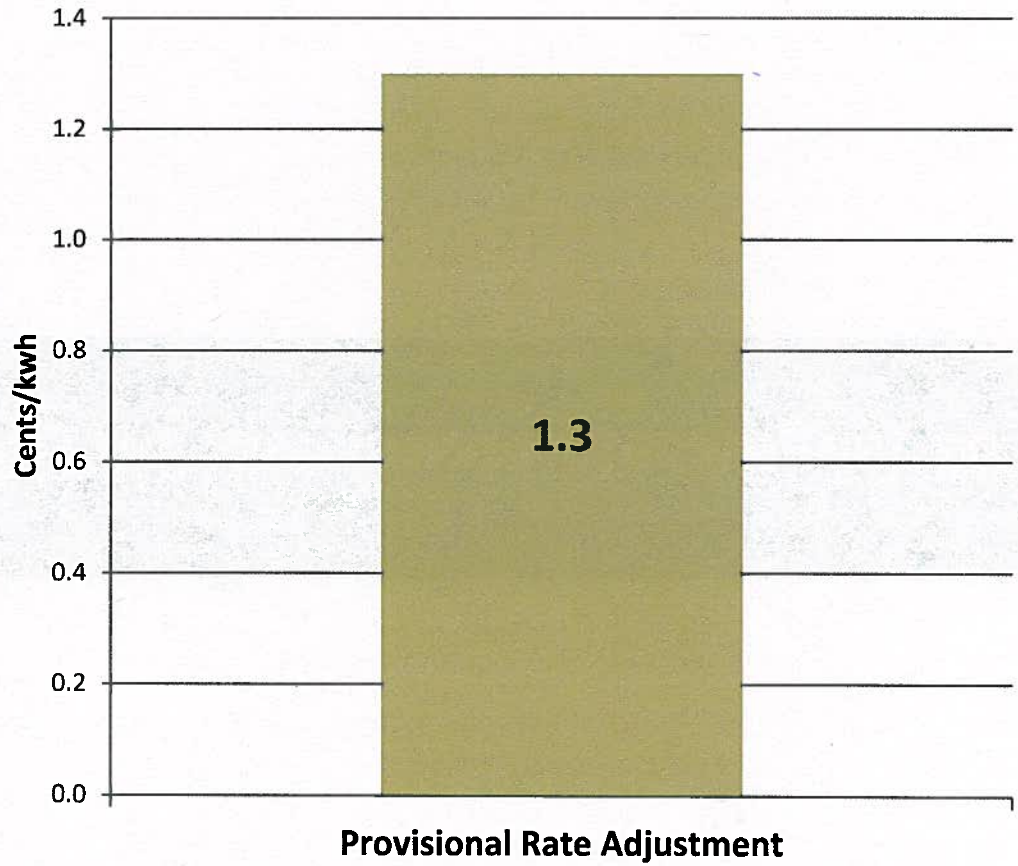
Permanent Rates Effective

60 days after the effective date of order

(1) Effect of Permanent Rate is to make Provisional Rate Permanent

Phase 1 – PREPA Provisional Rate: August 2016

PREPA Provisional Rate adjustment



	Provisional Rate Adjustment
Date Filed	May 2016
Expected Rate Order	June 2016
Rates in Effect	August 2016

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Examples of Estimated Monthly Customer Cost Changes (Provisional Rate)

Rate	Energy Consumption (kWh)	FY2017[(1)] Existing Rates	FY2017[(1)] New Rates (Provisional)	% Increase
GRS-Residential	800	$122	$133	10%
GSS-Commercial	1,200	$219	$228	4%
GSP-Industrial/ Commercial	91,800	$14,287	$14,972	5%
GST-Industrial/ Commercial	550,800	$75,721	$79,049	4%

(1) Fuel costs normalized based on 2017 projections

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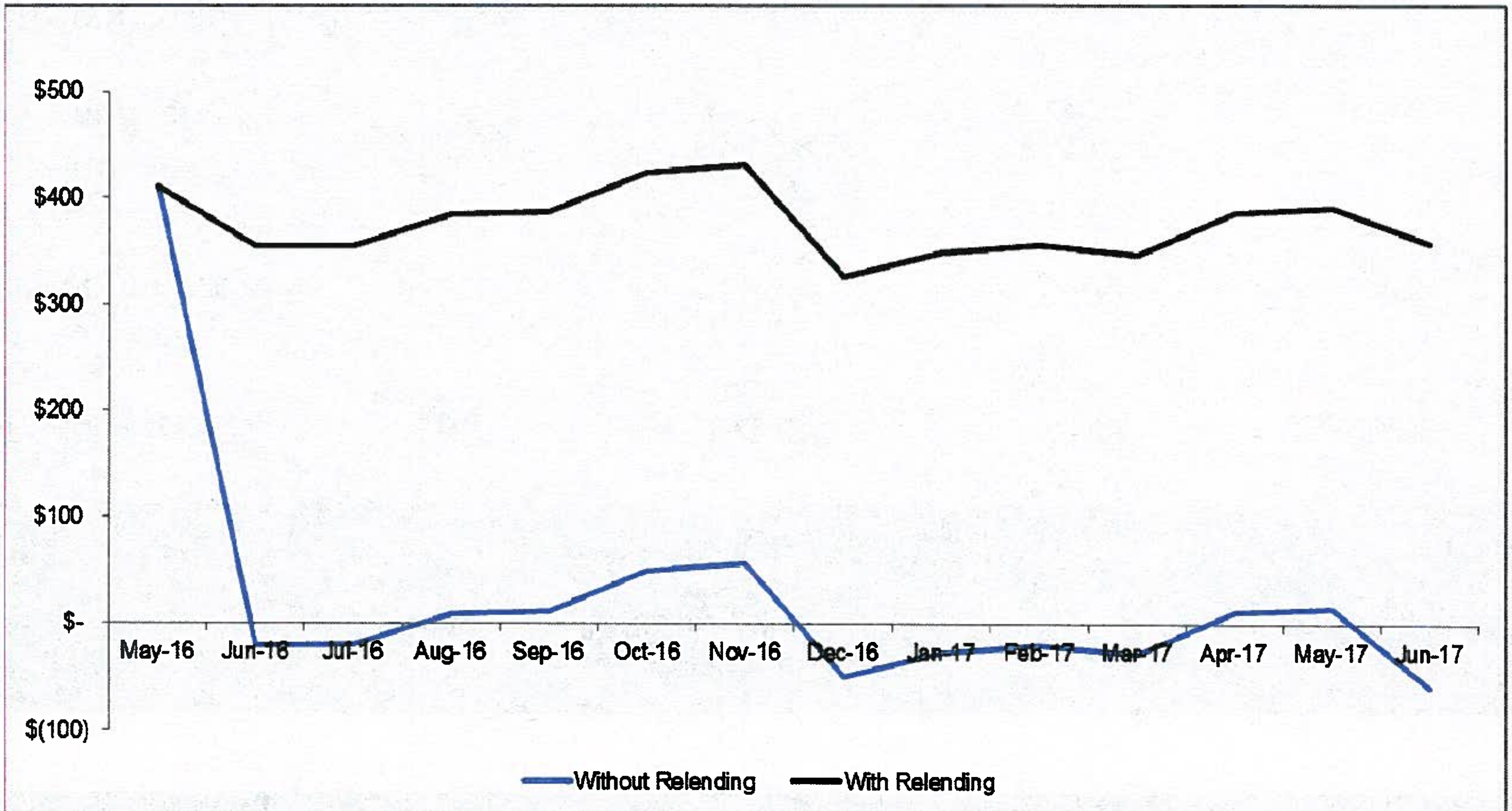
A provisional rate provides required cash

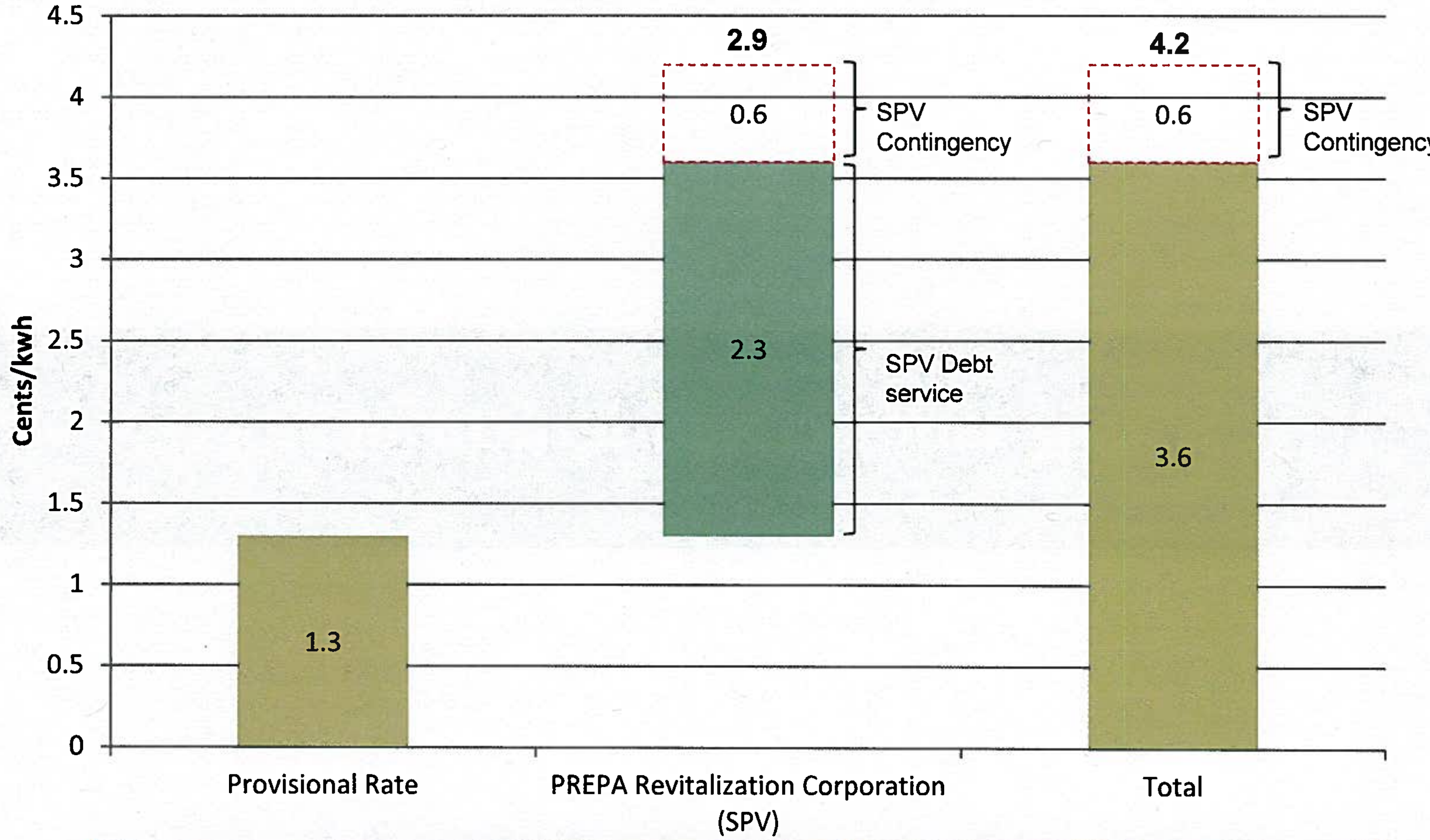
Cash Projection with Provisional Rate Increase
Ending Cash Balance (less Cash Balance at GDB)



(1) $55 million of the $111 million is received in May 2016
(2) Relending includes receipts of ~$375mm in Jun '16 and $42mm in Jun '17. Included in the relending is Series 2016B bonds, Series 2016C bonds and Syncora related bonds. Additionally minimal cash gain from no relending has not been included in the forecast.

Phase 2 – SPV (Securitization): October 2016

Securitization adjustment October 2016



	SPV
Date Filed	April 2016
Expected Rate Order	June 2016
Rates in Effect (Estimated)	October 2016

(1) Based on projected Total PREPA sales in 2017

Phase 3 – Permanent Rate: During Q1 2017

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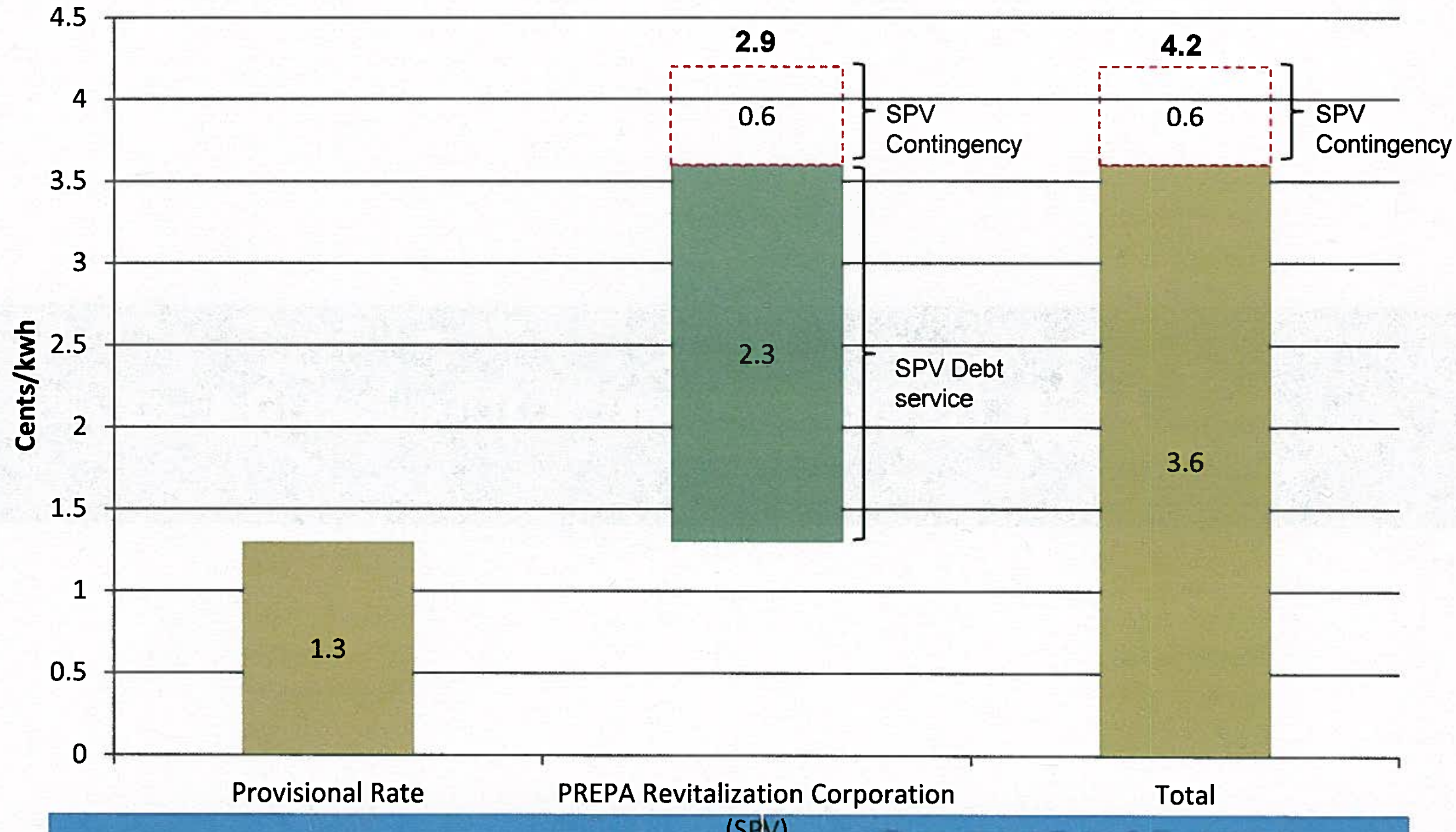
Permanent Rate adjustment



	Permanent Rate Adjustment
Date Filed	May 2016
Expected Rate Order	November 2016
Rates in Effect (Estimated)	During Q1 2017

(1) Based on projected Total PREPA sales in 2017

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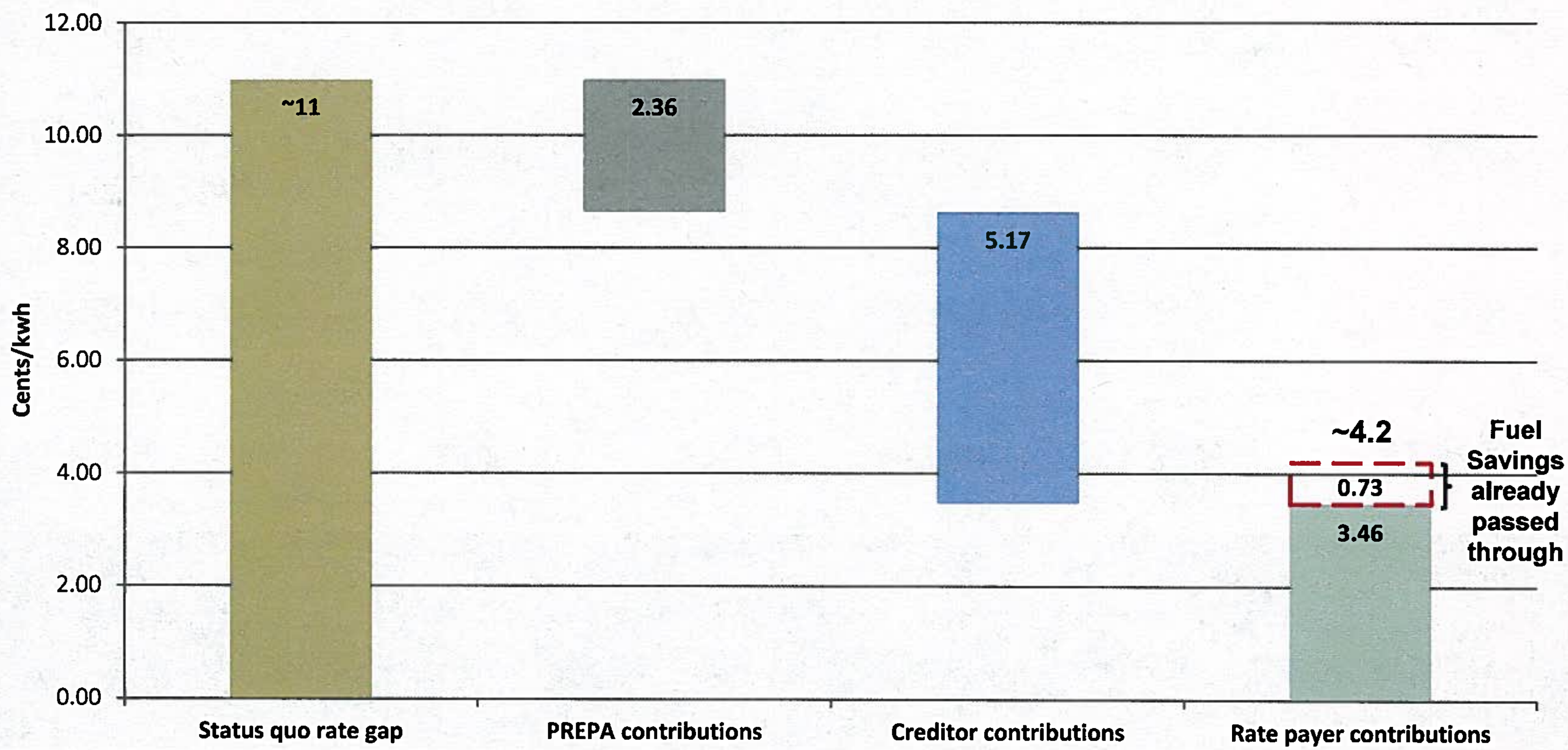
Examples of Estimated Monthly Customer Cost Changes (Permanent Rate + SPV)

Rate	Energy Consumption (kWh)	FY2017[1] Existing Rates	FY2017[1] New Rates	% Adjustment	% Adjustment w/out Burden Sharing[2]
GRS-Residential	800	\$122	\$150	23%	68%
GSS-Commercial	1,200	\$219	\$273	24%	61%
GSP-Industrial/ Commercial	91,800	\$14,287	\$17,391	22%	65%
GST-Industrial/ Commercial	550,800	\$75,721	\$94,453	24%	74%

(1) Fuel costs normalized based on 2017 projections
(2) Projected based on additional 6.8 cts / kWh additional costs

Stakeholder contributions towards closing PREPA's legacy ~11 cents/kwh status quo are in line with previous estimates

Projected 2017 stakeholder burden sharing



PREPA's contributions focus on:

- **Fuel and Generation**
- **Procurement and Fleet**
- **Collections improvements**
- **Theft and CILT**
- **Headcount attrition and benefits savings**

(1) Aggregate PREPA savings in line with previous estimates
(2) Creditor contributions in line with previous estimates, when adjusting for Jan/Jul relending not originally contemplated
(3) Assume fuel line lenders are due at payable

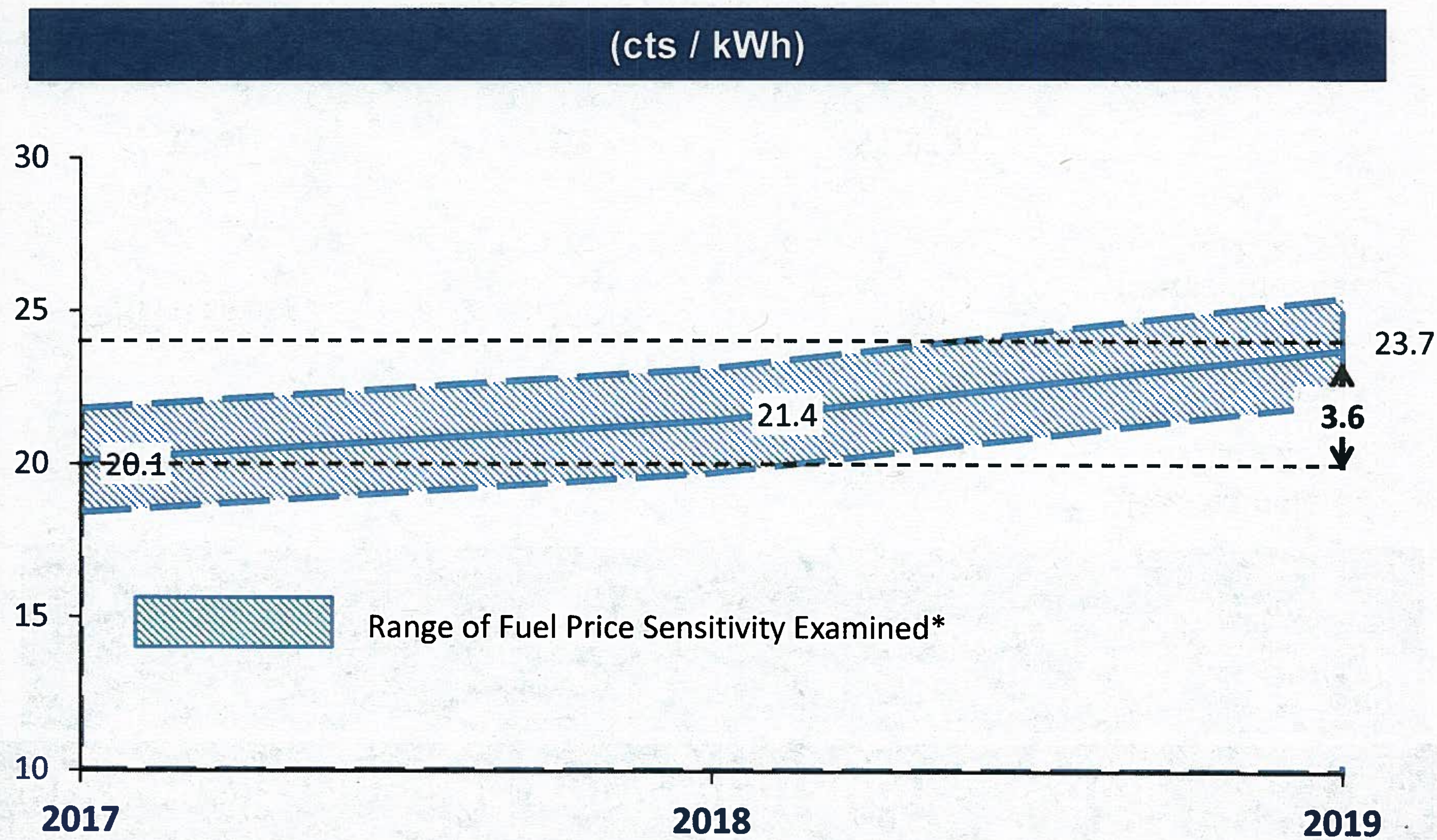
Burden Sharing and Implementation schedule

Stakeholders	cts/kWh	Savings ($ Millions)	Date Realized by Consumers
Creditors	5.17¢	~$900	Deal completed January 2017
PREPA Savings	2.36¢	~$410	Reflected in Permanent Restructure Rate assumed Q1 CY2017
Total	**7.5¢**	**~$1,310**	

Non-base rate fuel savings (part of PREPA savings)	*0.73¢*	*~$125*	*October 2015 (Already reflected in reduced rate)*

More rate stability projected over the next three years

Overall rate is projected to remain below recent years during 2017-19 time frame



*Range from existing 2016 fuel prices, December base IRP forecast, April IRP, low fuel price sensitivity, which brackets EIA projection

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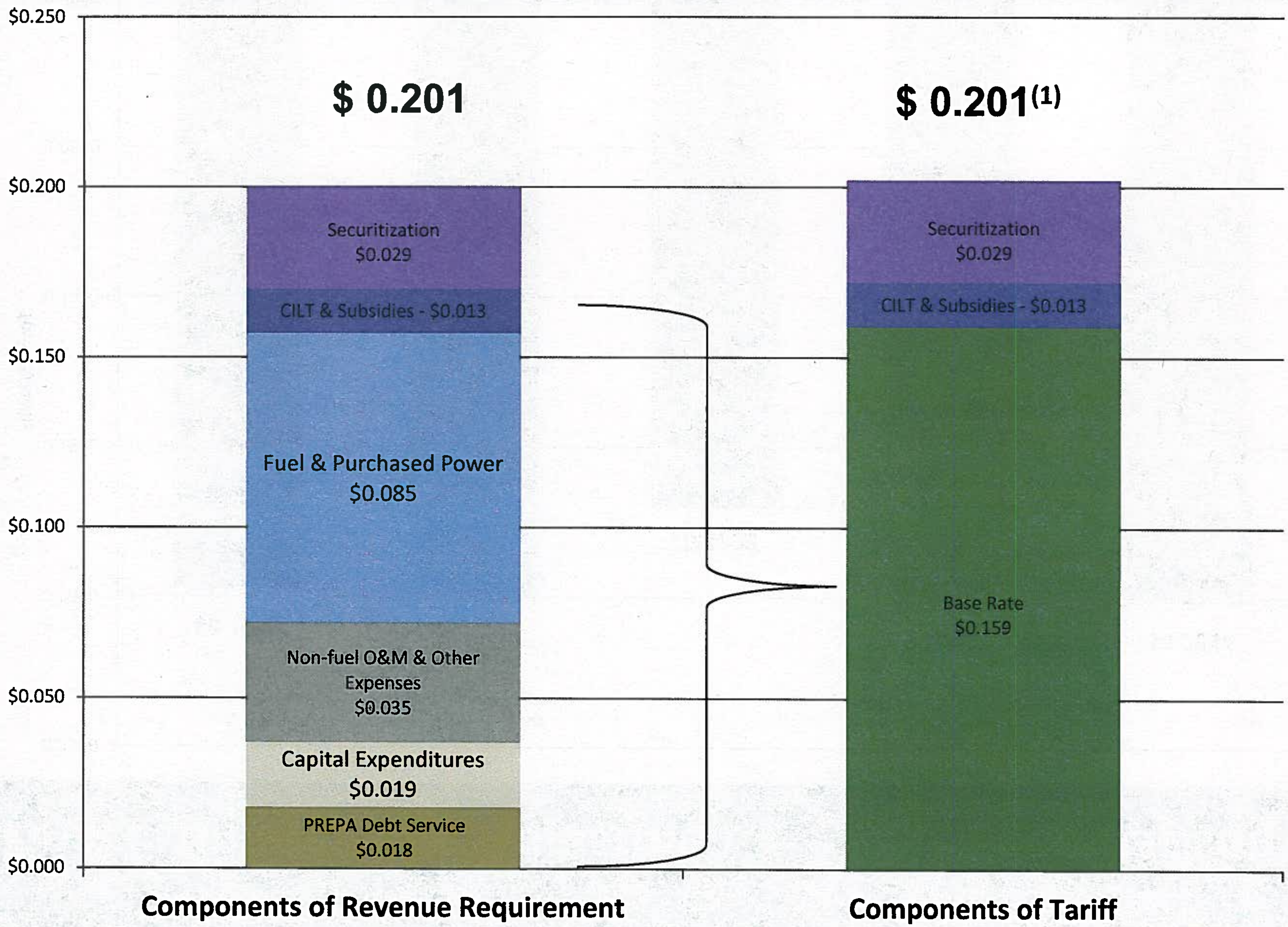
FY2017 Revenue Requirements and Estimated Tariff Components



(1) Includes SPV (PREPA Revitalization Corporation) for illustrative purposes

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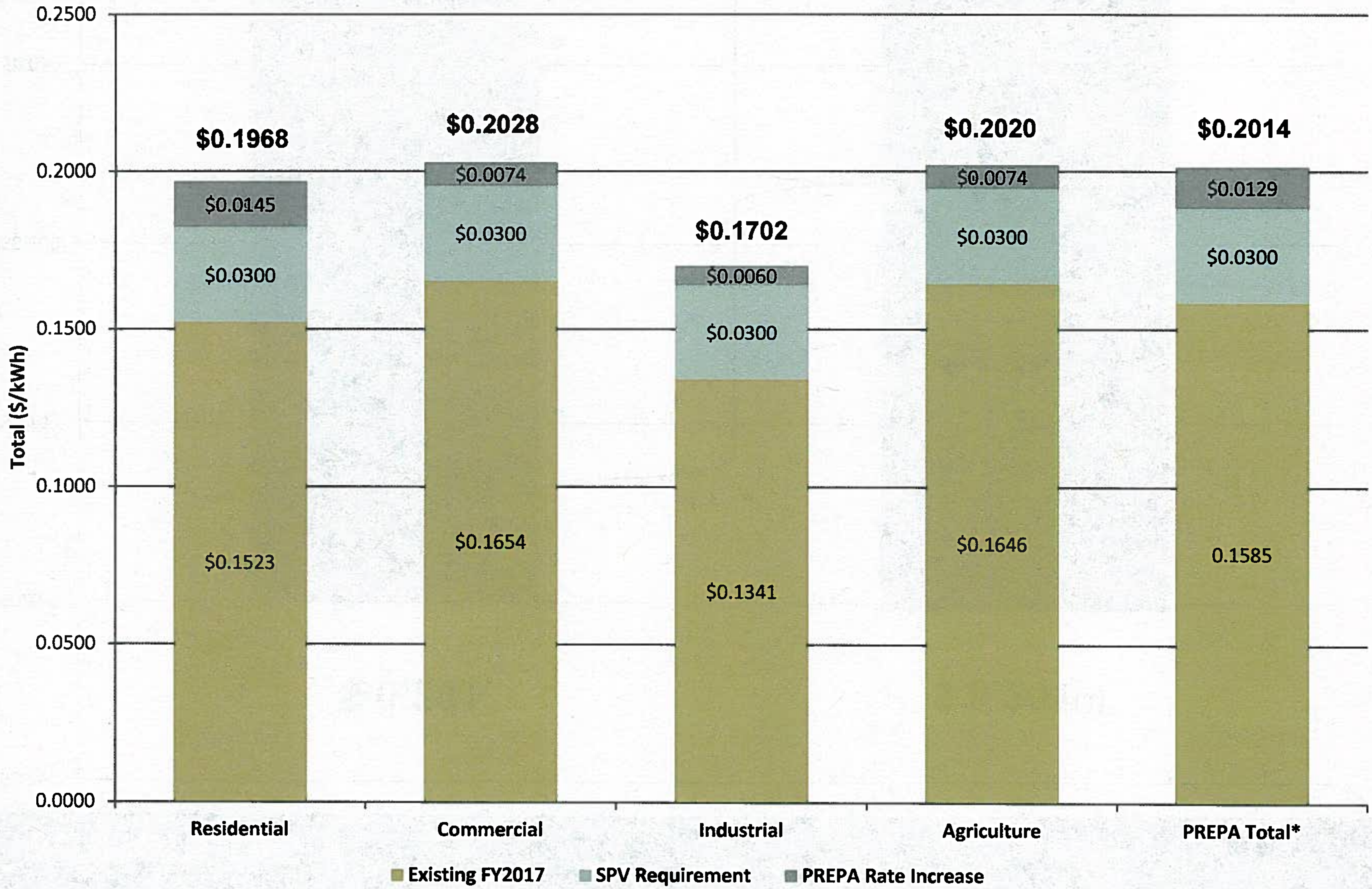
Final Estimate: Rate Adjustment – FY2017 Comparison



- Note: Includes Public Lighting and Public Authority. PREPA rate increase includes .2 cts/kWh to be captured in CILT tracker
- *Based on PREPA Total Sales excluding CILT

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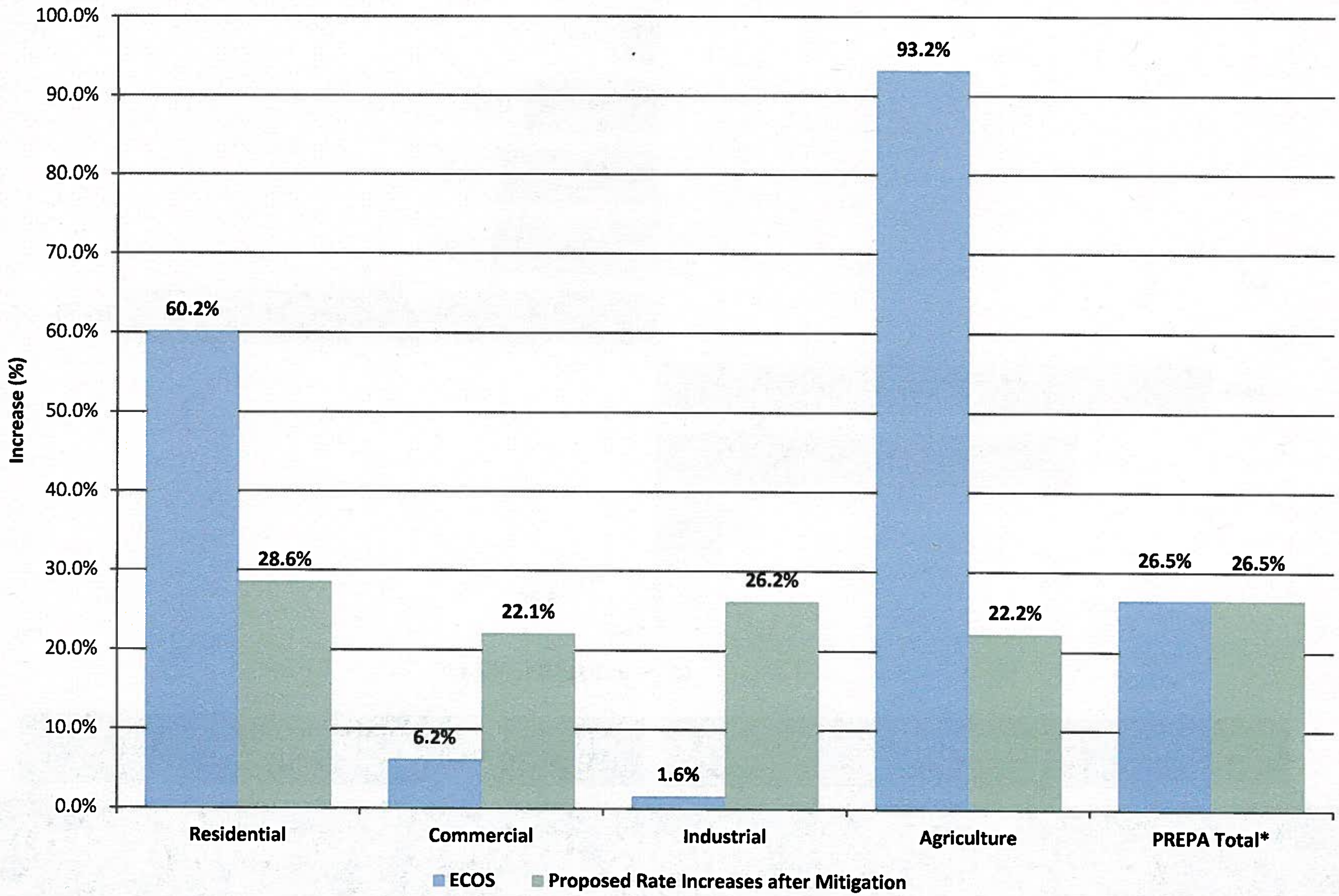
Final Estimate Combined Rate Adjustment% - after Mitigation



* Note: Includes Public Lighting and Public Authority

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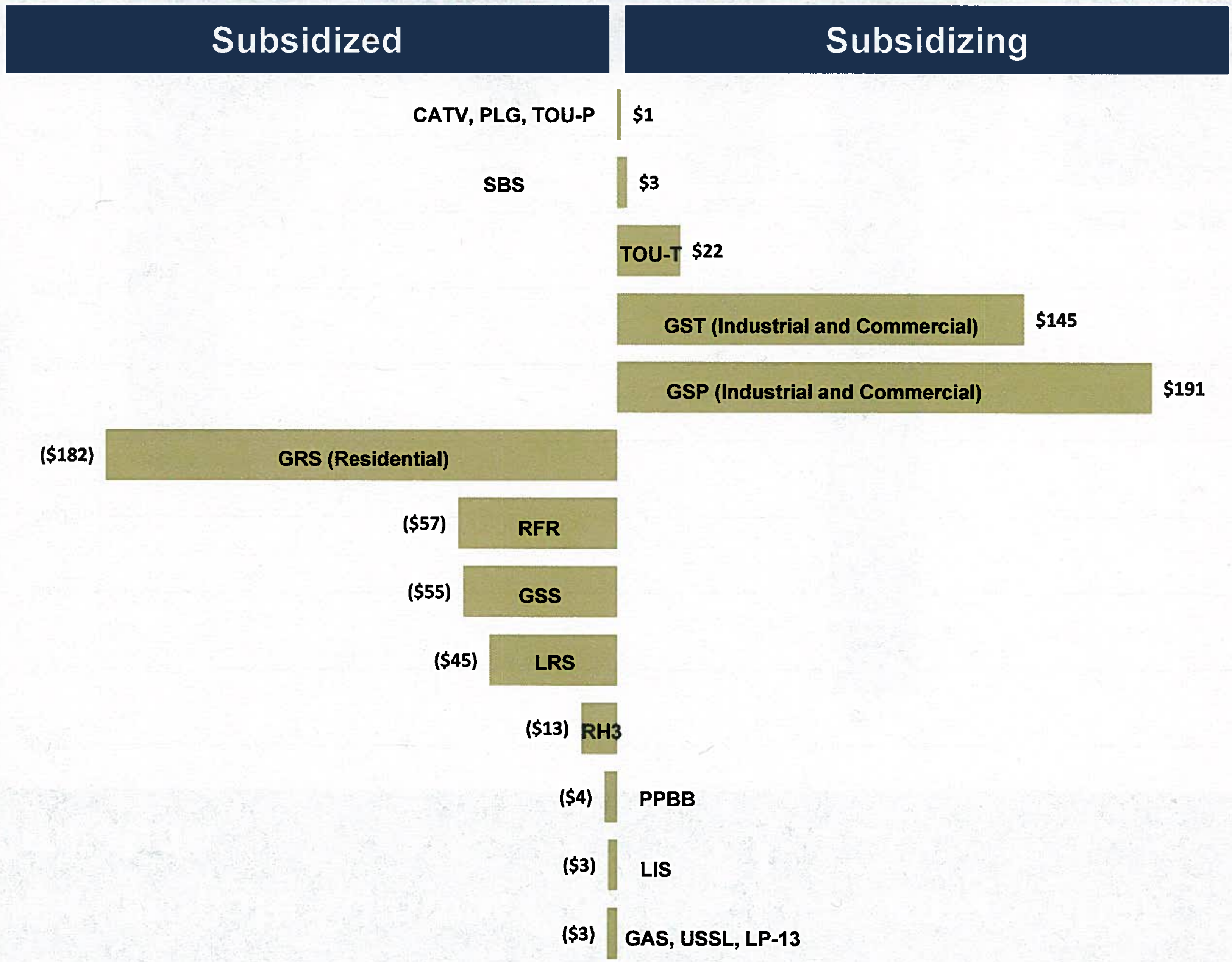
Cross Subsidies – Annual $ Millions



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An energy company that will be again the motor of Puerto Rico's economic development

Significant investment on improvement

PREPA $1.4 billion overall investment program (2017-2019)

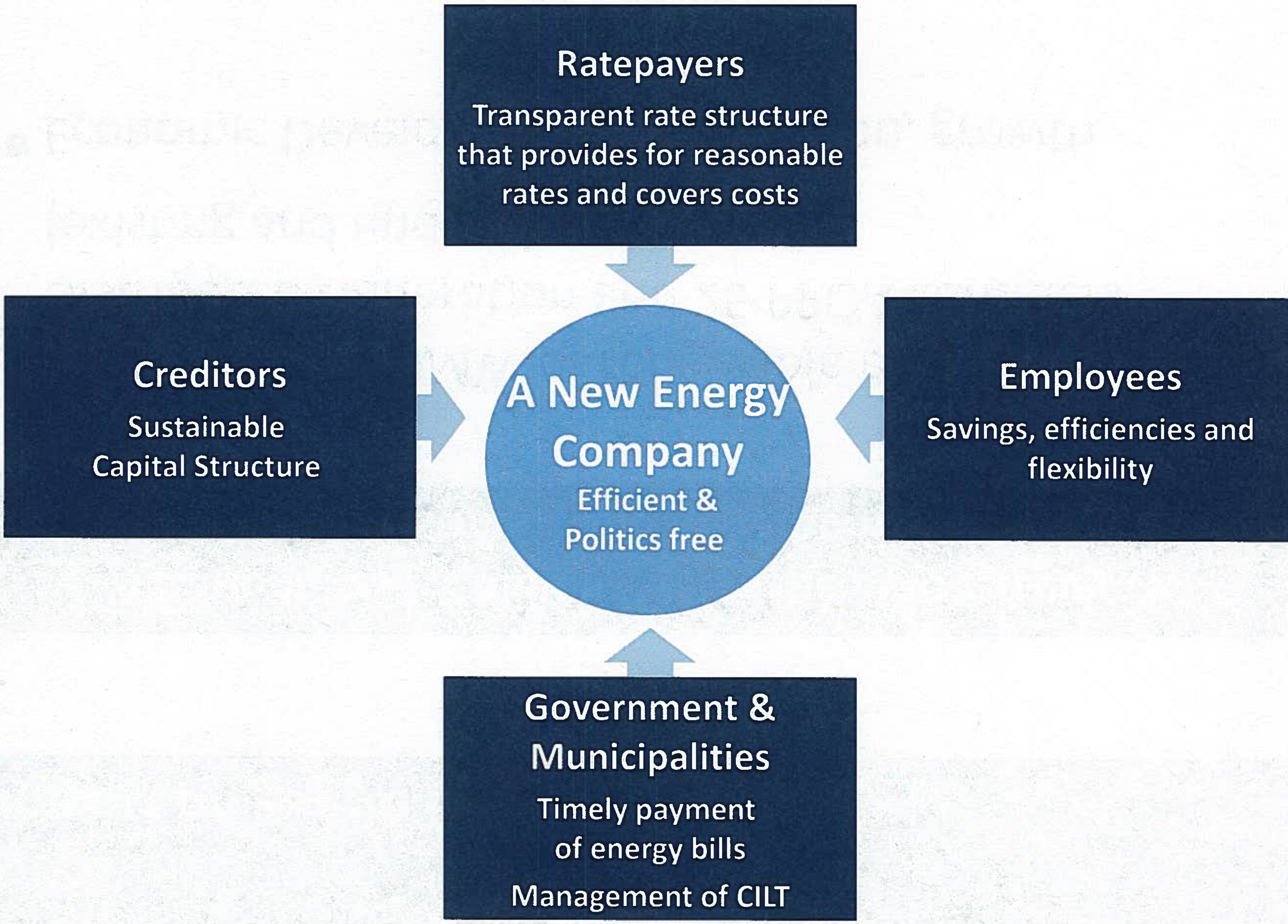
- Transmission & Distribution capex to improve system **reliability**
- Ensures **environmental** compliance
- Fuel Mix **diversification**
- Generation **repowering** and new units

Impact on Puerto Rico’s Growth

Additional >$1.7 billion Puerto Rico Infrastructure Investment and Development

- Platform for 680MW of renewable energy, including Distributed Generation and 25 PPOA contracts (existing and under development)
- Economic Development, job creation, growth

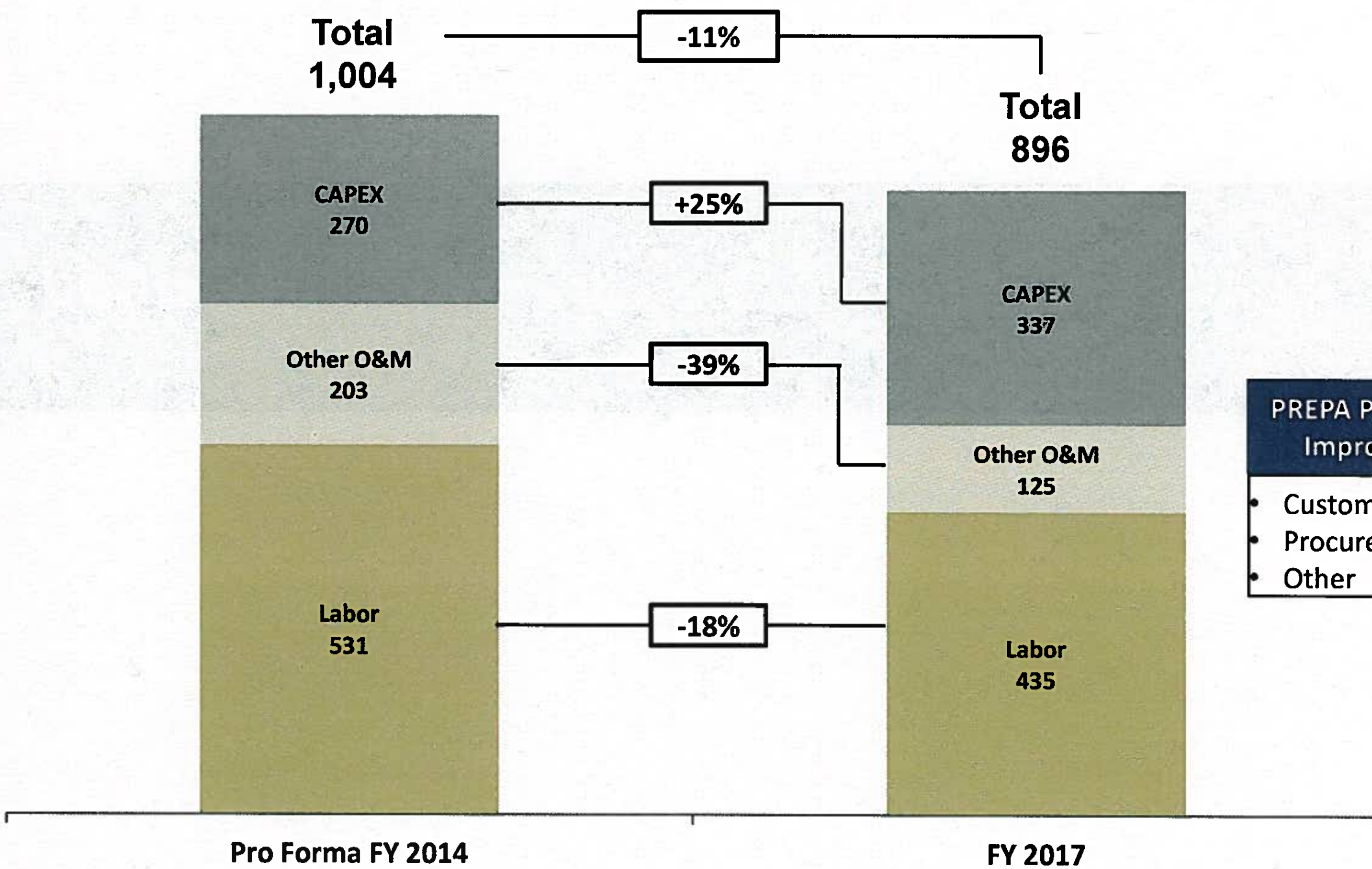
All stakeholders involved in the transformation process



Appendix

PREPA efficiencies help fund critical CAPEX requirements

Costs within PREPA's control in relation to the Revenue Requirement – $ Millions



PREPA Performance Improvements

- Customer Service
- Procurement
- Other

PREPA Business plan performance improvements

All in Performance Improvements

Performance Improvement Savings (US$mm)	2017	2018	2019	2020	2021	Achieved to date (May 2016)
Fuel Performance Improvement Savings						
Optimize - generation dispatch - fuels	$ 13.2	$ 11.2	$ 11.2	$ 11.1	$ 11.3	23.0
Optimize - generation dispatch - purchased power	8.5	7.2	7.2	7.2	7.3	
Fuel Sourcing (#6 and #2)	25.0	21.1	21.2	21.1	21.4	25.0
Fuel Supply Chain Structure (Costa Sur)	31.1	26.3	26.4	26.2	26.6	33.0
Spinning Reserves	23.6	19.9	20.0	19.9	20.1	54.0
Forced Outages	27.3	23.1	23.2	23.0	23.4	
Total Fuel Improvement Savings	128.7	108.8	109.2	108.5	110.0	135.0
Customer Service Improvement Savings						
Billing municipalities for "For Profit" enterprises	20.0	20.0	20.0	20.0	20.0	-
Reconnection Fees	3.8	7.5	7.5	7.5	7.5	-
Cash Impact of Theft Recoveries	20.0	23.0	23.5	24.0	24.5	25.0
Total Customer Service Savings	43.8	50.5	51.0	51.5	52.0	25.0
Procurement Improvement Savings						
Fleet and Shops	17.5	17.7	17.9	18.0	18.2	11.0
Procurement and Inventory	37.5	37.9	38.3	38.6	39.0	12.0
Total Procurement Improvement Savings	55.0	55.6	56.1	56.7	57.2	23.0
Labor and Other Improvement Savings *	24.0	101.0	102.0	103.0	104.1	14.0
Total Savings	**$ 251.5**	**$ 315.9**	**$ 318.4**	**$ 319.7**	**$ 323.3**	**$ 197.0**

* Labor savings realized through attrition

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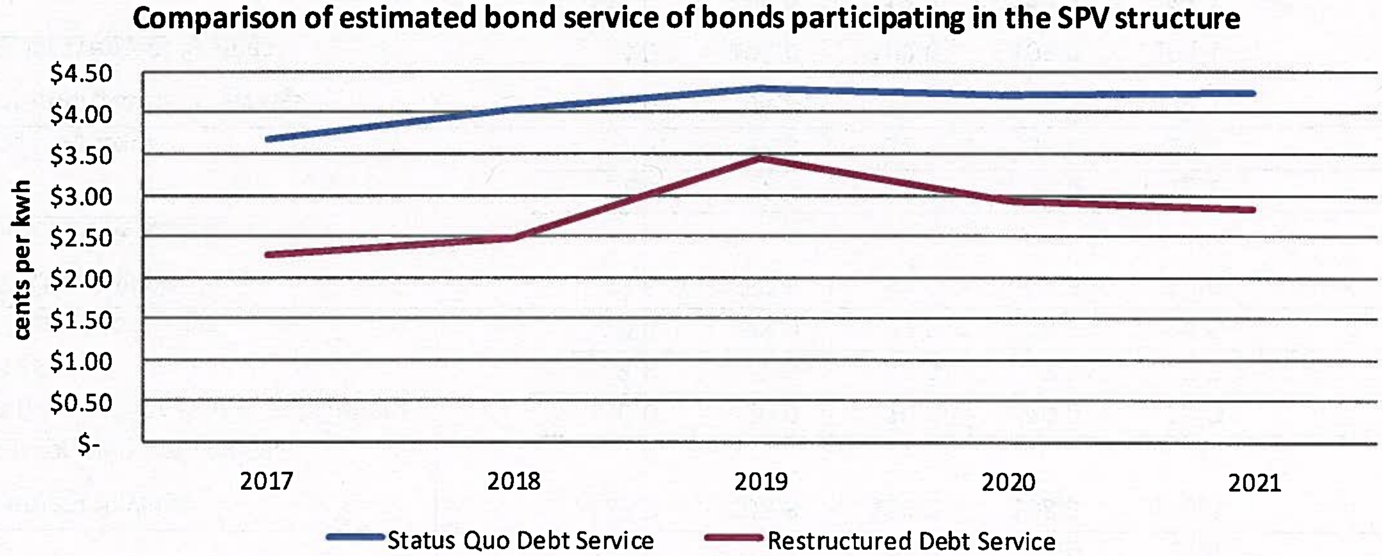
Bonds participating in the SPV structure are projected to generate average annual savings of ~1.3 cents/kwh during the first five years



	2017	2018	2019	2020	2021	Cumulative
Status Quo (US$ mm)	$ 637.1	$ 698.2	$ 742.2	$ 735.5	$ 740.4	$ 3,553.4
Cents per kwh	*$ 3.69*	*$ 4.03*	*$ 4.28*	*$ 4.21*	*$ 4.23*	*$ 4.09*
Restructured (US$ mm	$ 394.2	$ 429.8	$ 598.6	$ 510.7	$ 494.4	$ 2,427.8
Cents per kwh	*$ 2.28*	*$ 2.48*	*$ 3.45*	*$ 2.93*	*$ 2.83*	*$ 2.79*
Savings (US$ mm)	$ 242.9	$ 268.4	$ 143.6	$ 224.8	$ 246.0	$ 1,125.7
Cents per kwh	*1.41*	*1.55*	*0.83*	*1.29*	*1.41*	*$ 1.30*

Notes:
(1) Status quo scenario includes refinancing to replenish debt service reserve and SIF as well as to reduce July 1 funding needs. Refinancing assumed to be amortized over 10 years at an illustrative 12% yield, representing the constitutional cap
(2) 2019 restructured bond service includes bullet maturity of US$111 mm 2016 series A/B bonds
(3) Restructured debt service includes actual debt service paid to creditors

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Revenue Requirement

PREPA REVENUE REQUIREMENT	FISCAL YEAR 2014	PRO FORMA ADJUSTMENTS	EFFECTIVE RATE FISCAL YEAR 2017
Fuel & Purchased Power			
Fuel	$ 2,344,999,982	$ (1,689,031,615)	$ 655,968,367
Purchased Power	$ 807,619,515	$ 12,287,367	$ 819,906,882
Non-fuel O&M Expense			
Generation Expenses	$ 160,541,902	$ (38,131,386)	$ 122,410,515
Transmission Expenses	$ 44,882,530	$ (10,660,351)	$ 34,222,179
Distribution Expenses	$ 222,007,687	$ (52,730,538)	$ 169,277,149
Customer Service Expenses	$ 111,405,645	$ (26,460,704)	$ 84,944,941
Administrative and General Expenses	$ 195,279,419	$ (46,382,128)	$ 148,897,292
Other Expense			
Collections	$ 191,533,358	$ (106,149,591)	$ 85,383,767
Energy Administration Assessment	$ -	$ 5,800,000	$ 5,800,000
CILT and Subsidies	$ 362,067,285	$ (141,970,543)	$ 220,096,742
Less Other Income	$ (18,010,147)	$ (20,914,698)	$ (38,924,845)
Total Operating Expense	**$ 4,422,327,176**	$ (2,114,344,187)	**$ 2,307,982,988**
Revenue Funded Debt Service	$ 635,326,147	$ (320,936,408)	$ 314,389,739 (1)
Revenue Funded Capital Expenditure	$ 270,228,429	$ 66,329,379	$ 336,557,808
Total Revenue (No Rate Change Estimate)	$ 4,639,552,097	$ (1,680,621,561)	$ 2,736,673,745
Total Revenue Requirement	$ 5,327,881,752	$ (2,368,951,217)	$ 2,958,930,536

*FY2017 Non-Fuel O&M Expense Functionalization based on FY14 audited financials

(1) Note: The following items are included in the Revenue Funded Debt Service for 2017:
   a) Power Revenue / Legacy Bonds
   b) Fuel LOC / GDB LOC