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GOVERNMENT OF PUERTO RICO
PUERTO RICO PUBLIC SERVICE REGULATORY BOARD
PUERTO RICO ENERGY BUREAU

IN RE: REQUEST FOR CERTIFICATION PUERTO RICO ELECTRIC POWER AUTHORITY	**CASE NO.**: CEPR-CT-2016-0018 Subject: Gross Revenue and Financial Statements Report

MOTION IN COMPLIANCE WITH THE MARCH 27TH ORDER

TO THE HONORABLE ENERGY BUREAU,

COMES NOW the Puerto Rico Electric Power Authority ("PREPA") through its undersigned legal representation and, very respectfully, informs and requests as follows:

1. On March 27th, 2024, the Energy Bureau of the Puerto Rico Public Service Regulatory Board ("Energy Bureau") ordered PREPA to inform the Energy Bureau of the Annual Gross Revenue generated in 2023, pursuant to Act 57-2014 and Section 4.02 of Regulation 8701.
2. Further, the Energy Bureau ordered PREPA to show cause why it should not impose an administrative fine of $500.00 for its failure to comply with Act 57-2014 and Regulation 8701.
3. In compliance with the March 27th Order, PREPA attached a certification from Nelson Morales, PREPA's Chief Financial Officer, to inform the gross revenue generated in the year 2023. See Exhibit 1. In addition, PREPA hereby notifies the Energy Bureau of the Audited Financial Statements for the fiscal year ended June 30, 2022. See Exhibit 2.

4. Finally, PREPA apologizes to the Energy Bureau for not complying with the report obligations within the time established in Regulation 8701. PREPA is fully committed to complying with the Energy Bureau's regulations and resolutions. As previously mentioned, various directorates, including the Finance Directorate, are understaffed, making it challenging to fulfill all duties and obligations. PREPA will continue to take the necessary measures to ensure its compliance with the Energy Bureau.

WHEREFORE, for the reasons stated above, PREPA respectfully requests that the Energy Bureau **TAKES NOTICE** of the above and **DEEMS** PREPA in compliance with the March 27th Order.

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 5th day of April 2024.

CERTIFICATE OF SERVICE: We hereby certify that this document was filed with the Office of the Clerk of the Energy Bureau using its Electronic Filing System at https://radicacion.energia.pr.gov/login, which automatically notifies all attorneys of record with a copy of the filed motion.

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Exhibit 1

GOVERNMENT OF PUERTO RICO
PUERTO RICO ELECTRIC POWER AUTHORITY

CERTIFICATION

Pursuant to Section 4.02 of Regulation 8701, we hereby certify that the unaudited revenues of the Puerto Rico Electric Power Authority for Calendar Year 2023 were $3.9 billion.

And for the record, I sign this Certification this 4th day of April 2024 in San Juan, Puerto Rico.

Nelson Morales
Chief Financial Officer

PO Box 364267 San Juan, Puerto Rico 00936-4267

Exhibit 2

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Audited Basic Financial Statements and Required Supplementary Information

For the fiscal year ended June 30, 2022

(With Independent Auditors' Report Thereon)

Table of Contents

Introduction

This section of the financial report presents the analysis of the Puerto Rico Electric Power Authority's (the "Authority") financial performance for the fiscal year ended June 30, 2022. We recommend that readers consider the information herein presented in conjunction with the financial statements and the notes to the financial statements that follow this section.

Required Financial Statements

The basic financial statements provide an indication of the financial health of the Authority. The statement of net position (deficit) presents all the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (deficit) at year-end. The statement of revenues, expenses, and changes in net position (deficit) presents all the revenues and expenses for the year and information as to how the net position or deficit changed during the year. The statement of cash flows shows changes in cash and cash equivalents, resulting from cash received from, and paid for, operating activities, non-capital financing activities, capital financing activities, and investing activities. The notes to the financial statements provide information required and necessary to the understanding of the financial statements.

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Financial Analysis

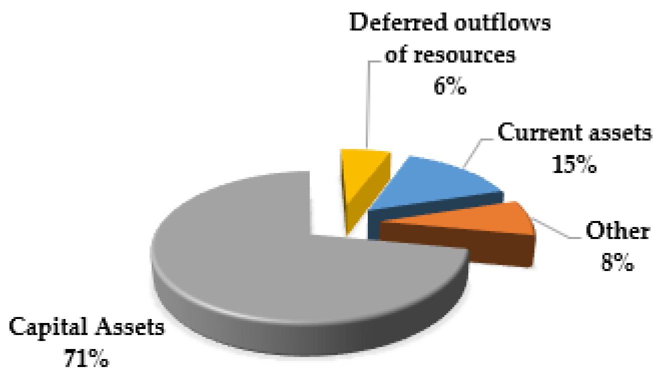
The Authority's condensed statements of net position (deficit) as of June 30, 2022, and 2021, were as follows (in thousands): [1]

	2022	2021
Assets and deferred outflows of resources		
Current assets	$ 1,561,789	$ 1,318,675
Other non-current assets	860,422	997,553
Capital assets	7,666,542	7,759,255
Total Assets	10,088,753	10,075,483
Deferred outflows of resources	635,293	633,077
Total assets and deferred outflows of resources	$ 10,724,046	$ 10,708,560
Liabilities, deferred inflows of resources and net position (deficit)		
Long-term debt	$ 15,501,936	$ 15,347,224
Other liabilities	5,175,184	4,541,635
Total liabilities	20,677,120	19,888,859
Deferred inflows of resources	179,047	48,533
Total liabilities and deferred inflows of resources	20,856,167	19,937,392
Net position (deficit):		
Net investment in capital assets	(796,063)	(641,930)
Restricted	131,982	229,420
Deficit	(9,468,040)	(8,816,322)
Total net position (deficit)	(10,132,121)	(9,228,832)
Total liabilities, deferred inflows of resources and net position (deficit)	$ 10,724,046	$ 10,708,560

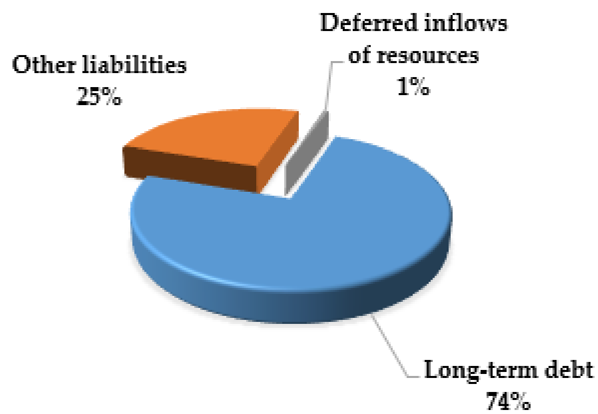
[1] The liabilities are subject to the Authority's debt restructuring pursuant to Title III of PROMESA; and therefore, subject to Authority's rights in the Title III case.

Financial Analysis – (continued)

Assets and Deferred Outflows of Resources



Liabilities and Deferred Inflows of Resources



2022 Compared to 2021

As of June 30, 2022, and 2021, the Authority's total assets and deferred outflows of resources amounted to approximately $10,724 million and $10,709 million, respectively, remaining in balance with prior year's numbers. Nevertheless, there were fluctuations in total assets and deferred outflows explained as follows:

- A decrease in cash and cash equivalents of approximately $211.9 million, or 44 percent, directly related to an increase in net accounts receivable of approximately $369.7 million, or 80 percent, as described in more detail below.

- A decrease in restricted cash and cash equivalents of approximately $155.7 million, or 16 percent. During the fiscal year ended June 30, 2022, the Front-End Transition Fund to pay for the transition services as stipulated in the Authority's Transmission and Distribution (T&D) contract for the management, operation, maintenance, repair, restoration, and replacement of the T&D System (the T&D Contract) were consumed for approximately $35.9 million. Also, capital expenditures of $156.5 million were incurred by LUMA Energy LLC ("LUMA" or the "T&D OMA Operator").

- A net increase in accounts receivable of approximately $369.7 million, or 80 percent, due to the increase in accounts receivable from general customers by 45%, when compared with fiscal year 2021, while receivables from governmental customers only increased by 4%, as the Authority has been very proactive in collecting accounts due from the governmental agencies. The aggregate increase from both general and governmental customers were of approximately $375.6 million. The increase in account receivable from general customers came as a result from increased operating revenues, which compared to fiscal year 2021, increased by approximately $1.2 billion. This was caused by the increase in fuel costs during the year, which is a cost that is passed thru to customers as incurred. The increased fuel costs were caused by the significant climb in the product market price as a result of the invasion of Russia to Ukraine, in a war that started during the second half of fiscal year 2022. More detail on this is provided below, under the financial analysis provided for operating expenses. Moreover, there was a decrease of approximately $5.5 million from insurance companies and the U.S. Federal Government.

- An increase in fuel inventory of approximately $93.2 million, or 56 percent. Fuel and natural gas expenses increased by approximately $961.0 million, or 64.4 percent, when compared to fiscal year 2021's expenses. The increase in expenses during fiscal year 2022 was due to an increase in the price of fuel and natural gas for the Authority's generation assets increasing the costs incurred by approximately $820.1 million, or 61.7 percent, when compared to fiscal year 2021's; and, an increase in the costs incurred for natural gas of $140.9 million, or 85.9 percent, when compared to fiscal year 2021's. The reason for the increase in costs incurred is directly related to an increase in fuel prices. See details on fuel prices during fiscal year 2022 in the section below for operating revenues.

2022 Compared to 2021 – (continued)

- A net decrease in capital assets of approximately $92.7 million, or 1 percent, primarily driven by depreciation charges of $344.3 million, net of capital assets additions of approximately $334.0 million, and the recording of an impairment loss of approximately $75.8 million. See Capital Assets and Debt Administration sections of this MD&A for further details.

- Increase in assets related to the implementation of GASB Statement No. 87, "*Leases*", which requires the recognition of lease receivables by the lessor and of right-of-use of leased assets by the lessee. During fiscal year ended June 30, 2022, the Authority recognized approximately $28.9 million on lease receivables and approximately $13.2 million for the right-of-use of leased assets, net of amortization of approximately $2.9 million.

- An increase in deferred outflows of resources of approximately $2.2 million, or 0.35 percent. This was mainly due to the net effect of a decrease of approximately $2.6 million in deferred outflows related to pensions and other post-employment benefits due to changes in assumptions for the reporting period June 30, 2022. Deferred outflows related to asset retirement obligations increased by approximately $32.6 million, a decrease in deferred loss resulting from debt refunding of approximately $4.4 million; and a decrease in the combined negative fair value of the derivative instruments held by the Authority, by approximately $23.4 million.

As of June 30, 2022, the Authority's total liabilities and deferred inflows of resources amounted to approximately $20.9 billion, an increase of approximately $1 billion, or 5 percent, over the June 30, 2021, amount of $19.9 billion. The net increase in total liabilities and deferred inflows of resources is primarily due to the net effect of the following:

- A net increase in accounts payable and accrued liabilities of approximately $155.1 million, or 8 percent. The increase in accounts payable is directly related to the increase in the accruals of employer contribution to the Employee Retirement System of approximately $145.2 million. An increase in accruals for approximately $132.3 million from T&D OMA Operator. Also, a decrease in general contractors by approximately $103.8 million and a decrease of approximately $18.0 million from accrued compensated absences.

- An increase in accrued interest of approximately $414.5 million, or 20 percent, mainly related to $351.1 million increase in bond interest payable from approximately $1.8 billion in fiscal year 2021 to approximately $2.2 billion in fiscal year 2022; and the increase by approximately $64.3 million in interest payable on the Authority's fuel lines of credit. As disclosed further under the Capital Assets and Debt Administration section in this MD&A, pursuant to Title III of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), interest payments are stayed pending the outcome of the Title III Petition (as defined below) and are subject to Authority's rights in the Title III case. During the

2022 Compared to 2021 – (continued)

fiscal year ended June 30, 2022, a total of approximately $71.7 million of interest payments were made by the monoline insurance companies on certain Authority power revenue bonds that they insured (see Note 12); however, as the monoline insurers are subrogated to and may, therefore, exercise bondholders' rights and remedies and may be entitled to recovery, the interest paid by the monoline insurers continues to be presented as interest due and payable by the Authority, but are subject to Authority's rights in the Title III case.

- An increase in net pension liability by approximately $159.2 million, mainly due to changes in the actuarial assumptions which increased from $71.2 million for the reporting period of fiscal year 2021 to approximately $442.9 million for the reporting period of fiscal year 2022 and net investment income with increased from $36.6 million for the reporting period of fiscal year 2021 to $163.2 million for the reporting period of fiscal year 2022.

- An increase in deferred inflows by approximately $130.5 million or 269 percent, mainly related to GASB Statement No. 68 and 75 pension and other pension benefit adjustments of approximately $101.2 million, and as a result of the implementation of GASB No. 87, the new accounting for leases, deferred inflow of resources increased by approximately $29.3 million.

The largest portion of the Authority's net position (deficit) is the unrestricted net position (deficit) of approximately $9.5 billion. An additional portion of the Authority's net position (deficit) consists of $132.0 million in restricted assets and liabilities for capital projects and other. A deficit in restricted net position occurs when liabilities that relate to restricted assets exceed those assets. The Authority's net deficit at the end of fiscal year 2022 increased by approximately $903.3 million, or 10 percent, when compared to its net deficit at the end of fiscal year 2021. This was mainly due to infrastructure costs in excess of authorized billings to customers, increased pension costs, T&D OMA operator costs and continued emergency costs and repairs to assets in the aftermath of weather and other natural emergencies. Nevertheless, the Authority's change in net position for the year ended June 30, 2022 was less than the change in net position during the fiscal year ended June 30, 2021, showing an improvement of approximately $272.3 million, which could be directly associated to the costs incurred in response to the impact of the earthquakes and the Covid 19 pandemic during the fiscal year ended June 30, 2021.

Net investment in capital assets consists of capital assets such as land, infrastructure, buildings, and equipment, among others, less any outstanding related debt used to acquire these assets. As of June 30, 2022, net investment in capital assets was negative $796.1 million. This negative balance increased from a negative balance of approximately $641.9 million at the end of fiscal year 2021, primarily as a result of the net decrease in capital assets during fiscal year 2022 of approximately $92.7 million, primarily due to the recording of an impairment loss, net of approximately $75.8 million mainly on the Authority's thermal generation assets.

2022 Compared to 2021 – (continued)

The Authority's condensed statements of revenues, expenses, and changes in net position (deficit) for the fiscal years ended on June 30, 2022, and 2021, were as follows (in thousands):

	2022	2021
Revenues:		
Operating revenues	$ 4,004,807	$ 2,789,526
Operating expenses:		
Fuel and purchased power	2,897,294	1,900,501
Other operating expenses	1,383,801	1,252,340
Impairment loss	75,805	-
Emergency repairs post the natural disasters	49,970	218,854
Depreciation	347,188	350,500
Contribution in lieu of taxes	91,826	62,732
Total operating expenses	4,845,884	3,784,927
Non-operating revenues and (expenses):		
Non-operating revenues	351,250	241,952
Interest and other expenses	(413,586)	(423,468)
Non-operating revenues and (expenses), net	(62,336)	(181,516)
Loss before capital contributions	(903,413)	(1,176,917)
Capital contributions	124	1,290
Change in net position (deficit)	(903,289)	(1,175,627)
Net position (deficit) at beginning of year	(9,228,832)	(8,053,205)
Net position (deficit) at end of year	$ (10,132,121)	$ (9,228,832)

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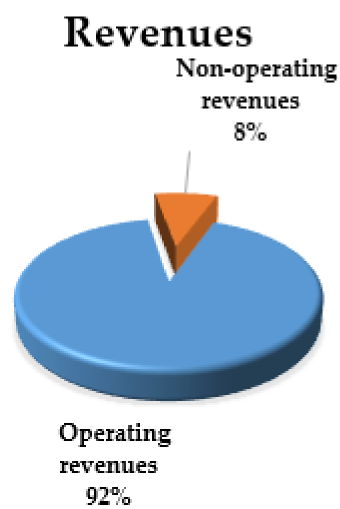
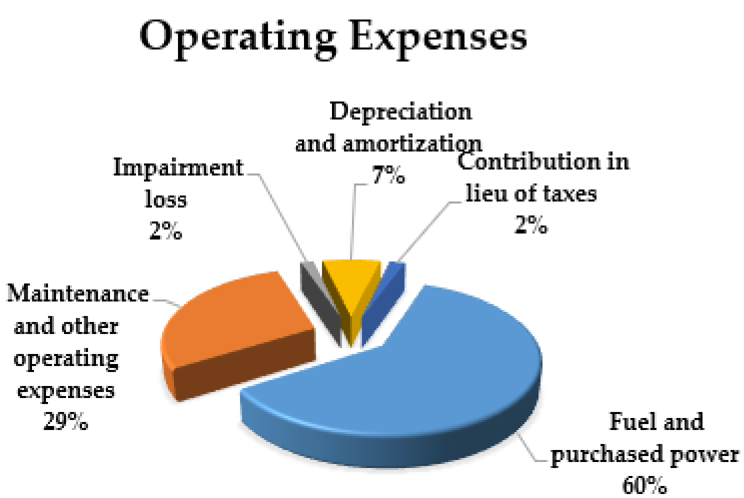
Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2022

2022 Compared to 2021 – (continued)





2022 Compared to 2021 – (continued)

For the fiscal years ended June 30, 2022, and 2021, the Authority's operating revenues amounted to approximately $4.0 billion and $2.8 billion, respectively, an increase of approximately $1.2 billion, or 44 percent. This was mainly caused by the net effect of:

- An increase in operating revenues from general and government customers of $1.2 billion, which is mainly due to $1.1 billion of greater fuel billings during fiscal year 2022. As mentioned above, the fuel market price increased due to the invasion of Russia to Ukraine during the second half of fiscal year 2022. The impact in the fuel costs was caused by increased market prices, which significantly raised from $73.28 per barrel in July 2021 to $116.8 per barrel in June 2022. This is an increase of $43.52 per barrel or 60%. Fuel costs, as well as purchase power cost are directly charged to customers, therefore any change in their market prices directly impact the Authority's billings for the electric services.

- An additional decrease of $93.4 million in purchased power billings as the Authority passed savings from certain renegotiated purchase power agreements to its clients.

- As discussed in the accounts receivable section above, a decrease in collections was experienced during 2022, causing an increase of $103.4 million in the bad debt expense from $43.9 million in fiscal year 2021 to $147.3 million in fiscal year 2022.

The decrease of $119.2 million in net Non-Operating revenues (expenses), is mainly due to the net effect of the following:

- During fiscal year ended June 30, 2022 and 2021, the Authority entered into voluntary non-exchange transactions for the receipt of federal grant funds from the Federal Emergency Management Agency ("FEMA") after the passage of the Hurricanes Irma and María (the "Hurricanes") in September of 2017 (fiscal year 2018) and after several earthquakes hit Puerto Rico during January 2020 (the "January 2020 earthquakes"). Allowable costs were billed for reimbursement and revenues were recognized based on eligibility requirements of expense incurred. Recognized revenues from federal grants increased by approximately $81.2 million, or 39 percent, from approximately $207.4 million in fiscal year ended June 30, 2021, to approximately $288.6 million in fiscal year ended June 30, 2022, and an increase of approximately $22.4 million in insurance proceeds from prior year events.

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2022 Compared to 2021 – (continued)

The Authority's operating expenses amounted to approximately $4.8 billion and $3.8 billion for the fiscal years ended June 30, 2022, and 2021, respectively, representing an increase of approximately $1.0 billion, or 28 percent. The increase in operating expenses is mainly due to the net effect of the following:

- A decrease of approximately $81.8 million, or 13 percent, in the Authority's purchased power expense. To better align the Authority's finances with the objectives of the Authority's Certified 2023 Fiscal Plan (and prior certified fiscal plans for the Authority) pursuant to the Title III process, beginning in late 2019 the Authority renegotiated seven (7) (of nine (9)) existing purchase power and operating agreements (PPOAs) relating to operating renewable energy projects, and also entered into negotiations procuring a reduction in their current prices. The amended agreements became effective during January and March 2021.

- An increase of approximately $1.1 billion, or 84 percent, in fuel expense. An increase in fuel expense was expected during fiscal year ended June 30, 2022. On February 24, 2022, Russia invaded Ukraine causing a worldwide significant effect in the fuel supply chain. The war placed renewed emphasis on the worldwide dependence on fossil fuels, and the resulting supply disruption caused a significant, but temporary, increase in energy prices, including for the Authority's customers. Immediately after the invasion, Puerto Rico faced a shortage of LNG supply that required the Authority to substitute diesel and bunker C fuel oil. These are less efficient, more polluting, and expensive fuels, and the increased costs were passed on to the Authority's customers by order of the Puerto Rico Energy Bureau (the "PREB"). During the second half of calendar year 2022, however, the energy markets have returned to more normal levels of supply and prices with the result that PREB has ordered rate reductions to be implemented by the Authority to take this into account.

- A decrease of approximately $261.1 million, or 45 percent, in administrative expenses. This was mainly due to the pre-commencement fees expenses incurred by the Authority for the payment of services received from LUMA Energy LLC of approximately $158.0 million during fiscal year ended June 30, 2021. Service costs from LUMA during fiscal year 2022 amounting to approximately $117.3 million and T&D Pass-Through Expenditures amounting to approximately $369.0 million are mostly reported as transmission, distribution and customer service in the accompanying financial statements. See Note 18.

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Capital Assets and Debt Administration

Capital Assets

Capital assets as of June 30, 2022, and 2021, amounted to approximately $7,666 million and $7,759 million, respectively. The Authority's total capital assets decreased by approximately $93 million, or 1 percent, mainly because of the net effect of capital assets additions of $334.0 million, reduced by $344.3 million in depreciation and the recording of an impairment loss, net of approximately $75.8 million mainly on the Authority's thermal generation assets.

Major capital assets projects undertaken by Authority during the fiscal year ended June 30, 2022, included the following:

- Restoration activities related to the January 2020 earthquakes and continued repairs of damages caused by the Hurricanes. The Authority incurred costs related to capital asset damages of approximately $16.7 million, of which approximately $6.8 million were capitalized as generation infrastructure and $9.9 million as transmission and distribution.

- The Authority invested $17.6 million in the rehabilitation and repairs of turbines and gas generators of Units 1A, 1B, 2B and 3B. Upgrades to the power turbine sections units 1A and 1B at the Mayaguez Power Plant Station. Reestablishing the reliability and availability to dispatch 108 megawatts.

- Investment of $3.1 million in the rehabilitation and upgrades of the Aguirre Combined Cycle Power Plant, and rehabilitation and upgrades of Aguirre Units 1 & 2 for $22.8 million. Also, other rehabilitation, scheduled maintenance and upgrades for $3.0 million were performed at Cambalache Power Plant.

- Investment of $42.7 million in costs incurred by NFEnergía LLC ("NFEnergía") in engineering, parts and services for the natural gas turbine conversion of San Juan Combined Cycle Units 5 & 6. See Note 11 for financing information details. In addition, $31.6 million was invested for the engineering, parts and services for the upgrade and replacement of the turbine control systems of these same units, as well as purchase orders to replace the condensers' online continues cleaning systems and scheduled maintenance of steam and gas turbine major overhauls.

- Investment and rehabilitation and other improvements at Costa Sur Units for $3.8 million and scheduled maintenance in compliance with the EPA's Consent Decree at Palo Seco Steam Plant Unit 4 for $2.4 million.

  Additional information on the Authority's capital assets can be found in Note 8 to the financial statements.

Capital Assets and Debt Administration – (continued)

Debt Administration

As of June 30, 2022, and 2021, the Authority had total outstanding notes and bonds payable of approximately $9.086 billion and $9.049 billion, respectively, all of which are subject to adjustment under PROMESA Title III. On July 20, 2021, Moody's Investors Service ("Moody's") withdrew its ratings on the Authority's bonds, joining Standard & Poor's ("S&P") which withdrew its rating in the Authority's bonds in February of 2018. Fitch Ratings ("Fitch") also withdrew its rating for the Authority's uninsured bonds on July 5, 2023.

During fiscal year 2022, the Authority borrowed an additional $1.5 million under a $27 million revolving line of credit, with a maturity date of 20 years after the construction completion date and an effective interest rate of 2% per annum, to finance improvements to the Aguirre Power Complex Water Supply and the San Juan Waste Water Treatment Plant. As of the date of these financial statements, this project's construction completion date is estimated to be July 2025; therefore, the estimated maturity date of this borrowing under the line will likely be around July 2045. The increase in the loan amount resulted from the reimbursement of costs incurred by the Authority during prior and current fiscal years.

During fiscal year 2022, the Authority became liable for the works completed in the conversion of San Juan Combined Cycle Units 5 and 6 to natural gas burning power generation. The note payable started on August 2021 for the amount of $42.7 million, all of which were outstanding at the end of fiscal year 2022. See note 11 for further details.

As of June 30, 2021, the Authority had not paid approximately $1.7 billion in principal amount due on its bonds and notes as of July 1, 2021. As of June 30, 2022, this amount increased to $1.9 billion. As disclosed in Notes 3, 11 and 12, notes and bonds payable, and their respective interest payments, are subject to the Authority's debt restructuring pursuant to Title III of PROMESA; and therefore, these payments are stayed and are subject to Authority's rights and objections in the Title III case.

During the fiscal year ended June 30, 2022, the monoline insurers of certain of the Authority's power revenue bonds paid a total of $120.5 million of principal (see Note 12); however, because the monoline insurers are subrogated to and, therefore, acquired the rights of the insured bondholders after making such payment, subject to Authority's rights in the Title III case, the amounts paid by the monoline insurers continue to be presented as due and payable by the Authority.

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Currently Known Facts or Conditions That May Have a Significant Effect on the Puerto Rico Electric Power Authority's Financial Condition or Results of Operations

The Authority's Governing Board and Management

Pursuant to Act No. 37 of 2017 ("Act 37 2017") the Authority's Governing Board (the "Governing Board") composition consists of seven members, six members of which are designated by the Governor (three of which require Senate approval) and one member is an elected consumer representative.

PROMESA

On June 30, 2016, the President of the United States signed into law PROMESA. In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Financial Oversight and Management Board (the "Oversight Board"), whose responsibilities include, among others, the certification of fiscal plans and budgets for the Commonwealth and its component units that are designated as covered instrumentalities under PROMESA, including the Authority; (ii) a stay of all creditor lawsuits; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of affected creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code.

Key Legislation After the Enactment of PROMESA

Act 2 2017 – FAFAA Enabling Act

Act No. 2 of January 18, 2017, the Puerto Rico Fiscal Agency, and Financial Advisory Authority Act (the "FAFAA Enabling Act" or "Act 2 2017") was enacted to repeal and replace the sections under Act No. 21-2016 (the "Moratorium Act") that created the Fiscal Agency and Financial Advisory Authority ("FAFAA") and provided its powers and responsibilities. Act 2 2017 expanded FAFAA's powers to mandate that FAFAA shall be the only Government entity authorized to enter into a creditors' agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to agencies, boards, commissions, instrumentalities, public corporations (including the Authority) or applicable political subdivisions. In addition, FAFAA is the entity in charge of the collaboration, communication, and cooperation efforts between the Commonwealth and its instrumentalities and the Oversight Board under PROMESA.

Currently Known Facts or Conditions That May Have a Significant Effect on the Puerto Rico Electric Power Authority's Financial Condition or Results of Operations – (continued)

Act 5 2017 - Puerto Rico Fiscal Responsibility and Financial Emergency Act

On January 29, 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act ("Act 5 2017"), which amended and repealed certain other provisions of the Moratorium Act and established a state of emergency regarding Government finances. Act 5 2017 maintained the moratorium on debt payment existing under the Moratorium Act.

Act 5 2017, as amended by Act No. 46 2017, authorizes the Governor to continue extending the emergency period declaration by additional 6-month periods as long as the Oversight Board exists. The emergency period is currently set to expire on June 30, 2024, unless further extended by the Governor.

Commencement of the Authority's Title III Case

As disclosed in Note 4, on July 2, 2017, the Oversight Board filed a petition for relief on behalf of the Authority under Title III of PROMESA. The Authority's Title III case was consolidated for procedural purposes only and is being jointly administered with the other Title III cases for the Commonwealth and certain other instrumentalities in the United States District Court for the District of Puerto Rico. Title III of PROMESA incorporates the automatic stay provisions of U.S. Bankruptcy Code, which are made applicable to the Title III cases pursuant to PROMESA section 301(a).

Act 120 2018 - Puerto Rico Electric System Transformation Act

On June 20, 2018, the then Governor signed into law Act No. 120 of 2018, known as the Puerto Rico Electric System Transformation Act ("Act 120-2018"). Act 120-2018 established the legal framework for the transformation of the Authority via a series of public-private partnerships in accordance with the Public Private Partnership Act of 2009 (the "P3 Act). The P3 Act allows for the sale of Authority assets related to generation and the transfer or delegation of any of the Authority's operations, functions, or services. The P3 Act modifies the existing regulatory structure and establishes a working group to design a new regulatory framework and energy public policy for a private sector-based energy system. On April 11, 2019, the Governor signed Act 17-2019 to establish, among other things, the regulatory framework for Puerto Rico's energy sector and the Authority's transformation.

Going Concern, Financial Condition, and Liquidity Risk

For a discussion of facts and conditions related to the Authority's liquidity that will have a significant effect on the Authority's financial condition and operations, see Note 4.

Currently Known Facts or Conditions That May Have a Significant Effect on the Puerto Rico Electric Power Authority's Financial Condition or Results of Operations – (continued)

Going Concern, Financial Condition, and Liquidity Risk – (continued)

The economic and financial condition of the Authority is affected by various legal, financial, social, economic, environmental, governmental, and political factors. Both before and after filing for Title III protection, the Authority's operational and financial condition has been negatively affected by various business challenges that have been exacerbated by the Commonwealth's economic situation, the volatility of oil prices, and the fact that the Authority did not increase its customers' rates to levels sufficient to offset the effects of its rising costs until May 2019. Its principal challenges, some of which are interrelated, have been: (i) addressing the decline in electric energy demand; (ii) addressing the volatility of oil costs; (iii) addressing high customer electric power rates; (iv) reducing government accounts receivable; (v) improving liquidity; (vi) restructuring its debts and addressing its lack of access to the capital markets; and (vii) addressing the impact on Puerto Rico's economy and the Authority's infrastructure after a series of the natural disasters and the global pandemic. Refer to Note 17.

Subsequent Events

The most significant subsequent events are the following:

The Authority's Plan of Adjustment Process

On December 16, 2022, the Oversight Board filed a plan of adjustment for the Authority (as amended or supplemented, the "Plan") and an accompanying disclosure statement (as amended or supplemented, the "Disclosure Statement"). The original Plan incorporated two settlements reached in mediation between the Oversight Board and (i) Vitol Inc.; and (ii) the successor administrative agent for Authority lenders under the Credit Agreement, and certain lenders to the Authority under a Trade Finance Facility Agreement, (collectively, the "Fuel Line Lenders"). Moreover, on December 16, 2022, the Oversight Board disclosed it reached an agreement in principle on the terms of a settlement with National Public Finance Guarantee Corporation. On March 1, 2023, the Oversight Board filed an amended plan incorporating the National Public Finance Guarantee Corporation settlement.

While the Plan's confirmation hearing was scheduled for July 2023, significant developments regarding the Authority's certified 2023 fiscal plan caused a suspension of such schedule. As a result of these developments, the Title III Court ordered the Oversight Board to file an amended Plan. On August 25, 2023, the Oversight Board filed its third amended plan of adjustment for the Authority, and on September 15, 2023, the Oversight Board filed a supplemental Disclosure Statement for the *Corrected Fifth Modified Third Amended Title III Plan of Adjustment of the Puerto Rico Electric Power Authority*. After considering multiple objections and a hearing on the matter, the Title III Court approved the Disclosure

Currently Known Facts or Conditions That May Have a Significant Effect on the Puerto Rico Electric Power Authority's Financial Condition or Results of Operations – (continued)

Subsequent Events – (continued)

Statement on November 17, 2023. The Oversight Board's latest version of the proposed Plan for the Authority was filed on February 16, 2024. The Plan's confirmation hearing took place from March 4, 2024 through March 19, 2024. The Title III Court took the matter under advisement.

For more information on the Plan, please see Note 20.

The Transformation of the Generation Assets of the Authority

The legacy generation asset transformation procurement process was conducted by the Puerto Rico Public Private Partnerships Authority ("P3 Authority") with the purpose of awarding a long-term partnership contract to a qualified operations and maintenance ("O&M") service provider to administer the Authority's base-load generation plants and combustion turbine peaking units ("Legacy Generation Assets").

In January 2023, both the P3 Authority board of directors and the Authority's Governing Board approved the operation and maintenance agreement for the private operation of the Legacy Generation Assets ("Generation Contract"). On January 24, 2023, Genera PR, LLC ("Genera PR"), the selected proponent, the P3 Authority, and the Authority, executed the Generation Contract.

On July 1, 2023, Genera PR assumed the management and operation of the Legacy Generation Assets pursuant to the Generation Contract.

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Currently Known Facts or Conditions That May Have a Significant Effect on the Puerto Rico Electric Power Authority's Financial Condition or Results of Operations – (continued)

Subsequent Events – (continued)

Generation Procurement

On August 24, 2020, PREB approved the Authority's Integrated Resource Plan ("IRP") which includes a directive for the Authority to develop a competitive solicitation process for the procurement of 3,750 MW of renewable generation and 1,500 MW of energy storage resources in support of, among other things, achievement of Act 17-2019 targets for renewable energy installations. PREB established a schedule for the acquisition by the Authority through a request for proposals process of minimum quantities of renewable energy and energy storage resources. The schedule is divided in six (6) tranches. In the first tranche the Authority had to procure at least 1,000 MW of solar photo voltaic ("PV") (or other energy-equivalent renewable) generation and at least 500 MW (2,000 MWh or equivalent) of battery energy storage. Accordingly, on February 22, 2021, the Authority issued Request for Proposal 112648 for Renewable Energy Generation and Energy Storage Resources Tranche 1 of 6 ("Tranche 1 RFP") soliciting proposals for renewable energy generation, energy storage and virtual power plant resources.

The Tranche 1 RFP process has three parallel workstreams: an initial set of utility-scale solar PV and battery energy storage system ("BESS") projects selected by the Authority, a second set of utility-scale BESS projects mandated by PREB, and virtual power plants (VPPs).

In December 2021, the Authority submitted to PREB for its approval the initial set of draft power purchase and operating agreements for the total amount of 844 MW of solar PV ("PPOAs") and draft energy storage services agreements for 220 MW of BESS ("ESSAs"). On February 2, 2022, PREB entered an order approving eighteen (18) PPOAs and took notice of the remaining ESSAs attached thereto, noting the need for additional information from the ESSAs. The Oversight Board approved the PPOAs on March 25, 2022. LUMA performed interconnection studies on these solar and BESS projects from January to June 2022. The Authority signed the PPOAs, as amended following the completion of the interconnection studies, by August 2022. The Authority also signed two of the ESSAs in August 2022. PREB finally approved all PPOAs and these two ESSAs by September 2022. The Oversight Board approved the two signed ESSAs on December 15, 2022. In June 2022, PREB also ordered the Authority to select additional utility-scale BESS projects to include in the Tranche 1 RFP awards. This initiated a second contract finalization process. As a result, LUMA performed interconnection studies on the additional BESS projects from July to November 2022, and revised certain interconnection studies related to the initial set of projects. The Authority and proponents then engaged in discussions over final levelized cost of storage and interconnection issues for these BESS projects during December 2022 and January 2023. In parallel with the utility-scale project workstreams, the Authority finalized a grid services agreement ("GSA") related to a 17 MW VPP on November 2, 2022. PREB approved the GSA on

Currently Known Facts or Conditions That May Have a Significant Effect on the Puerto Rico Electric Power Authority's Financial Condition or Results of Operations – (continued)

Subsequent Events – (continued)

Generation Procurement – (continued)

December 19, 2022. The Oversight Board approved the GSA on February 13, 2023. The GSA was signed on April 21, 2023.

The Authority's Tranche 1 procurement process continues with the finalization of seven additional ESSAs with a capacity of 290 MW and the approval process for those ESSAs and the GSA.

On October 25, 2023, Sunrun VPP notified the retirement of its project. By November 30, 2023, only eight PPOA's and two BESS projects complied with the contract's Conditions Subsequent, representing a total of 803 MW. The Commercial Operation Date for those projects shall happen by the fourth quarter of year 2025.

Whitefish Energy Holdings Settlement

On October 30, 2020, Whitefish Energy Holdings, LLC ("Whitefish") filed a motion for administrative expense priority of its over $150 million in claims in the Title III cases. The motion requested allowance of an administrative expense claim based on services rendered to the Authority consisting of repairs in the aftermath of the Hurricanes. On March 1, 2022, the Oversight Board filed a motion on behalf of the Authority to approve a settlement with Whitefish. On March 21, 2022, the Title III approved the settlement. Pursuant to the settlement, Whitefish has an allowed administrative expense claims in the amount of approximately (i) $33.9 million for accrued interest charges; and (ii) $6.0 million for additional costs related to invoices for mobilization and demobilization services. The Authority has paid both the $33.9 million in interest charges and the $6.0 million in mobilization and demobilization services costs.

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Currently Known Facts or Conditions That May Have a Significant Effect on the Puerto Rico Electric Power Authority's Financial Condition or Results of Operations – (continued)

Subsequent Events – (continued)

Hurricane Fiona

On September 18, 2022, Hurricane Fiona made landfall in Puerto Rico by the municipality of Cabo Rojo as a Category 1 hurricane with winds of 85 mph and gusts of up to 103 mph. Despite the strong winds, most of the damage throughout Puerto Rico was caused by the heavy rains. Hurricane Fiona caused a general blackout throughout Puerto Rico, due to the damages caused to the electric power system. Hurricane Fiona caused significant damages to critical T&D assets, the generation fleet, dams, hydroelectric systems, irrigation systems, and reservoirs. The storm also forced the utility to operate expensive peaking units to restart and maintain generation, resulting in incremental operating costs due to more fuel consumption. As of January 9, 2024, the Authority received from FEMA and COR3 approximately $68.6 million for the operation and maintenance and the fuel expenses caused by Hurricane Fiona in the generation units.

Loan agreement to cover pension related costs

The FY24 Amended Budget Resolution provides for a new appropriation in the amount of three hundred million dollars ($300 million) to be loaned to the Authority for (i) funding Authority pension obligations, and (ii) certain accrued benefit withdrawal requests. In accordance with the FY24 Amended Budget Resolution, on December 15, 2023, the Commonwealth, as lender, and the Authority, as borrower, executed the $300 million loan agreement. In accordance with the terms of such loan agreement, on December 18, 2023, the Authority requested the Commonwealth to deliver the initial $115 million, which were received on December 19, 2023.

Early Warning System

On April 26, 2023, the Authority's Governing Board, through Resolution 5040, authorized an RFP process for the design and build project of the Early Warning System, with a federally approved funding amount of $100 million. On February 9, 2024, the Authority made the award notification to two awardees, with the contested bid process concluded without any disputes being filed. Currently, the related contracts are being processed.

SOW for Acquisition of temporary generation units - FEMA

On January 14, 2024, the Authority sought the Energy Bureau's approval for the initial scope of work (SOW) to acquire and own the temporary generation units installed in the Palo Seco Steam Plant

Currently Known Facts or Conditions That May Have a Significant Effect on the Puerto Rico Electric Power Authority's Financial Condition or Results of Operations – (continued)

Subsequent Events – (continued)

(150MW) and the San Juan Power Plant (200MW). On February 2, 2024, FEMA issued a notification specifying funding sources for acquiring the temporary units. The Authority received the necessary approvals from the Oversight Board and the Energy Bureau for the purchase of the temporary generation units from New Fortress Energy. See Note 20.

AES PPOA

On October 11, 1994, the Authority entered into a Power Purchase and Operating Agreement (the 'AES PPOA') with AES Puerto Rico, L.P. (AES-PR). The AES PPOA was subsequently amended on November 16, 1999, and July 17, 2015. On November 7, 2023, the Authority filed a petition with the Energy Bureau of the Puerto Rico Public Service Regulatory Board (Energy Bureau) seeking approval of a third amendment to the AES PPOA. The Energy Bureau issued a Resolution and Order on February 27, 2024, approving the final version of the proposed amendment. The third amendment to the AES PPOA was executed on March 1, 2024. See Note 20.

For a more detailed discussion of these and other subsequent events that may have a significant effect on the Authority's financial condition and operations, see Note 20 to the financial statements.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Authority's Chief Financial Officer. The executive offices of the Authority are located at 1110 Ponce de León Avenue, San Juan, Puerto Rico 00907. Other financial information can be obtained from the Authority's official web page www.aeepr.com.

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit)
(In thousands)
June 30, 2022

Assets and Deferred Outflows of Resources

Current assets:	
Cash and cash equivalents	$ 272,246
Accounts receivable, net	738,198
Accounts receivable from insurance companies and U.S. Federal Government, net	95,311
Leases Receivables	2,059
Fuel inventory	258,683
Materials and supplies	180,502
Prepayments and other assets	14,790
Total current assets	1,561,789
Non-current assets:	
Restricted cash and cash equivalents	820,465
Long-term portion of leases receivable	26,801
Depreciable capital assets, net	7,217,358
Non-depreciable capital assets	449,184
Right-of-use lease assets	13,156
Total non-current assets	8,526,964
Total assets	10,088,753
Deferred outflows of resources:	
Related to pensions	495,432
Related to other post-employment benefits	20,645
Related to asset retirement obligations	87,166
Related to debt refunding	14,388
Related to derivative instruments	17,662
Total deferred outflows of resources	635,293
Total assets and deferred outflows of resources	$ 10,724,046

(Continued)

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit) - (continued)
(In thousands)
June 30, 2022

Liabilities, Deferred Inflows of Resources and Net Position (Deficit)

Current liabilities:	
Accounts payable and accrued liabilities	$ 2,149,208
Current portion of bonds payable	2,313,599
Current portion of notes payable	711,705
Current portion of lease liability	2,533
Accrued interest	2,472,756
Customer deposits	101,056
Compensated absences	5,593
Unearned revenues	24,705
Total current liabilities	7,781,155
Non-current liabilities:	
Compensated absences	2,893
Customer deposits and others	226,636
Unearned revenues	1,713
Notes payable	56,851
Bonds payable	6,004,258
Lease liability	10,865
Other post-employment benefits liability	338,321
Claims and judgments	275,503
Due to Primary Government	750,000
Asset Retirements Obligations	173,496
Fair value of derivative instruments	17,662
Net pension liability	5,037,767
Total non-current liabilities	12,895,965
Total liabilities	20,677,120
Deferred inflows of resources:	
Related to pension	112,536
Related to leases	29,274
Related to other post-employment benefits	37,237
Total deferred inflows of resources	179,047
Net position (deficit):	
Net investment in capital assets	(796,063)
Restricted	131,982
Unrestricted	(9,468,040)
Total net position (deficit)	(10,132,121)
Total liabilities, deferred inflows of resources and net position	$ 10,724,046

The accompanying notes are an integral part of these financial statements

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses, and Changes in Net Position (Deficit)
(In thousands)

For the fiscal year ended June 30, 2022

Operating revenues	
Electric services	
Residential and Commercial	$ 3,522,728
Government	545,483
Other	62,458
Bad Debt Expense	(147,342)
Telecommunications	16,648
Irrigation	4,832
Total operating revenues	4,004,807
Operating expenses:	
Fuel	2,361,763
Purchased power	535,531
Depreciation and amortization	367,339
Other production	431,395
Transmission, distribution and customer service	617,474
Administrative and general	314,781
Emergency repairs post natural disasters	49,970
Impairment loss	75,805
Contribution in lieu of taxes	91,826
Total operating expenses	4,845,884
Operating loss	(841,077)
Non-operating revenues and (expenses), net:	
Grants from U.S. Federal Government, net of allowance	288,628
Proceeds from insurance companies	47,994
Interest income and other	9,687
Interest expense and other	(413,586)
Net gain on GDB partial settlement	4,941
Total nonoperating revenues and (expenses), net	(62,336)
Loss before capital contributions	(903,413)
Capital contributions	124
Change in net position (deficit)	(903,289)
Net position (deficit), at beginning of year	(9,228,832)
Net position (deficit), at end of year	$ (10,132,121)

The accompanying notes are an integral part of these financial statements

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows
(In thousands)
For the fiscal year ended June 30, 2022

Cash flows from operating activities:	
Cash received from customers	$ 3,368,741
Cash paid to suppliers	(3,581,185)
Cash paid to employees	(135,317)
Cash paid to customers	(16,416)
Net cash flows provided by operating activities	(364,177)
Cash flows from noncapital financing activities:	
Proceeds received from the U.S. Federal Government	110,469
Reimbursement from insurance companies	12,642
Proceeds from notes payable	1,469
Principal paid on notes payable	(451)
Net cash flows provided for noncapital financing activities	124,129
Cash flows from capital and related financing activities:	
Construction expenditures	(376,875)
Reimbursement of Capital Expenditures from U.S Federal Government	192,053
Reimbursement from insurance companies	35,351
Interests paid	(2,118)
Payment of leases	(2,735)
Proceeds from financed purchase of equipment	1,131
Repayments of obligations from direct borrowings	(1,249)
Power revenue bonds:	
Proceeds from insurance companies to pay insured revenue bonds	120,530
Principal paid on insured revenue bonds maturities	(120,530)
Proceeds from insurance companies to pay interest on insured revenue bonds	71,678
Interest paid on insured revenue bonds	(71,678)
Net cash flows used for capital and related financing activities	(154,442)
Cash flow from investing activities:	
Cash receipts on GDB Settlements	4,941
Interest income collected on leases of building premises from HUB	162
Rental income collected on leases of building premises from HUB	414
Cash receipts on Certificates for Deposits	21,408
Net cash flows used by investing activities	26,925
Net decrease in cash and cash equivalents	(367,565)
Cash and cash equivalents at beginning of year	1,460,276
Cash and cash equivalents at end of year	$ 1,092,711
Cash and cash equivalents:	
Unrestricted	$ 272,246
Restricted	820,465
	$ 1,092,711

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows - (continued)
(In thousands)
For the fiscal year ended June 30, 2022

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (841,077)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	344,304
Amortization of ROU	2,884
Provision for uncollectible accounts and others	147,342
ARO expense	20,151
Impairment loss	75,805
Other miscellaneous	9,632
Changes in operating assets and liabilities:	
Receivables	(513,606)
Fuel inventory	(93,155)
Materials and supplies	4,204
Prepayments and other assets	(6,937)
Deferred outflows of resources	2,599
Accounts payable and other accrued liabilities	242,671
Net pension liability	159,150
Customer deposits and others	8,229
Other post-employment benefits liability	(17,122)
Claims and judgement	6,609
Compensated absences to be liquidated after one year	(29,448)
Deferred inflow of resources	101,240
Unearned revenues	12,348
Total adjustments	476,900
Net cash flows provided by operating activities	$ (364,177)
Supplemental cash flows information:	
Noncash transactions:	
Capital contributions	$ (124)
Contributions in lieu of taxes, billings and offset effect	$ (91,826)
Change in fair value of derivative instruments	$ 23,370
Changes in deferred loss resulting from debt refunding	$ 4,426
Unpaid construction expenditures	$ 243,831
Acquisition of depreciable assets through notes payable	$ 42,699
Lease receivable recognized as deferred outflows	$ 29,274
Recognition of Right-of-Use asset liability	$ 16,040
Uses of donated materials from capital items and others	$ 12,829
Unallowable amounts due to the U.S. Federal Government	$ 7,985
Provision for disallowance of U.S. Federal Grants	$ 1,059

The accompanying notes are an integral part of these financial statements

Note 1 - Organization

The Authority is a public corporation and component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created on May 2, 1941, pursuant to Act No. 83, as amended (the "Act"). The Authority produces, buys, transmits, and distributes, substantially, all of the electric power consumed in Puerto Rico. The Authority has broad powers including, among others, to issue bonds for any of its corporate purposes. As a public corporation and an instrumentality of the Commonwealth, the Authority is exempt from the payment of income, property, municipal, and federal taxes.

On May 27, 2014, the Commonwealth approved Act No. 57 ("Act 57-2014"), which authorizes the Puerto Rico Energy Bureau (the "PREB") (then known as the Puerto Rico Energy Commission) to approve electric rates proposed by the Authority, among other matters. On February 16, 2016, the Commonwealth approved Act No. 4, also known as the Puerto Rico Electric Power Authority Revitalization Act ("Act No. 4"), which modified the regulatory framework to establish electric rates and code of conduct matters and establishes a legal and judiciary framework for the restructuring of the Authority's debt. Act No. 4 also created the Puerto Rico Electric Power Authority Revitalization Corporation ("CRAEE", for its Spanish acronym). The newly created, special purpose entity had the power to issue securitization bonds to restructure at a discount the Authority's outstanding long-term debt. Among other activities, as defined by Act No. 4, CRAEE also had the power to present before PREB a proposed restructuring resolution that creates restructuring property and provides for the collection of transition charges to repay the bonds and to cover other related costs. After the termination of prior restructuring support agreements, Act No. 4's restructuring provisions are no longer applicable.

As discussed in Notes 4, on July 2, 2017, the Oversight Board filed a petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the "Title III Court"), commencing a Title III case for the Authority (the "Title III Case") to restructure the Authority's debt and other liabilities. The Title III Case is pending. The accompanying basic financial statements do not include any adjustments that might result from the outcome of the Title III Case.

On June 1, 2021, pursuant to the T&D Contract, LUMA began managing and operating the T&D System. For further information on this refer to Note 18.

Pursuant to Act 17-2019, the Authority was required to restructure by unbundling its T&D and generation operations into separate and distinct entities. On December 29, 2022, PREB approved an interim revised corporate structure, and the creation of the GENCO, HydroCo and PropertyCo subsidiaries; these were formed and registered subsequently with the Department of State on March 3, 2023, and further amended on June 2, 2023. Efforts are currently ongoing to segregate balances among the Authority and the newly created entities.

Note 2 - Summary of Significant Accounting Policies

The following is a summary of the most significant accounting policies followed by the Authority in preparing its financial statements:

Basis of Accounting

The financial statements are presented as an enterprise entity using the economic resources measurement focus and the accrual basis of accounting, in accordance with the accounting principles generally accepted in the United States of America ("GAAP") for governments as prescribed by the Governmental Accounting Standards Board ("GASB"). Accordingly, for the purpose of these financial statements, revenues are recognized when earned and expenses when incurred, regardless of when cash is received or paid. This basis of accounting may not be the case in other contexts, such as in connection with the Trust Agreement. The Authority conducts its activities in a manner similar to private business enterprises; the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Reporting Entity

The financial statements of the Authority include, as a blended component unit, the financial position and operations of PREPA Holdings, LLC ("PREPA Holdings"), a wholly-owned subsidiary, created as a holding company for HUB Advanced Networks, LLC ("HUB"), InterAmerican Energy Sources, LLC, Consolidated Telecom of Puerto Rico, LLC. and International Network Operations, LLC. These entities are included as part of the reporting entity of PREPA Holdings. The basis for the blended presentation is that PREPA Holdings, created by the Authority's Governing Board pursuant to Resolution No. 3661 adopted on October 16, 2009, is a single-member, limited liability company, and the Authority is the sole member with shared management representatives.

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Note 2 - Summary of Significant Accounting Policies – (continued)

Reporting Entity – (continued)

Condensed financial information for PREPA Holdings as of and for the fiscal year ended June 30, 2022 is as follows (in thousands):

Statement of net position:		
Assets:		
Current assets	$	13,601
Capital assets, net of depreciation		50,222
Non-current assets		26,801
Total assets	$	90,624
Liabilities:		
Current liabilities	$	4,562
Non-current liabilities		25,885
Total liabilities	$	30,447
Deferred inflows of resources, leases	$	29,275
Net position:		
Net investment in capital assets	$	37,254
Unrestricted (deficit)		(6,352)
Net position	$	30,902

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Note 2 - Summary of Significant Accounting Policies – (continued)

Reporting Entity – (continued)

Statement of revenues, expenses and changes in net position:	
Operating revenues	$ 16,648
Operating expenses	(14,487)
Operating loss	2,161
Non-operating revenues	930
Change in net position	3,091
Net position, beginning balance	27,811
Net position, ending balance	$ 30,902
Statement of cash flows:	
Net cash provided by operating activities	$ 4,558
Net cash used in non capital financing activities	(1,100)
Net cash used in capital and related financing activities	(4,556)
Net cash provided from investing activities	1,327
Net increase in cash	229
Cash, at beginning of year	7,972
Cash, at end of year	$ 8,201

Complete, separately issued, audited financial statements of PREPA Holdings can be obtained at: Condominium Aquablue at the Golden Mile, Commercial Building Fourth Floor, 48 Muñoz Rivera Avenue, San Juan, Puerto Rico, 00918.

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Note 2 - Summary of Significant Accounting Policies – (continued)

Estimates

The preparation of the basic financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents (including Restricted)

Cash and cash equivalents include cash on hand, deposits in the commercial bank accounts, money markets investments, certificates of deposits, and instruments with original maturities of three months or less.

Restricted cash, and cash equivalents are amounts set aside for construction, debt service payments or other specific purposes that are limited to the purposes specified in the applicable agreements. (See Note 7).

Accounts receivable

Accounts receivable consist of monthly or bi-monthly billings for electric service rendered to customers based on meter reads and the accrual of revenues for electric service rendered to customers not billed at applicable month-end. The Authority accrues unbilled revenues based on an average of unbilled consumption by customer.

Accounts receivable are stated net of estimated allowances for uncollectible amounts, which are determined, after considering the likelihood of subsequent collections and current economic conditions, among other factors. The Authority establishes a general or specific allowance for each group of customers (i.e., residential, commercial, industrial, and governmental). Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the existing accounts receivable and related allowance may change in the future.

The Authority has significant accounts receivable from the Commonwealth, its component units, and municipalities. There is uncertainty regarding to the collection of such receivables due to the fact that many of these amounts are disputed by the relevant agencies, component units and municipalities, in addition to the financial challenges that these entities are facing. The Authority has considered this in its estimate of the specific governmental allowance for uncollectible accounts.

Note 2 - Summary of Significant Accounting Policies – (continued)

Fuel Inventory

Fuel inventory represents the value of low sulfur and other liquid fuel that the Authority had on hand at fiscal year-end in order to meet the demand requirements of its generating stations. Fuel inventory is valued using the weighted average cost method. At the time of consumption, an expense is recorded at the weighted average cost.

Materials and Supplies Inventory

The materials and supplies inventory support the operations and maintenance of the generation, transmission and distribution assets. The inventory is accounted for on an average cost basis of accounting. As of June 30, 2022, a reserve of approximately $51.1 million for obsolete inventory is included as part of materials and supplies in the accompanying statement of net position (deficit).

Capital Assets

Capital Assets are carried at cost, which includes labor, material, services and overhead. Capital expenditures of approximately $1,200 or more and a useful life beyond one year are capitalized at cost at the date of acquisition. Maintenance, repairs, and the cost of renewals of minor items of property units are charged to operating expenses. Composite depreciation assumes that all assets are retired at the end of their useful lives, and therefore no gain or loss is recognized upon retirement. The cost of the retired assets is removed from both the capital asset account and the accumulated depreciation account.

Capital contributions consist principally of infrastructure assets that are constructed by private entities, for residential, commercial, or industrial projects, that are transferred upon completion of the projects, for the Authority to connect the facilities to the electric grid. Capital assets donated by related parties (i.e., the Commonwealth or other component units of the Commonwealth) are recorded at the carrying value existing in the transferor's records.

Impairment of Capital Assets

The Authority evaluates significant events or changes in circumstances that may affect its capital assets to determine whether impairment of a capital asset occurred. Such events may include evidence of physical damage, enactment or approval of laws or regulations, changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner

Note 2 - Summary of Significant Accounting Policies – (continued)

Impairment of Capital Assets – (continued)

or duration of use of a capital asset, and construction stoppage, among others, that results in the significant and unexpected decline of the asset's service utility or capacity. Impaired capital assets that the Authority will no longer use, are reported at the lower of carrying value or fair value, less cost of disposition. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the cause of the diminished service utility of the capital asset.

The Authority follows GASB Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*". This statement establishes that restoration or replacement of an impaired capital asset is reported as a separate transaction from the impairment loss and associated insurance recovery. Impairment losses are reported net of the associated insurance recovery when the recovery and loss occur in the same year; subsequent years' recoveries are reported as nonoperating revenue. Insurance recoveries are recognized when realized or realizable as a reduction to the corresponding loss. For the fiscal year ended June 30, 2022, the Authority reported impairment losses on several of its capital assets (See Note 8).

Depreciation and Amortization

The Authority uses the composite depreciation method for all capital assets. Depreciation expense for plant in service results from the application of rates determined by age life studies of assets in service. The rates are applied to groups of depreciable properties. Effective November 11, 2021, the Authority revised its depreciation rates to reflect the adjusted remaining net book value and useful lives of the plant assets resulting in an average composite depreciation rate of approximately 2.78% for June 30, 2022.

Separately, right-to-use lease assets and leasehold improvements are being amortized over the lesser of the life of the assets or the term of the lease, using the straight-line method.

The following are the estimated useful lives by category as determined by the depreciation study:

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Note 2 - Summary of Significant Accounting Policies – (continued)

Category	**Useful Life (in years)**
Production	20 to 80
Distribution	10 to 50
Transmission	20 to 55
General and administrative	10 to 40
Fiber network	5 to 23
Irrigation systems	14 to 100

Leases

In June 2017, the GASB issued Statement No. 87, "*Leases*", effective for the Authority's fiscal year beginning July 1, 2021. The purpose of this Statement is to enhance consistency in accounting and financial reporting by providing a methodology for identifying and reporting lease arrangements and obligations. The Authority adopted the provisions of GASB Statement No. 87 on July 1, 2021 and the Authority's financial statements for the fiscal year ended June 3, 2022 reflect the implementation of this statement. The Authority's financial statements for the fiscal year ended June 30, 2021 have not been restated to reflect the implementation of GASB Statement No. 87 as the Authority does not believe the effects of this Statement have a material effect on the presentation of these financial statements.

Under this Statement, a lessee is required to recognize a lease liability and an intangible right-of-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. For leases with a maximum possible term of 12 months or less at commencement, including any options to extend, regardless of their probability of being exercised, the Authority recognizes expense on a straight-line basis over the lease term.

The Authority monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured and a corresponding adjustment is made to the lease asset, respectively. There was no remeasurement of leases during fiscal year ended June 30, 2022.

Leases receivables

Lease receivables are measured at the present value of the lease payments expected to be received during the lease term. Lease receivables are reported as current and non-current lease receivables in the statement of net position.

Note 2 - Summary of Significant Accounting Policies – (continued)

Right-of-use lease asset

The right-of-use lease asset is initially measured as the initial amount of the lease liability plus ancillary cost to place the asset into use, plus lease payments and lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term. The lease asset is amortized into amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. Lease assets are reported as non-current assets in the statement of net position.

Lease liability

At lease commencement, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, for all other leases, the lease liability is reduced by the principal portion of lease payments made at or before the lease commencement date.

Per the Standard, the future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee, the lessee's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) should be used.

Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Such amounts are recognized as expense in the period in which the obligation for those payments is incurred. The lease term includes the noncancelable period of the lease, plus any additional periods covered by either the Authority or lessee's unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain that the lessee will not exercise that option.

Lease liabilities are reported as current liabilities and noncurrent liabilities (long-term) in the statement of net position (See Note 15).

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Authority has the following deferred outflows of resources:

Note 2 - Summary of Significant Accounting Policies – (continued)

- Difference between expected and actual experience, changes in assumptions and the Authority's contribution subsequent to the measurement date for both the pension plan and other post-employment benefits ("OPEB").

- Unamortized deferred loss from debt refunding.

- Accumulated decrease in the fair value of hedging derivatives instruments.

- For asset retirement obligations ("AROs"), measured at the amount of the corresponding liability.

Deferred inflows of resources represent inflows of resources during a fiscal year related to future periods. The Authority has the following deferred inflows of resources:

- Difference between expected and actual experience and changes in assumptions for both the pension plan and OPEB.

- Net difference between projected and actual earnings on pension plan investments.

- Related to lease activities, is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable and is amortized on a straight-line basis over the term of the lease.

Debt Issuance Premiums and Discounts

Debt issuance costs are recorded as expenses when they are incurred. Premium and discounts in the issuance of bonds are deferred and amortized using the straight-line method, which approximates the interest method, over the term of the related bonds. Bonds payable are reported net of applicable amortized bond premium or discount.

Customer Deposits and Other

The Authority requires deposits from its customers before an electric service connection is activated. Deposits are recorded as a liability in the statement of net position, until termination of service. At the moment of termination or cancellation of the electric service, any corresponding deposit is applied to the account outstanding balance.

Note 2 - Summary of Significant Accounting Policies – (continued)

Customer Deposits and Other – (continued)

Any excess between outstanding balance and deposit is refunded to the customer. In addition, customer overpayments are recorded as a liability in the statement of net position if the overpayments cannot be netted against other customer receivables. As of June 30, 2022, the customer deposits and customer overpayments of approximately $242.4 million and $15.7 million are presented as liabilities in the statement of net position.

Compensated Absences

Employees earn vacation leave at the rate of 15 days per year up to a maximum permissible accumulation of 60 days for union employees and management personnel.

Vested accumulated vacation benefits to employees are accrued by the Authority as a liability and as an expense. The amount of accrued vacation that is expected to be paid in the next twelve months is classified as current, while amounts expected to be paid after twelve months are classified as noncurrent liabilities. See Note 10.

Employees accumulate sick leave at the rate of 18 days per year up to a maximum permissible accumulation of 90 days. Annual sick leave accumulation is limited to 12 days for new hires after February 3, 2017, as per Act 8-2017. However, this benefit is not accrued in liabilities because the law does not allow for liquidation of accrued sick leave upon separation from employment. As of June 30, 2022, management implemented the requirements under GASB Statement No. 101, Compensated Absences, with no significant impact to the accompanying financial statements. For the year ended June 30, 2022, there was a significant impact on accrued compensated absences as a result of the resignation or retirement of employees after the commencement of the T&D OMA Operator. Accrued benefits of the T&D OMA Operator are considered Pass-Through costs and are presented as part of the accounts payable and other accrued liabilities in the accompanying statement of net position (deficit).

Unearned Revenue

Unearned revenue represents a liability that is created when monies are received for services not yet provided. Revenue will be recognized, and the unearned revenue liability eliminated, when the services are rendered. Cash contributions from customers for specific construction projects and prepaid amounts received related to fiber optic communication network not yet amortized are included as part of the Authority's unearned revenues.

Note 2 - Summary of Significant Accounting Policies – (continued)

Pensions

The Authority accounts for pension costs under the provisions of GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions*", and GASB Statement No. 71, "*Pension Transitions for Contributions Made Subsequent to the Measurement Date*".

The Authority recognizes a net pension liability, which represents the excess of the total pension liability over the fiduciary net position of the pension plan, as reflected in the financial statements of the pension plan. The net pension liability is measured as of the beginning of the Authority's fiscal year. Changes in the net pension liability are recorded as pension expense or as deferred inflows of resources or deferred outflows of resources, depending on the nature of the change. Refer to Note 13.

Other Post-Employment Benefits (OPEB)

The Authority accounts for other post-employment benefits, ("OPEB") in accordance with GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The Authority's retired employees are eligible to participate in a single-employer, defined benefit, healthcare plan called the Authority Retired Employees Healthcare Plan (the OPEB Plan), where no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75; therefore, funding is made on a pay-as-you-go basis. Refer to Note 13.

Claims and Judgments

The estimated amount of the liability for claims and judgments is based on the Authority's evaluation of the probability of an unfavorable outcome in the applicable litigation. After the O&M Interim Service Commencement Date (refer to Note 18), the T&D OMA Operator manages the Authority legal matters with respect to the OMA services. The Authority consults with its legal counsel in order to determine whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future. However, many legal claims are currently stayed because of the filing of the Title III Case and a determination of a favorable or unfavorable outcome cannot be reasonably determined. See note 20.

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Note 2 - Summary of Significant Accounting Policies – (continued)

Pollution Remediation Obligation

The Authority accrues pollution remediation obligations ("PRO") under GASB No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations"*, which requires that the liability should be recorded at the current value of the costs the Authority expects to incur to perform the work. Estimated remediation costs are subject to change over time and are revised for updated technology, changes in potential responsible parties, results of environmental studies, changes in statutes or regulations, and other factors.

Asset Retirement Obligations

The Authority accrues AROs under GASB No. 83, *"Accounting and Financial Reporting for Certain Asset Retirement Obligations"*, which requires that a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets recognize a liability and a deferred outflow of resources for such obligations. The measurement of such liability is based in the best estimate of the current value of outlays expected to be incurred at the end of the current reporting period.

Fair Value Measurements

GASB Statement No. 72, "*Fair Value Measurement and Application*", establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as described below:

Level 1 – measurements that use quoted prices (unadjusted) for identical assets or liabilities in active markets that the Authority has the ability to access at the measurement date.

Level 2 – measurements (other than quoted prices included within Level 1) that are observable for an asset or liability, either directly or indirectly.

Note 2 - Summary of Significant Accounting Policies – (continued)

Level 3 – measurements that use unobservable inputs for an asset or liability. In some valuations, the inputs used may fall into different levels of hierarchy. In these cases, the financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

See Note 12 for further discussion of the Authority's fair value of its interest rate swap agreements. The Authority measures at fair value its interest rate swap agreements. Donated capital assets are recorded at acquisition value at time of donation.

Net Position

The Authority classifies its net position as follows:

Net investment in capital assets – This component of net position consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings attributable to the acquisition, construction, or improvement of those assets, including related deferred outflows.

Restricted net position – Consists primarily of cash restricted for construction purposes, net of its related debt or commitments to pay.

Unrestricted net position – Consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position, as defined above.

When both restricted and unrestricted resources are available for a specific use, it is the Authority's policy to use restricted resources first, then unrestricted resources, as they are needed. However, after the Oversight Board filed the Title III Case on July 2, 2017, the Authority stopped withdrawing funds from its restricted resources.

Classification of Operating and Nonoperating Revenues and Expenses

Operating revenues include activities that have the characteristics of an exchange transaction, such as electric services. Operating expenses also include activities that have the characteristics of an exchange transaction, such as employee salaries, benefits, and related expenses, utilities, supplies, and other services, and necessary maintenance expenses.

Other revenues include charges related to administrative fines or penalties, irregularities in electric energy consumption and late payment penalties.

Note 2 - Summary of Significant Accounting Policies – (continued)

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as federal grants. For the fiscal year ended June 30, 2022, the Authority received federal grants from the Federal Emergency Management Agency ("FEMA") in aid for damage to the Authority's assets caused by Hurricanes Irma and María (the "Hurricanes"), the earthquakes and the global pandemic occurred in fiscal year 2020, as well as from an agreement with Puerto Rico Infrastructure Financing Authority for environmental and related repair works. The Authority has applied the provisions of GASB Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*", to account for these grants. GASB Statement No. 33 allows revenues to be recognized when eligibility requirements are met, and the resources are available, whichever occurs first. See Note 14.

Classification of Operating and Nonoperating Revenues and Expenses – (continued)

Nonoperating expenses include interest on bonds and other related expenses that are defined as nonoperating expenses.

With regard to reporting of expenses, the Authority uses a combination of natural classification and functional classification. Expenses presented by natural classification are reported by the nature of each type of expense, are the most significant type of Authority expenses and are the ones for which separate riders are billed to its customers, Fuel, Purchase Power and contribution in lieu of taxes ("CILT"). Expenses presented by functional classification are aggregated and reported by the Authority activities for which they were incurred, in a similar manner to other like organizations. These expenses are charged to customers as part of the base rate included in customer bills.

Revenue from Electric Services

Revenues from electric services are recorded based on services rendered during each accounting period, including an estimate for unbilled services, net of discounts and allowances. The billing rates for electric services include a fuel and purchased power cost recovery component, which is designed to permit full recovery of the fuel and purchased power costs as ordered by PREB. Fuel costs and purchased power costs are reflected in operating expenses as the fuel and purchased power are consumed.

Cost recovery riders currently in place are: CILT, two riders designed to cover costs associated with subsidies, public lighting, and other PREB initiatives, as established in PREB's CEPR-AP_2015-001 of January 10, 2017. Cost riders are subject to a reconciliation process either on a quarterly or annual basis and approved by PREB. Costs related to these riders are presented as a reduction to net revenues.

Note 2 - Summary of Significant Accounting Policies – (continued)

Contributions in Lieu of Taxes

CILT is an amount that represents the electric power service provided by the Authority to the municipalities of Puerto Rico, in exchange of complete exemption from municipal taxes pursuant to the provisions of section 22 of the Act.

Risk Management

The Authority is subject to certain business risks common to the utility industry. The majority of these risks is mitigated by external insurance coverage obtained by the Authority. For other business risks, however, the Authority has elected to be self-insured. See Note 16.

Interest Rate Swap Agreements

The Authority accounts for its interest rate swap agreements in accordance with GASB Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*". The interest rate swaps are used to take advantage of favorable market interest rates and to limit interest rate risk associated with variable rate debt exposure.

The net amount received or paid under the swap agreements is recorded as an adjustment to interest expense. The interest rate swaps are reported at fair value in the statement of net position (deficit). The changes in fair value for effective hedges are recorded as deferred inflows or outflows of resources in the statement of net position. The changes in fair value for ineffective hedges are reported in investment income. As of June 30, 2022, management had not amended or replaced these financial agreements for the purpose of replacing LIBOR with other reference rates, as addressed in GASB Statement No. 93, "*Replacement of Interbank Offered Rates*".

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Note 3 - <u>Accounting Pronouncements Issued But Not Yet Effective</u>

The following new accounting standards have been issued but are not yet effective:

- GASB Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payments Arrangements*". The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-private partnership arrangements and providing guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 96, "*Subscription Based Information Technology Arrangements*". The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements ("SBITAs") for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right to use a subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 99, "*Omnibus 2022*", which is effective for reporting period beginning after June 15, 2023. The primary objective for this statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (a) practice issues that have been identified during implementation and application of certain GASB Statements and (b) accounting and financial reporting for financial Guarantees. The Authority will adopt and appropriately reflect provisions of GASB Statement No. 99 on its financial statements.

  GASB Statement No. 100, "*Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*". The primary objective of this Statement is to enhance the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

  Management has not yet determined the impact these statements may have on the Authority's basic financial statements.

Note 4 - Going Concern Uncertainty

Going Concern Consideration

Management believes that there is substantial doubt about the Authority's ability to continue as a going concern because:

- The Authority does not currently have sufficient funds available to fully repay its various obligations as they come due. The Authority has defaulted on various debt obligations.

- As of June 30, 2022, the Authority has an accumulated deficit of approximately $10.1 billion.

- As noted in Note 1, on July 2, 2017, the Oversight Board filed the Title III Case. Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code. Among other things, Title III of PROMESA incorporates the automatic stay provisions of the US Bankruptcy Code, made applicable to the Title III cases pursuant to PROMESA section 301(a).

- On July 20, 2021, Moody's Investors Service ("Moody's) withdrew its rating on the Authority's bonds, joining Standard & Poor's ("S&P") which withdrew its rating for the Authority's bonds in February 2018. Fitch Ratings ("Fitch") also withdrew its rating for the Authority's uninsured bonds on July 5, 2023.

- The Authority's operational and fiscal condition has been further affected by a series of catastrophic events. The Hurricanes caused substantial, island-wide damage to the Authority's T&D System and other assets. In January 7, 2020, a magnitude 6.4 earthquake located near Puerto Rico's southwestern coast caused significant damage to two units at the Authority's Costa Sur power plant and left most of Puerto Rico without electric service for hours. The effects of the earthquake were quickly followed by the emergence of the COVID-19 pandemic which has had a negative effect on the Authority's collections and revenues, further weakening its liquidity position. Russia's February 2022 invasion of Ukraine placed renewed emphasis on the worldwide dependence on fossil fuels, and the resulting supply disruption directly affected the Authority's operations by significantly (if temporarily) increasing fuel purchase costs.

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Note 4 - Going Concern Uncertainty – (continued)

Going Concern Consideration – (continued)

Remediation plan

Operational Plan

The Authority's current focus, as evaluated by its governing board, is on (1) supporting efforts to maximize federal funding allocations in order to invest in the repair and strengthening of its T&D System and other energy assets; (2) implementing short-term operational and managerial reforms that will enhance service quality and operational efficiency; (3) supporting the transfer of the T&D System and generation operating and maintenance responsibilities to professional, private operators; and (4) supporting efforts to restructure its legacy debt and pension obligations.

The Authority's Fiscal Plan

On March 13, 2017, the Authority presented its first 10-year fiscal plan to the Oversight Board. The Authority commits to fiscal responsibility and infrastructure modernization, public private partnerships, targeted expenditure reductions/efficiencies (operational and other) and specific revenue enhancements.

The Oversight Board has certified various fiscal plans for the Authority and most recently on June 23, 2023 (the "Certified 2023 Fiscal Plan"). On April 3, 2023, the Oversight Board also certified the 2023 Commonwealth Fiscal Plan (the "Commonwealth Fiscal Plan"). The Authority's Certified 2023 Fiscal Plan, the Commonwealth Fiscal Plan, and the energy public policy and legal framework established by the Government of Puerto Rico provide a roadmap to complete the transformation of Puerto Rico's energy system. If successfully implemented, a reformed energy system will lead to a modernized and reliable energy service across the island of Puerto Rico.

However, there is no certainty that the Certified 2023 Fiscal Plan or Commonwealth Fiscal Plan will be fully implemented, or, if implemented, will ultimately provide the intended results. All these plans and measures, and the Authority's ability to reduce its financial operating deficit, depends on a number of factors and risks, some of which are not wholly within the Authority's control.

Authority's Title III Plan of Adjustment

On December 16, 2022, the Oversight Board, on the Authority's behalf, filed a plan of adjustment of the Authority's debt. The Plan has been amended on several occasions. The current version of the Plan was filed on February 16, 2024. The Plan's confirmation hearing took place from March 4, 2024 through March 19, 2024. The Title III Court took the matter under advisement. There is no certainty

Note 4 - Going Concern Uncertainty – (continued)

Remediation Plan – (continued)

The Authority's Title III Plan of Adjustment – (continued)

that the Title III Court will confirm the proposed plan of adjustment, or that, if confirmed, the plan of adjustment will be fully implemented. For additional information on the Authority's plan of adjustment, please refer to Note 20.

Approval of the Commonwealth Plan of Adjustment of Debts

On January 18, 2022, the Title III Court entered an order approving the Commonwealth's Plan of Adjustment ("Commonwealth Plan of Adjustment"). The Commonwealth Plan of Adjustment reduces Commonwealth bond and other debt by approximately 80% and saves Puerto Rico more than $50 billion in future aggregate debt service payments. In addition, the Title III Court entered its findings of fact and conclusions of law (the "Findings of Fact") in connection with the Commonwealth Plan of Adjustment, and on March 15, 2022, entered an order confirming the Commonwealth Plan of Adjustment (the "Commonwealth Confirmation Order"). Between January 28, 2022, and February 17, 2022, six appeals of the Confirmation Order were filed in the U.S. Court of Appeals for the First Circuit (the "First Circuit"). Also, on February 22, 2022, the Oversight Board certified a revised budget for the Puerto Rico government which includes the new debt payments. The First Circuit denied all parties' motions for a stay of the Commonwealth Plan of Adjustment pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. On March 15, 2022 (the "Effective Date"), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied or waived by the Oversight Board, and the Commonwealth Plan of Adjustment became effective. On April 3, 2023, the Oversight Board certified a new fiscal plan for the Commonwealth reflecting the emergence from Title III.

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Note 5 - Deposits

As of June 30, 2022, the carrying amount and bank balance of cash deposits held by the Authority in commercial banks is as follows (in thousands):

	Carrying Amount	Bank Balance
Unrestricted cash	$ 272,246	$ 186,046
Restricted cash	$ 820,465	$ 822,777

Custodial Credit Risk – Deposits in Commercial Banks

Custodial credit risk is the risk that in the event of a bank failure, the bank's deposits may not be returned. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized. The Authority's policy is to deposit funds with institutions that provide insurance or securities as collateral. Such collateral is held by the Department of the Treasury of the Commonwealth.

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Note 6 - Accounts Receivable from Services and Accounts Receivable from Insurance Companies and the U.S. Federal Government

Accounts receivable consist of (in thousands):

Current:		
Electric and related services:		
Commonwealth agencies and component units		$ 144,063
Residential, industrial, and commercial		1,186,941
Unbilled services		286,832
Municipalities		
Accounts receivable	97,006	
Accounts payable offset (See Note 9)	(91,826)	5,180
Telecommunications and others		45,533
		1,668,549
Allowance for uncollectible accounts		(930,351)
Total accounts receivable, net		$ 738,198
Insurance companies & grants from the U.S. Federal Government, net		$ 95,311
Noncurrent:		
Electric and related services:		
Governmental agencies and municipalities	$ 127,682	
Other receivables related to government	91,969	$ 219,651
Allowance for uncollectible accounts		(219,651)
Total non-current accounts receivables, net		$ -

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Note 6 - Accounts Receivable from Services and Accounts Receivable from Insurance Companies and the U.S. Federal Government – (continued)

As of June 30, 2022, receivables from the municipalities amounted to $97 million, of which the Authority has the right to offset with CILT payable approximately $91.8 million. See Note 9.

In the accompanying statement of net position (deficit), the Authority has recorded insurance companies and grants receivable from U.S. Government of approximately $95.3 million, net of allowance.

The portion of accounts receivable and other governmental receivables not expected to be collected during the next fiscal year is recorded under other noncurrent receivables. The Authority has recorded an allowance for uncollectible accounts of $219.7 million for the fiscal year ended June 30, 2022, of which $127.7 million is in consideration of the financial difficulties of the Commonwealth, its component units and municipalities. The remaining $92.0 million represents the allowance for the outstanding claim that the Authority had for deposits previously held with Government Development Bank for Puerto Rico ("GDB"), which has been restructured and replaced with a claim of the Authority in the Public Entity Trust ("PET") that was established as part of the GDB restructuring proceedings under Title VI of PROMESA. During fiscal year 2022, the Authority recorded a gain of approximately $4.9 million on collections from this claim with the PET, from this amount, $3.1 million were previously reserved and therefore reduced from the allowance.

Note 7 - Restricted Cash, Cash Equivalents

As of June 30, 2022, the Authority had certain cash and cash equivalents held by the U.S. Bank National Association, the trustee under the 1974 Agreement (the "1974 Trustee") and other cash and cash equivalents held by other financial institutions, consisting primarily of commercial bank deposits, money markets, time deposits and certificates of deposit (in thousands):

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Note 7 - Restricted Cash, Cash Equivalents – (continued)

	Restricted Cash and Cash Equivalents
Construction fund	$ 17,506
Construction - Insurance Proceeds fund	14,878
T&D Infrastructure Service Accounts	246,669
T&D Operation and Maintenance Service Accounts	501,077
Reserve maintenance fund	16,912
Reserve account in the sinking fund	17,102
PREPA client fund	3,342
EPA Trust Fund	965
Other restricted funds	2,014
Total	$ 820,465

All moneys deposited with the 1974 Trustee or any other depository under and as defined in the 1974 Agreement in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured with a bank or trust company, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations (as defined in the 1974 Agreement) or other eligible marketable securities.

Construction Fund – The proceeds of any Power Revenue Bonds issued or insurance proceeds received, as stipulated by the 1974 Agreement, for the purpose of paying the cost of acquiring or constructing improvements, together with the money received from any other source for such purpose, except proceeds which are (i) applied to the repayment of advances, (ii) deposited in the 1974 Reserve Account, (iii) deposited in the Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1974 Construction Fund and held by the Authority subject to a security interest in favor of the 1974 Trustee (defined in Note 7). For fiscal year ended June 30, 2022, the balance held in this fund represents primarily insurance proceeds restricted for capital asset investment in accordance with a determination by the Title III Court that restricted the use of those funds to repair, replace or reconstruct damaged or destroyed property.

Note 7 - Restricted Cash, Cash Equivalents – (continued)

T&D Infrastructure Service Accounts – Moneys in the T&D Infrastructure Fund allocated to it by the Commonwealth are used for capital expenditures, and other purposes as required for the T&D System and set forth in the T&D Contract. See Note 11.

T&D Operation and Maintenance Service Accounts – Moneys in the T&D Operation and Maintenance Fund allocated to it by the Commonwealth are used for operation and maintenance expenses of the T&D System and set forth in the T&D Contract. See Note 11.

Reserve Maintenance Fund – To pay the cost of unusual or extraordinary maintenance or repairs, not recurring, and renewals and replacements, including major items of equipment as stipulated in the 1974 Agreement.

Reserve Account in the Sinking Fund – Amounts for principal and interest on Power Revenue Bonds.

EPA Trust Fund – As described in Note 19, the Authority and other potentially responsible parties ("PRP Group") entered into an administrative settlement agreement regarding the Proteco site. Moneys in the EPA Trust Fund are to be applied to complete the required environmental remediation work at the site.

PREPA Client Fund – Funds received from PREPA Holdings to help stabilize the price of electric power provided to the Authority's customers.

Other Restricted Funds – Funds deposited under the Land Acquisition Project, a consent decree between the Authority and the U.S. Department of Justice, dated March 19, 1999, where the Authority agreed to deposit approximately $3.4 million into an interest-bearing escrow account to implement an environmental restoration and protection project. The primary purpose of the project is the acquisition and preservation of land in or adjacent to the Cucharillas marsh in Cataño. As of June 30, 2022, the remaining balance from the Land Acquisition Project was approximately $2.0 million. Also, the Coronavirus State and Local Fiscal Recovery Fund program, authorized by the American Rescue Plan Act, developed the Premium Pay Programs to provide economic compensations to essential workers in the public and private sectors during the COVID-19 pandemic to cover necessary expenditures related to the emergency available until December 31, 2024. As of June 30, 2022, the remaining balance from the Premium Pay Program was $34 thousands.

Note 8 - Capital Assets

The Authority had the following activities in capital assets (in thousands):

	Balance June 30, 2021	Additions	Retirements and disposals	Transfers and adjustments	Balance June 30, 2022
Non-depreciable capital assets:					
Land and land improvements	$ 143,926	$ -	$ -	$ (4,757)	$ 139,169
Construction work in process	326,698	268,374	(2,902)	(282,155)	310,015
Total non-depreciable capital assets	470,624	268,374	(2,902)	(286,912)	449,184
Depreciable capital assets:					
Production	5,095,289	49,492	-	32,606	5,177,387
Distribution	4,932,165	1,578	-	34,566	4,968,309
Transmission	2,440,726	8,291	-	104,475	2,553,492
General and administrative	1,609,688	-	-	1,399	1,611,087
Fiber network	74,647	5,844	(1,114)	-	79,377
Irrigation systems	35,654	357	-	-	36,011
Total depreciable capital assets	14,188,169	65,562	(1,114)	173,046	14,425,663
Accumulated depreciation:					
Production	(2,802,740)	(103,877)	-	70,215	(2,836,402)
Distribution	(2,204,797)	(140,392)	543	6,663	(2,337,983)
Transmission	(771,156)	(50,781)	-	(56,941)	(878,878)
General and administrative	(1,062,402)	(45,761)	(517)	14,421	(1,094,259)
Fiber network	(34,177)	(3,040)	1,114	(1)	(36,104)
Irrigation systems	(24,266)	(453)	-	40	(24,679)
Total accumulated depreciation	(6,899,538)	(344,304)	1,140	34,397	(7,208,305)
Total depreciable capital assets, net	7,288,631	(278,742)	26	207,443	7,217,358
Total capital assets	$ 7,759,255	$ (10,368)	$ (2,876)	$ (79,469)	$ 7,666,542

Note 8 - Capital Assets – (continued)

Construction work in progress on June 30, 2022, consists principally of expansions and upgrades to the electric generation, transmission, and distribution systems. Depreciation and amortization expense of the Authority's capital assets for approximately $344.3 million (as shown above), amortization for the right-of-use leased assets of approximately $2.9 million (refer to note 15), and ARO amortization expense of approximately $20.2 million are presented as a single line item in the accompanying statements of revenues, expenses, and changes in net position (deficit) for a total of approximately $367.3 million.

The Authority applies GASB Statement No. 42 ("GASB No. 42"), "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*, which that the determination of whether a capital asset is impaired is a two-step process of (a) identifying potential impairments and (b) testing for impairment.

As of June 30, 2022, the Authority reported impairment losses from capital assets presenting the factor of physical damage mainly on its thermal generation units for the amount of $75.8 million. Capital assets with a carrying amount of $105.4 million were temporarily idle. The Authority plans to repair these idle units with internal and/or federal funded sources. The Authority continues to evaluate the conditions and uses of its infrastructure and as part of its reorganization and transformation initiatives (note 17 and 18), there might be significant changes in future periods on the use of these assets that could result in additional impairment.

Note 9 - Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2022, were as follows (in thousands):

Accounts payable, accrued expenses, and withholdings		$ 1,199,731
Contribution in lieu of taxes		
Accounts payable	91,826	
Accounts receivable offset (See Note 6)	(91,826)	-
Payables to OMA Operators		132,290
Accrued pension plan contribution and withholding from employees		811,741
Other post-employment benefit obligations		5,446
Total		$ 2,149,208

Note 10 - Long-Term Liabilities

Long term debt activity for the fiscal year ended June 30, 2022, was as follows (in thousands):

	Balance at June 30, 2021	Increases	Decreases	Balance at June 30, 2022	Due within one year
Bonds payable	$ 8,325,307	$ 120,530	$ (127,980)	$ 8,317,857	$ 2,313,599
Notes and loan payable	724,957	45,299	(1,700)	768,556	711,705
Compensated absences*	37,934	-	(29,448) *	8,486	5,593
Claims and judgments	268,894	6,609	-	275,503	-
Net pension liability	4,878,617	691,206	(532,056)	5,037,767	-
OPEB liability	361,516	33,044	(50,793)	343,767	5,446
Due to Primary Government	750,000	-	-	750,000	-
Total long-term liabilities	$ 15,347,225	$ 896,688	$ (741,977)	$ 15,501,936	$ 3,036,343

** The change in the compensated absences liability is presented as a net change.*

Commencing with the filing of the Title III Case, the Authority has not made any payments (whether for interest or principal) on bonds payable and some notes payable. As such, the current portion of the long-term liabilities is expected to increase as they become due, subject to Authority's rights in the Title III case, until new terms for the Authority's long-term debt are restructured in the Authority's Title III case.

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Note 11 - Notes and Loan Payable

Notes Payable

The following is a summary of notes payable as of June 30, 2022 (in thousands):

	Maturity Date	Effective Interest Rate	Current portion	Long-Term Debt	Total
Notes payable:					
Revolving line of credit of $250 million to finance working capital	January 2015	9.47% (V)	$ 146,042	$ -	$ 146,042
Revolving line of credit of $550 million to finance working capital	August 2014	8.75% (V)	549,950	-	549,950
Revolving line of credit of $27 million to finance improvements in Aguirre and San Juan	20 years following completion of the construction	2.00% (F)	-	17,144	17,144
Note Payable of $16 million (PREPA Holdings) to finance the general working capital and capital expenditures	June 2023	5.00% (V)	660	11,019	11,679
Loan Payable on financed purchase of equipment	March 2026	1.96% (F)	271	771	1,042
Note Payable of $50 million for conversion of Units 5 & 6 of SJ Combine Cycle to Natural Gas	July 2026	6.40% (F)	14,782	27,917	42,699
Total Notes Payable			$ 711,705	$ 56,851	$ 768,556

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Note 11 - Notes and Loan Payable – (continued)

Notes Payable – (continued)

The schedule of maturities of notes payable with interest thereon as of June 30, 2022, is as follows (in thousands):

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	$ 711,705	$ 355,964	$ 1,067,669
2024	19,754	1,878	21,632
2025	9,298	1,316	10,614
2026	9,826	717	10,543
2027	829	330	1,159
2028-2032	-	1,630	1,630
2033-2037	-	1,630	1,630
2038-2042	-	1,630	1,630
2043-2046	17,144	1,304	18,448
Total notes payable	768,556	$ 366,399	$ 1,134,955
Less current portion of notes payable	(711,705)		
Notes payable, long-term	$ 56,851		

The above schedule has been presented in accordance with original terms of the notes payable and does not reflect the effect, if any, that may result from the Authority's Title III case. Accordingly, subsequent events related to the Title III case may affect the carrying amounts, interest rates and repayment terms. See Note 4 for additional information on the Authority's Title III case and status.

In July 2012, the Authority entered into a revolving line of credit agreement with Citibank not to exceed approximately $250.0 million for the purpose of providing the Authority with funds to (a) purchase power or fuel oil or (b) construction of a liquified natural gas ("LNG") facility in connection with the Authority's business operations, and to pay costs related to the agreement. As of June 30, 2022, this line of credit is under the lead of Solus Alternative Asset Management; and its outstanding balance is approximately $146.0 million, subject to Authority's rights in the Title III case.

Note 11 - Notes and Loan Payable – (continued)

Notes Payable – (continued)

In April 2012, the Authority entered into a revolving line of credit agreement with a group of commercial banks, under the lead of Scotiabank, for the amount of approximately $500 million. The purpose of this line of credit was covering the Authority's operational deficits for fiscal years 2012 and 2013, through the payment of certain existing lines of credit and to comply with the terms and conditions of the contracts held for the purchase of fuel oil. This agreement's original maturity date was May 3, 2013 but was extended to August 15, 2014; and its amount was increased by an additional $50 million. As of June 30, 2022, this line of credit is under the lead of Cortland Capital Market Services, LLC; and its outstanding balance is approximately $550.0 million, subject to Authority's rights in the Title III case.

During the fiscal year ended June 30, 2022, the Authority borrowed from PR Infrastructure Financing Authority an additional $1.5 million under a revolving line of credit of approximately $27 million, with a maturity date of 20 years after the construction completion date, and an effective interest of 2%, to finance improvements to the Aguirre Power Complex Water Supply and the San Juan Waste Water Treatment Plant. As of the date of these financial statements, the projects' construction completion date is estimated to be July of 2025; the outstanding balance of the revolving line of credit as of June 30, 2022, is approximately $17.1 million and its estimated maturity date is July of 2045. The increase in the loan amount resulted from the reimbursement of costs incurred by the Authority during prior and current fiscal years.

On December 31, 2015, HUB converted a former non-revolving, senior secured, construction credit facility to a term loan bearing interest at the higher of 5% per annum or 350 basis points over 3-month LIBOR (5% as of June 30, 2022), and payable in eighty-three (83) monthly principal plus interest payments, with a final balloon payment for the entire outstanding principal plus accrued interest at the maturity date of February 1, 2023. As of June 30, 2022, the outstanding principal amount due is approximately $11.7 million. This note payable is collateralized by a first mortgage on the real property, assignment of all insurance policies, assignment of all material contracts with both related and third parties, and pledge of all cash, equipment, receivables, and personal property of HUB.

In addition, HUB is required comply with certain affirmative, negative and other financial covenants during the term of the loan, which in the event of noncompliance provides the lender the right to declare the outstanding debt as due and payable and to terminate the agreement. As of June 30, 2022, HUB is in compliance with these covenants.

Note 11 - Notes and Loan Payable – (continued)

Notes Payable – (continued)

The loan contains provisions that in an event of default, HUB shall pay interest on the unpaid principal amount of the loan, from the date of such event of default until such event of default is cured, at the rate of 200 basis points above the rate that would otherwise be in effect. In addition, the lender may declare that outstanding amounts become immediately due if HUB is unable to make payment.

HUB is in the process of refinancing the term loan since it is due on February 1, 2023. On October 14, 2022 and January 30, 2023, the Company made two payments of $500 thousand each for a total of $1 million to the principal balance of the term loan, in order to refinance an approximate principal balance of $10 million. On March 20, 2023, a notification was received of an extension approved by the bank to continue the refinancing process up to June 30, 2023.

On April 22, 2020, HUB applied for and was approved a $450,554 loan under the Paycheck Protection Program (PPP) created as part of the relief efforts related to COVID-19 pandemic and administered by the U.S. Small Business Administration. The loan accrues interest at 1% and shall be payable in consecutive monthly installments of $62,577, plus accrued interests, commencing in November 2021 and ending in April 2022. HUB submitted a loan forgiveness application on September 18, 2020, which was denied by the SBA. The loan was uncollateralized and was fully guaranteed by the Federal government. During the year ended June 30, 2022, HUB paid off the PPP loan in its entirety, which was a total payment of $458,226, including $7,672 of interest.

On March 31, 2022, HUB entered a $1,131,238 term loan for the acquisition of hybrid cloud equipment. The loan matures on March 31, 2026, and is payable in monthly installments of $24,040 including interest at 1.96%. As of June 30, 2022, the outstanding principal amount due is $1,042,241.

On March 5, 2019, the Authority and NFEnergía signed a contract for the supply of natural gas as well as for the design, engineering, construction, supply, installation, commissioning and testing works at the San Juan Power Plant required to make Natural Gas available to San Juan 5 & 6 units at the Delivery Point, and the conversion of such units to Natural Gas burning power generation. On August 1, 2021, NFEnergía achieved substantial completion of such units and starting on that date the Authority became liable for the manufacturing surcharge payments to NFEnergía. The note, for the amount of $42.7 million, accrues interest at .053% and shall be payable in consecutive monthly installments of $833,333, plus accrued interests, commencing in August 2021 and ending in July 2026, subject to the Authority's rights and obligations to pay the Discounted Surcharge Amount or the Full Surcharge Amount. The Authority, at any time during the sixty (60) calendar

Note 11 - Notes and Loan Payable – (continued)

Notes Payable – (continued)

months, may elect to pay the remaining manufacturing surcharge. Depending on the source of revenue from which the Authority will be paying the remaining manufacturing surcharge, the Discounted or the Full Surcharge Amount would apply. The Discounted Surcharge Amount would apply when the source of revenue is the Authority's own revenue and profit from operations or fundings are provided by any Governmental Authority (including funds from FEMA), otherwise the Full Surcharge Amount would apply. Whenever the Discounted Surcharge Amount is applicable, the Authority would be liable for an Incremental Tax Adjustment, which will be the difference between the taxes the supplier will pay upon receipt of the Discounted Payment and the taxes that would have paid if the payments were received as and when due. As of June 30, 2022, the Authority owes the entire note's principal of $42.7 million, plus accrued interests. The Authority started its payments on this note on July of 2022.

Due to Primary Government

Since June 1, 2021, pursuant to the T&D Contract, LUMA has been engaged to manage and operate the T&D system. On that same date, an allocation of $750.0 million from the Commonwealth was made to the Authority to fund reserve accounts for the operation and maintenance of the T&D System, and related purposes.

In accordance with guidance established by GASB Statement No. 33, "*Accounting and Financial Reporting for Non-Exchange Transactions*", these funds were recorded as a long term Due to Primary Government in the accompanying statement of net position (deficit).

Note 12 - Bonds Payable

Power Revenue Bonds Payable

The Authority issued Power Revenue Bonds to finance the cost of improvements and enhancements of its capital assets. Net revenues, solely to the extent they are deposited in the "Sinking Fund" or certain other designated funds under the 1974 Agreement, are subject to a security interest—subject to Authority's rights in the Title III Case, under PROMESA, or bankruptcy law—in favor of the 1974 Trustee to repay Power Revenue Bonds principal and interest. The 1974 Agreement provides for certain affirmative and negative covenants, among other requirements, subject to the Authority's rights in the Title III Case. On July 2, 2017, the Oversight Board filed the Title III Case and the Authority's repayment obligation relating to its Power Revenue Bonds has been stayed as a result and are subject to Authority's rights in the Title III Case.

Note 12 - Bonds Payable – (continued)

Power Revenue Bonds Payable – (continued)

On June 30, 2022, power revenue bonds payable consisted of (in thousands):

Bond Issues	Date of Issue	Effective Interest Rate		Fiscal Year of Last Scheduled Maturity	Principal Outstanding
Issue of 2002, Series JJ	January 3, 2002	5.4%	*(F)*	2018	$ 42,315
Issue of 2002, Series LL	July 2, 2002	5.5%	*(F)*	2019	77,905
Issue of 2002, Series MM	October 3, 2002	5.0%	*(F)*	2023	56,200
Issue of 2003, Series NN	August 19, 2003	5.2%	*(F)*	2033	171,525
Issue of 2004, Series PP	August 26, 2004	5.0%	*(F)*	2025	84,765
Issue of 2005, Series QQ, RR and SS	April 4, 2005	From 5.0% to 5.5%	*(F)*	From 2018 to 2030	603,810
Issue of 2007, Series TT, UU and VV	May 3, 2007	From 3.1% to 5.3%	*(F)(V)*	From 2031 to 2037	1,946,010
Issue of 2008, Series WW	June 26, 2008	5.3%	*(F)*	2038	610,140
Issue of 2010, Series XX	April 7, 2010	5.3%	*(F)*	2040	822,210
Issue of 2010, Series YY	April 29, 2010	6.1%	*(F)*	2040	320,175
Issue of 2010, Series ZZ and AAA	May 5, 2010	From 5.1% to 5.3%	*(F)*	From 2028 to 2031	877,975
Issue of 2010, Series BBB and CCC	May 26, 2010	From 5.1% to 5.4%	*(F)*	2028	393,720
Issue of 2010, Series DDD	October 14, 2010	4.5%	*(F)*	2024	218,225
Issue of 2010, Series EEE	December 29, 2010	6.1%	*(F)*	2040	355,730
Issue of 2012, Series A	May 1, 2012	5.0%	*(F)*	2042	630,110
Issue of 2013, Series A	August 21, 2013	6.9%	*(F)*	2043	673,145
Issue of 2016, Series A	May 19, 2016	10.0%	*(F)*	2019	55,640
Issue of 2016, Series B	June 22, 2016	10.0%	*(F)*	2019	55,211
Issue of 2016, Series C, D and E	June 30, 2016	From 5.4% to 10.0%	*(F)*	From 2020 to 2022	263,803
Total principal amount face value					8,258,614
Unamortized premiums and discounts					59,243
Power revenue bonds, net					8,317,857
Amount due within one year					(2,313,599)
Long-term portion of bonds payable					$ 6,004,258

(V) - variable interest rate

(F) - fixed interest rate

Note 12 - Bonds Payable – (continued)

Power Revenue Bonds Payable – (continued)

The schedule of maturities of bonds payable with interest thereon as of June 30, 2022, is as follows (in thousands):

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	$ 2,313,599	$ 2,514,003	$ 4,827,602
2024	330,819	318,557	649,376
2025	334,600	301,957	636,557
2026	351,265	287,590	638,855
2027	368,445	272,711	641,156
2028-2032	1,775,990	897,739	2,673,729
2033-2037	1,395,515	721,360	2,116,875
2038-2042	1,367,070	322,785	1,689,855
2043	21,311	29,551	50,862
Total	8,258,614	$ 5,666,253	$ 13,924,867
Plus or less: unamortized discount or premium	59,243		
Total bonds payable	8,317,857		
Total current portion of bonds payable	(2,313,599)		
Bonds payable, excluding current portion	$ 6,004,258		

The above schedule has been presented in accordance with original terms of the bonds payable and does not reflect the effect, if any, that may result from the Authority's Title III case. Accordingly, the effects of the Authority's Title III case may affect the carrying amounts, interest rates and repayment terms. See Note 4 for additional information on the Authority's Title III case and status.

From the total of approximately $8.3 billion of bonds outstanding, approximately $2.2 billion are insured by certain monoline insurance companies. During the fiscal year ended June 30, 2022, these insurance companies made payments of approximately $120.5 million in principal and approximately $71.7 million in interest as the amounts owed became due. After the monoline insurers make the insured payments, they become subrogated to the rights of the original bondholders. As a result, the Authority presents amounts owed to the insurance companies as Bonds Payable and Accrued Interest until such rights are resolved by payment or by the Authority's Title III case. As such, payments of principal and interest made by the monoline insurance companies are not recorded or presented as debt service.

Note 12 - Bonds Payable – (continued)

Securities and Exchange Commission Investigation

The United States Securities and Exchange Commission ("SEC") requested the Authority's information about bond issuances series 2012A, 2012B and 2013A in fiscal years 2012 and 2013. The Authority has cooperated in the inquiry, including providing the SEC with documents and information. As of the date of these financial statements, it cannot be predicted when the SEC's investigation will conclude or what the ultimate outcome will be.

U.S. Internal Revenue Service Examinations

The Internal Revenue Service (the "IRS") notified the Authority in letters dated from February 7, 2019 to September 6, 2019 that the IRS is conducting investigations related to (i) certain Form 8038-CP Returns for Credit Payments to Issuers of Qualified Bonds, as defined by the IRS, and Series YY and EEE bond issuances and (ii) Form 8038-B Information Return for Build America Bonds and Recovery Zone Economic Development Bonds with respect to the Series EEE bond issuance, regarding its qualification as Build America Bonds ("BAB"). On August 11, 2020, the Authority received a letter closing the examination referred to in (ii) of the preceding sentence without change. The investigations resulted in contingencies of approximately $16.9 million that are accrued in the accompanying financial statements.

In respect of the investigation in (i) of the preceding paragraph, on July 10, 2020, the IRS also issued "30-day" letters to the Authority, requesting disgorgement of BAB Subsidy Payments received for the July 1, 2017, October 1, 2017, January 1, 2018, April 1, 2018, and January 1, 2020 interest payment dates, in the total amount of $18.9 million, and denying the Authority's request for BAB Subsidy Payments for July 1, 2018, October 1, 2018, January 1, 2019, April 1, 2019, July 1, 2019, October 1, 2019, and April 1, 2020 the interest payment dates, in the total amount of $23.7 million. Since that date and until January 2023, the Authority has continued to file for BAB Subsidy Payments, and the IRS has continued to deny such requests; the aggregate amount of those additional requests for BAB Subsidy Payments that have been filed with the IRS by the Authority is $37.4 million. The Authority has appealed all of the IRS determinations; the appeals are still pending.

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Note 12 - Bonds Payable – (continued)

Interest Rate Swap Agreements

The Authority entered into pay fixed and receive variable interest rate swap agreements as a cash flow hedge of interest rate risk on certain of the Series UU Bonds. On June 30, 2022, the following is the information on the derivative instruments outstanding (in thousands):

Item	Effective Date	Maturity Date	Terms	Counterparty Credit Rating	Notional Amount
A	May 3, 2007	July 1, 2029	Pay 4.08%; receive 67% 3M LIBOR + 0.52%	Aa2/A+/AA	$ 169,532
B	May 3, 2007	July 1, 2029	Pay 4.08%; receive 67% 3M LIBOR + 0.52%	Aa2/A+/A+	83,343
					$ 252,875

Derivative instruments A and B hedge changes in cash flows of the underlying floating bonds with coupons based on 5-year SIFMA or 67% of 3-month LIBOR index, and maturities equal to the maturities of the corresponding swaps. As such, instruments A and B are considered hedging derivative instruments. As of June 30, 2022, the combined negative fair value of the derivative instruments was $17.7 million.

The following tables include summary information for the Authority's effective hedges related to the outstanding interest rate swap agreements for fiscal year ended June 30, 2022 (in thousands):

	Change in Fair Value		Fair Value		
Associate Power Revenue Bonds	Classification	Amount	Classification	Amount	Notional
Libor Bonds, Series UU	Deferred Outflows	$ 15,667	FV of derivative instruments	$ (11,840)	$ 169,532
Mini-BMS Bonds, Series UU	Deferred Outflows	7,703	FV of derivative instruments	(5,822)	83,343
		$ 23,370		$ (17,662)	$ 252,875

The notional amounts of the swaps match the principal amounts of the associated Power Revenue Bonds.

Note 12 - Bonds Payable – (continued)

Interest Rate Swap Agreements – (continued)

The valuation methodology used to determine the Fair Value of the interest rate Swap agreements as of June 30, 2022, consists of a present value equivalent using a risk-adjusted discount rate.

- Based the discount rate for each settlement amount on the LIBOR spot rate curve as of the Valuation Date, plus a credit spread, applicable when in a liability position. The credit spread was added to reflect credit risk.

- Estimated the credit spread using the following sources of information: (1) Credit default swaps and (2) LIBOR spreads for comparable bonds.

- Applied the estimated credit spread in the determination of an appropriate discount rate for the settlement amount.

Credit Risk

As of June 30, 2022, the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the Authority would be exposed to counterparty credit risk in the amount of the derivatives positive fair value. As of the date of the issuance of the financial statements one of the swap counterparties, was rated Aa2 by Moody's, A+ by S&P and AA by Fitch. The other counterparty was rated Aa2 by Moody's, rated A+ by S&P and A+ by Fitch.

Termination Risk

The swap agreements use the International Swaps and Derivatives Association, Inc. Master Swap Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Authority or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contracts. Also, the swaps may be terminated by the Authority if the counterparties' credit rating falls below Baa1 as determined by Moody's or BBB+ as determined by S&P. If at the time of termination, the swaps have a negative fair value, the Authority would be liable to the counterparties for a payment equal to the swaps' total fair value.

The Authority used level 2 inputs to determine the fair value of the interest-rate swap instruments.

Note 12 - Bonds Payable – (continued)

Interest Rate Swap Agreements – (continued)

Basis Risk

During the fiscal year ended June 30, 2022, the payments of fixed rate interest from the Authority would have exceeded the amount received as variable interest from swap counterparties by approximately $8.4 million. Due to the stay imposed by the Title III Case, this amount has been accrued in the accompanying financial statements.

Rollover Risk

Using rates as of June 30, 2022, debt service amounts of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term are set forth in the table below (in thousands). Currently, the maturity dates of the interest rate swaps, and the associated debt are coterminous. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Principal	Interest	Interest-Rate Swap, net	Total
2023	$ -	$ 5,187	$ 5,130	$ 10,317
2024	-	5,187	5,130	10,317
2025	-	5,187	5,130	10,317
2026	-	5,187	5,130	10,317
2027	-	5,187	5,130	10,317
2028-2029	252,875	10,373	10,262	273,510
Total	$ 252,875	$ 36,308	$ 35,912	$ 325,095

Defeasance of debt

In prior years, the Authority has refunded in advance certain Power Revenue Bonds and other obligations by placing the proceeds of new debt in an irrevocable trust to provide for future debt service payments on such bonds through their maturity or earlier redemption dates. Accordingly, the trust accounts, assets, and liabilities for the defeased bonds were not included in the Authority's financial statements. As of June 30, 2022, the Authority's Trustee's records indicate no defeased bonds.

Note 13 - Employees' Retirement Benefits

Pension Plan

A. General Information about the Pension Plan

On June 1, 2021, the management and operations of the T&D System was transferred to LUMA Energy, LLC and on July 1, 2023, the management and operations of the Authority's electrical power generation system were transferred to Genera PR, LLC. Under the provisions of Act No. 120-2018, as amended, both private entities hired previous Authority's employees, and at the same time, some others were transferred to other governmental entities (the "Commonwealth mobility plan"). As a result of the two reorganization events described above, approximately 2,000 employees from the Authority were transferred to other Commonwealth instrumentalities.

The Employees' Retirement System of the Puerto Rico Electric Power Authority (the "PREPA ERS") issues annually a publicly available financial report that includes financial statements and required supplementary information for the Pension Plan. The PREPA ERS independent auditor's report for the year ended June 30, 2022, disclosed matters that create high uncertainty about PREPA ERS's ability to continue as a going concern, including the current status of the Authority after filling a petition for relief under Title III of PROMESA in the Title III Court, depletion of PREPA ERS's marketable securities, and PREPA ERS's insolvency. The Authority has been meeting the PREPA ERS's current pension obligations in a PayGo manner. See note 20.

The Authority accounts for pensions based on actuarial valuations measured each June 30. As of June 30, 2022, the retirement plan of the Authority was administered as a trust and followed the guidelines in GASB Statement No. 68. The following information is provided based on the circumstances of the PREPA ERS and the actuarial valuation without taking into account the effect of Act No. 120-2018, as amended.

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Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

Plan Description

As of June 30, 2021, the measurement date, all of the Authority's permanent, full-time employees were eligible to participate in the Authority's Pension Plan, a single employer, defined benefit pension plan (the "Pension Plan") administered by the PREPA ERS. On June 14, 2021, the PREPA ERS was amended to include under the definition of members, former employees under the Commonwealth mobility plan. The fact that the Commonwealth is assuming the normal cost of employees in mobility, on behalf of the agencies where these employees were assigned, does not eliminate the System's responsibility toward its participants, nor makes the Plan a multi-employer plan.

As of June 30, 2021, the measurement date, if a member's employment was terminated before he became eligible for any benefits under this Pension Plan, he would receive a refund of his member contributions plus interest compounded annually. The Pension Plan is not subject to the requirements of the Employees Retirement Income Security Act of 1974.

Benefits Provided

Benefit provisions under the Pension Plan are established and may be amended by the PREPA ERS's Board of Trustees with the ratification from the Authority's Governing Board.

Retirement Benefits

Service Retirement Allowance

Any member is eligible for pension benefits of 75% of the member's final average pay if the member retires with 30 years of creditable service. Members hired before January 1, 1993, are eligible for pension benefits from 62.5% to 72.5% of their final average pay if they retire with 25 to 29 years of credited service. Effective January 1, 2015, active members who began working with the Authority on or after January 1, 1993, with age not less than 55 years and 30 years of creditable service, will be eligible for pension benefits from 62.5% to 72.5% of their final average pay if they retire at age of 50 to 54 years.

Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

Disability Retirement Allowance

Any active member that has five years or more of credited service, or ten years or more, if he/she started to work at the Authority as of January 1, 1993, and his/her disability is not related to a labor accident, as certified by the State Insurance Fund Corporation of Puerto Rico, may retire with a disability pension requested by the Authority or by the member.

Cost-of-Living Adjustment

Cost of living increases in pension benefits are provided for retirees as of June 30, 1992, and automatic future cost of living increases every three years for current and future retirees. Increases effective July 1, 1992, to all pensions granted on or before June 30, 1990, are as follows:

- 8% increase for the monthly pension up to $300.
- 4% increase for the monthly pension between $300 and $600.

Pension Plan – (continued)

- 2% increase for the monthly pension in excess of $600.

The minimum monthly increase is $25, and the maximum is $50. Actuarial pensions are granted the minimum increase of $25 per month if they were granted on or before June 30, 1990. These increases are granted automatically every three years beginning July 1, 1992, or from the retirement date for all those who retired after June 30, 1990.

Annual Salary Benefit (Retired or Death Benefit)

A lump sum payment is available, equal to the salary earned during the last year at the time of retirement from active service or death in active service. The lump sum payment may be reduced in certain situations.

Survivor Benefit

The surviving spouses of retired members receiving a pension benefit will receive a life annuity equal to 30% of the annual pension payable to the members at the time of death subject to certain conditions.

Note 13 - Employees' Retirement Benefits – (continued)

Retirees' Christmas Bonus

Annual Christmas bonus of $400 is payable to all retirees.

Retirees' Summer Bonus

A Summer bonus of $100 is payable to all current retirees.

Funeral Benefit

Up to $1,000 in funeral benefit.

The Pension Plan's provisions and benefits in effect as of June 30, 2022, are summarized as follows:

Hire date	Prior to January 1, 1993	On or after January 1, 1993
Benefit formula	75% @ 30 years of service at full retirement	75% is limited to $50,000 @ 30 years of service at full retirement
Benefit vesting schedule	10 years' service	10 years' service
Benefit payments	Monthly for life	Monthly for life
Retirement age	N/A	55
Monthly benefits, as a % of eligible compensation	Varies by age and years of service	Varies by age and years of service
Required employee contribution rates	9.06%	11.00%
Required Authority contribution rates	34.54%	34.54%

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Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

Employees Covered

As of the June 30, 2021, valuation date, the following members were covered by the benefit terms for the Pension Plan:

	Number
Retired participants and beneficiaries currently receiving benefits	12,261
Terminated participants and beneficiaries entitled to benefits but not yet receiving benefits	1,274
Active participants	3,775
Total	17,310

Contributions

The Authority's contribution rates are determined on an annual basis by the actuarial valuation and shall be effective on July 1, following notice of a change in the rate. Funding contributions for the Pension Plan are determined annually on an actuarial basis as of June 30 by the PREPA ERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority's contribution is calculated as the difference between the actuarial determined rate and the contribution rate of employees. For the fiscal year ended June 30, 2022, the Authority's accrued annual contribution was $171.9 million, of which $26.7 million were paid to the PREPA ERS.

B. Net Pension Liability

The net pension liability as of June 30, 2022, was measured as of June 30, 2021, and the actuarial valuation date was June 30, 2021.

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Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

Actuarial Assumptions

The actuarial assumptions are based on recommended assumptions in the actuarial experience study conducted for the five-year period ended June 30, 2016. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

The total pension liability was determined using the following actuarial assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2021
Reporting date	June 30, 2022
Single Equivalent Interest Rate	
Long-term expected rate of return	5.75%
Municipal Bond Index Rate	2.18%
Fiscal year in which Pension Plan's Fiduciary net position is projected to be depleted from future benefits payments for current members	2022
Single Equivalent Interest Rate	2.19%
Actuarial Assumptions:	
Discount Rate	2.19%
Inflation	2.25%
Payroll Growth	0.00%
Salary Increase	2.5% to 7.25%, including inflation
Investment Rate of Return	5.75%, net of expenses, including inflation
Percentage Married	100% of employees, and wives are assumed to be 4 years younger than their husbands

Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Authority and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future.

Mortality Assumptions

The mortality rates were based on PUB 2010 Headcount-Weighted Median Mortality Table projected generationally using Scale MP-2021. This assumption measures the probabilities of each benefit payment being made after retirement.

Changes of Benefit Terms

The Pension Plan had no changes in benefit terms since the previous valuation.

Discount Rate

The discount rate used to measure the total pension liability was 2.19%. The projection of cash flows used to determine the discount rate assumed that members contribute the mandatory contribution rate, and the Authority will contribute 34.54% of closed group compensation. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the plan year ending June 30, 2023. Therefore, the long term expected rate of return on pension plan investments of 5.75% was applied to all periods of projected benefit payments through June 30, 2023, and the applicable municipal bond index rate of 2.18%, based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2021, was applied to all periods of projected benefit payments after June 30, 2023. The Single Equivalent Interest Rate ("SEIR") of 2.19% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability as of June 30, 2021.

Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

The long-term expected rate of return on the PREPA ERS investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of the PREPA ERS investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Core Bonds	30.00%	1.20%
U.S. Large Cap Equity	70.00%	5.37%
Total	100.00%	

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Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

C. Changes in the Net Pension Liability

As of June 30, 2021 measurement date, the changes in the net pension liability for the Pension Plan follows (in thousands):

	Total Pension Liability	Pension Plan Fiduciary Net Position	Net Pension Liability
Balance as of reporting period June 30, 2021	$ 6,075,821	$ 1,197,204	4,878,617
Changes for the year:			
Service cost	88,104		88,104
Interest	159,659		159,659
Differences between expected	-		-
and actual experience	(86,796)		(86,796)
Changes in assumptions	442,859		442,859
Contributions - employer		261,026	(261,026)
Contributions - employee		20,866	(20,866)
Net investment income		163,165	(163,165)
Benefit payments, including refunds			-
of employee contributions	(281,094)	(281,094)	-
Administrative expenses		(584)	584
Other changes	-	203	(203)
Net changes	322,732	163,582	159,150
Balance as of reporting period June 30, 2022	$ 6,398,553	$ 1,360,786	$ 5,037,767

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Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the PREPA ERS, calculated using the discount rate of 2.19 percent, as well as what the PREPA ERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (1.19 percent) or one percentage point higher (3.19 percent) than the current rate (in thousands):

1% Decrease	Current	1% Increase
1.19%	2.19%	3.19%
$ 6,024,368	$ 5,037,767	$ 4,249,341

Pension Plan Fiduciary Net Position – Detailed information about pension plan's fiduciary net position is available in the separately issued financial report of the PREPA ERS.

D. Changes in Assumptions

The following were the changes in assumptions for the period ended June 30, 2021 (the "Measurement Date"):

- The discount rate used to determine the total pension liability was decreased from 2.69% to 2.19%.
- The municipal bond index rate decreased from 2.66% to 2.18%.
- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2020 to PUB 2010 Headcount-Weighted Median Mortality Table projected generationally using Scale MP-2021.

For any change in total pension liability due to changes in actuarial assumptions, recognition of the change would be spread over the remaining life of the PREPA ERS members.

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Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

E. Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2022, the Authority recognized pension expense of approximately $422.3 million, subject to Authority's rights in the Title III case. On June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

Changes of assumptions	$ 323,538
Employer contributions subsequent to the measurement date	171,894
Total deferred outflows of resources	$ 495,432
Deferred inflows of resources:	
Differences between expected and actual experience	$ 63,349
Net difference between projected and actual earnings on pension plan investments	49,188
Total deferred inflows of resources	$ 112,537

Contributions of approximately $171.9 million were reported as deferred outflows of resources resulting from Authority contributions made subsequent to the Measurement Date. Such contributions will reduce the net pension liability in fiscal year 2023. The amounts reported as deferred outflows of resources (other than the contributions after the measurement date and before year end) and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Reporting Date Ending June 30,	Amount
2023	$ 186,347
2024	56,205
2025	(12,688)
2026	(18,863)
	$ 211,001

Note 13 - Employees' Retirement Benefits – (continued)

Other Post- Employment Benefits ("OPEB")

A. General Information about the OPEB Plan

OPEB Plan Description

The OPEB Plan is a single employer, defined benefit, healthcare plan where no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*" and which is administered by the Authority.

On June 1, 2021, the management and operations of the T&D System was transferred to LUMA. Refer to Note 13 above for further detail on this matter.

Benefits Provided

Benefit provisions under the OPEB Plan are established and may be amended by the Authority's Governing Board. The OPEB Plan for all retirees is capped at $300 per member per month for retirees under age 65 and $200 per member per month for retirees aged 65 and over. In the event the retiree dies, the OPEB Plan will revert to contributing $300 per month for surviving spouses under age 65 and $200 per month for surviving spouses aged 65 and over. The effective contribution made for surviving spouses under and over age 65 is effectively $0, since the OPEB Plan is reimbursed for its contribution to spouse coverage from the retiree's pension.

Membership

Employees retiring on or after September 1, 2009, having accumulated at least 30 years of service and all retired employees that retired before September 1, 2009, regardless of length of employment, are eligible to participate in the OPEB Plan. To remain eligible for participation, Medicare eligible retired participants and their spouses must enroll in Medicare Part B at age 65, or whenever eligible, at their own expense. The benefit provisions to retired employees are established and may be amended by the Authority.

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Note 13 - Employees' Retirement Benefits – (continued)

Other Post- Employment Benefits ("OPEB") – (continued)

As of the valuation date, the following members were covered by the OPEB Plan:

	Number
Inactive members or beneficiaries currently receiving benefits	7,352
Inactive members entitled to but not yet receiving benefits	-
Active members	3,775
Total	11,127

Funding Policy and Annual OPEB Cost

The OPEB Plan is funded on a "pay-as-you-go" basis. The contribution requirements of OPEB Plan members and the Authority are established and may be amended by the Authority.

B. Total OPEB Liability

The Authority's total OPEB liability ("TOL") as of June 30, 2022, was measured as of June 30, 2021, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and other inputs
The TOL was determined using the following actuarial assumptions and other inputs:

Valuation Date	June 30, 2021
Prior Measurement Data	June 30, 2020
Measurement Date (MD)	June 30, 2021
Reporting date	June 30, 2022
Actuarial Assumptions	
Inflation	2.25%
Real wage growth	0.25%
Wage inflation	2.50%
Salary Increase	2.5% to 7.25%, including inflation
Discount rate:	
Municipal Bond Index rate at MD	2.18%
Percentage Married	100% of employees, and wives are assumed to be 4 years younger than their husbands
Future participation and coverage elections	All future retirees are assumed to participate in the OPEB Plan

Note 13 - Employees' Retirement Benefits – (continued)

Other Post- Employment Benefits ("OPEB") – (continued)

The discount rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2021.

Mortality rates were based on PUB 2010 Headcount-Weighted Median Mortality Table projected generationally using Scale MP-2021.

Other actuarial assumptions are based on recommended assumptions in the actuarial experience study conducted for the five-year period ended June 30, 2016.

The OPEB Plan had no changes in benefit terms since the previous valuation.

C. Changes in the Total OPEB liability

The changes in TOL are as follows (in thousands):

Total OPEB liability as of reporting period June 30, 2021 (reporting period June 30, 2022)	$ 361,516
Changes for the year:	
Service cost	3,365
Interest	9,535
Difference between expected and actual experience	(44,721)
Changes of assumptions or other inputs	20,144
Benefits payments	(6,072)
Net changes	(17,749)
Total OPEB liability as of June 30, 2021 (reporting period June 30, 2022)	$ 343,767

Changes of assumptions and other inputs reflect a change in the discount rate from 2.66% to 2.18%. The mortality rate assumptions were changed from PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2020 to PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2021.

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Note 13 - Employees' Retirement Benefits – (continued)

Other Post- Employment Benefits ("OPEB") – (continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the TOL of the OPEB Plan, calculated using the discount rate of 2.18 percent, as well as what the OPEB Plan's TOL would be if it were calculated using a discount rate that is one percentage point lower (1.18 percent) or one percentage point higher (3.18 percent) than the current rate (in thousands):

	1% Decrease	Current	1% Increase
Discount Rate	1.18%	2.18%	3.18%
Total OPEB Liability	$ 390,754	$ 343,767	$ 305,423

D. OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2022, the Authority recognized an OPEB expense of approximately $346 thousand. On June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

Deferred outflows of resources:	
Benefit payments made subsequent to the measurement date	$ 5,446
Changes of assumptions	15,199
Total deferred outflows of resources	$ 20,645
Deferred inflows of resources:	
Differences between expected and actual experience	$ 37,237
Total deferred inflows of resources	$ 37,237

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Note 13 - Employees' Retirement Benefits – (continued)

Other Post- Employment Benefits ("OPEB") – (continued)

Benefit payments of approximately $5.4 million were reported as deferred outflows of resources resulting from Authority payments made subsequent to the June 30, 2021 measurement date. Such benefit payments will reduce the total OPEB liability in fiscal year 2023. The amounts reported as deferred outflows of resources (other than the benefits paid after the measurement date and before year end) and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Measurement period ended June 30,	Amount
2022	$ (13,797)
2023	(8,241)
	$ (22,038)

Note 14 - Revenues

PREB Orders

Act 57-2014 authorizes PREB to approve electric rates proposed by the Authority, among other matters. The Authority has the obligation to maintain balancing accounts to record differences between certain costs incurred and amounts billed through certain rates and riders approved to recover such costs. These balancing accounts are later reviewed and evaluated by PREB to adjust the current rates with balancing adjustments that will allow the Authority to collect or reimburse customers for such overages/shortages.

On June 27, 2019, PREB ordered the implementation of the Permanent Rate. This tariff structure included the implementation of riders to recover the cost of several subsidies and the CILT. These amounts receivable/payable are recognized when billed.

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Note 14 - Revenues – (continued)

Major Clients and Related Parties

Net operating revenues from major customers and related parties during the fiscal year ended June 30, 2022, are as follows (in thousands):

Commonwealth of Puerto Rico and components units	$ 453,657
Municipalities	91,826
Total	$ 545,483

Financial Assistance Agreement between Puerto Rico Infrastructure Financing Authority and the Authority

On July 29, 2018, the Authority and Puerto Rico Infrastructure Financing Authority, acting on behalf of the Government, entered into a Financial Assistance Agreement under which the Authority received a grant award notification of $20.8 million to finance the cost of certain specified projects under the Government's Water Pollution Control Revolving Fund Program, established in accordance with the Clean Water Act.

The Authority will apply the proceeds of the grant to reimburse itself for allowable costs of the approved projects. Per GASB Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*", assets and revenues are recognized by the Authority when allowable costs are incurred or resources are received, whichever is first. As of June 30, 2022, no grant funds had yet been received by the Authority.

ARPA Allocation of $76 million for Pandemic Mitigation

On October 23, 2021, the Governor announced a $76 million allocation to the Authority from American Rescue Plan Act funds to help mitigate COVID-19 pandemic. On December 6, 2021, the moneys were received and during the second semester of fiscal year 2022 were used to purchase fuel and to cover a portion of the maintenance of the Authority's generation assets. As of June 30, 2022, no balances remained from this allocation.

Note 15 - Leases

The Authority adopted the provisions of GASB Statement No. 87 on July 1, 2021 and its financial statements for the fiscal year ended June 30, 2022 reflect the implementation of this statement. For leases that began prior to June 30, 2021, a lease commencement date of July 1, 2021 was utilized to calculate the gross amount of total remaining payments.

The Authority is both a lessor and a lessee:

Lessor

The Authority is a lessor through HUB, which holds various lease agreements covering leases of networks and equipment and building premises. Lease receivables and deferred inflow of resources as of June 30, 2022 are as follows (in thousands):

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Note 15 - Leases-(continued)

Lessor-(continued)

Description	Lease Receivable	Deferred Inflows of Resources
Leases of network and equipment considered as operating activities:		
Lease agreement covering lease of fiber optic communicatin network. It commenced on November 29, 2021 and calls for first installment of $1.5 million and subsequent installments of $1.7 million up to November 29, 2031 at 1.70% of interest rate.	$ 16,167	$ 16,660
Lease agreement covering lease of dark fiber east and west routes. It commenced on February 1, 2017 and calls for monthly installments of $833 up to January 31, 2032 at 1.95% of interest rate.	87	86
Leases of building premises considered as non-operating activities:		
Lease agreement covering building premises owned by HUB. It commenced on February 1, 2022 and calls for monthly installments of $38,302 up to January 31, 2037 at 1.95% of interest rate.	5,944	5,923
Lease agreement covering building premises owned by HUB. It commenced on April 8, 2016 and calls for monthly installments of $27,932 for the initial lease term of twenty (20) years, and $29,328 during the first extension period of five years (5), and $30,795 for the second extension period of five (5) years, at 1.95% of interestrate. The lease agreement provided for a rent-free period of one hundred fifty (150) days commencing on the date that the tenant accepted the possession of the building premises. Effective date of the lease agreement wasNovember 4, 2016.	6,662	6,605
	28,860	$ 29,274
Less: Current portion	(2,059)	
Long-term portion	$ 26,801	

Note 15 - Leases-(continued)

Lessor-(continued)

Rental income in the above lease agreements considered as operating revenues and non-operating revenues amounts to approximately $1.0 million and $407 thousand, respectively. Interest income on the above lease agreements amounts to approximately $341 thousand.

The schedule of future collections on the lease agreements considered as operating activities, are as follows (in thousands):

Year ending June 30,	Principal	Interest	Total
2023	$ 1,505	$ 276	$ 1,781
2024	1,531	251	1,782
2025	1,557	225	1,782
2026	1,583	198	1,781
2027	1,610	172	1,782
2028-2032	8,468	436	8,904
	$ 16,254	$ 1,558	$ 17,812

The Authority is also a lessor under a lease agreement with PREPA Holdings LLC, as lessee. These lease agreements are excluded from the GASB Statement No.87 because the control is not conveyed to another legal entity; hence, this type of lease agreements is not reported as leases in the Authority's financial statements.

Lessee

Mainly through the T&D OMA Operator, the Authority is a lessee for various noncancelable leases of buildings, vehicles, office space and land. These agreements are scheduled to expire from year 2022 to 2036. A right-of-use asset was recognized for $15.3 million on these leases. An amortization and interest expense for the year ended June 30, 2022, amounted to approximately $2.4 million and $610 thousand respectively are included in the accompanying statement of revenues, expenses and changes in net position.

Due to its current limitations under Title III of PROMESA, the Authority does not have access to the borrowing market. As a result, a third-party consultant was engaged to determine the discount rate to be applied to the portfolio. For the fiscal year ending June 30, 2022, the determined rate is 4.9%.

Note 15 - Leases-(continued)

Lessee-(continued)

This rate was applied to all leases as of the date of implementation of GASB Statement No. 87, July 1, 2021.

Through HUB, the Authority leases a communication station under a non-cancelable lease agreement. On September 11, 2020, this lease agreement was amended in order to include certain modifications such as the term that was extended from January 1, 2021 to December 31, 2022, and had an increase of 10% in all rent amounts starting on January 1, 2022. The lease is payable in monthly installments of principal and interest of approximately $37 thousand up to December 31, 2021 and of approximately $40 thousand up to December 31, 2022. A right-of-use asset communication station was recognized for $693 thousand as well as an amortization of $462 thousand. Interest rate of 1.15% was used.

The Authority had the following lease assets (lessee) at June 30, 2022 (in thousands):

	Balance, July 01, 2021	Additions	Remeasurements	Deductions	Balance, June 30, 2022
Lessee					
Lease Assets:					
Buildings	$ 1,497	-	-	-	1,497
Copiers	1,848	-	-	-	1,848
Land, right-of use	1,284	-	-	-	1,284
Office	10,718	-	-	-	10,718
Communication station	693	-	-	-	693
Total Lease assets (right-of-use)	16,040	-	-	-	16,040
Less Accumulated Amortization					
Buildings	-	430	-	-	430
Copiers	-	308	-	-	308
Land, right-of use	-	120	-	-	120
Office	-	1,564	-	-	1,564
Communication station	-	462			462
Total Lease assets (right-of-use)	-	2,884	-	-	2,884
Total Lease assets, net	$ 16,040	(2,884)	-	-	13,156

Note 15 - Leases-(continued)

Lessee

The Authority had the following lease liability (lessee) during at June 30, 2022 (in thousands):

		July 01, 2021	Additions	Remeasurements	Deductions	June 30, 2022	Within one year
Lease liability							
Prior GASB 87	$	93	-	-	93	-	-
Post GASB 87		16,040	-	-	2,642	13,398	2,533
Total Lease liability		16,133	-	-	2,735	13,398	2,533

As of June 30, 2022, annual principal and interest for the lease liability are as follows (amounts in thousands):

Year ending June 30,	Balance, Principal	Interest	Total
2023	$2,533	$593	$3,126
2024	2,240	482	2,722
2025	2,202	372	2,574
2026	1,573	275	1,848
2027	1,188	208	1,396
2028-2032	3,306	398	3,704
2033-2036	356	37	393
	$13,398	$2,365	$15,763

Note 16 - Risk Management

General

The Authority purchases commercial insurance covering all risk property (including catastrophic risks), business interruption and extra expense (coverages (at a sublimit), boiler and machinery, general liability, aviation, and financial lines programs. The Authority property boiler and machinery structure is sixty seven percent indemnity (base on the amount (subject to deductibles and limits) to restore the insured assets to their pre-damage state) and a thirty three percent parametric under which the fixed amount of the payout is determined by a measure of the occurrence (such as, for example, a category 3 or greater hurricane occurring during the term of the policy and in an established parameter), with a higher retention, instead of the actual damage sustain by such occurrence.

Note 16 - Risk Management – (continued)

General-(continued)

T&D lines as well as all other assets are insured under a parametric insurance (CAT) - Hurricane and Earthquake perils for $100M excess of $200M that constitute thirty three percent of the Property-B&M Program. The other Sixty Seven percent of the Property-B&M Program is an indemnity (traditional insurance) that does not cover T&D lines but covers all other T&D assets (Substations and Transmission Centers).

The Authority also has an excess property program on top of the described underlying limits of the property insurance program.

Self-Insurance Health Program

The self-funded health care program provides benefits coverage for all active Authority employees regarding dental, pharmacy, and physical/mental health care needs. Changes in the balances of the health insurance program (self-insurance risk) incurred but not recorded were as follows (in thousands):

Year Ended June 30,	Beginning Balance	Expense	Payments	Ending Balance
2021	$ 2,230	$ 30,963	$ (30,733)	$ 2,460
2022	$ 2,460	$ 5,228	$ (7,073)	$ 615

This amount is included in accounts payable and accrued liabilities in the statement of net position (deficit).

Note 17 - Natural Disasters and Global Pandemic

September 2017 Hurricane María's Impact on Electric System

On September 20, 2017, Hurricane María made landfall in Puerto Rico, bringing sustained winds of 155 miles per hour and significant rainfall over a 30-hour period. Hurricane María crossed Puerto Rico diagonally, entering through the Southeast and exiting through the Northwest. The hurricane caused catastrophic destruction in Puerto Rico, including severe damage to the electric power system. Two weeks earlier, Hurricane Irma passed just north of Puerto Rico, substantially impairing portions of the Authority's already weak infrastructure.

Note 17 - Natural Disasters and Global Pandemic – (continued)

January 2020 Earthquakes Impact on Electric System and Costa Sur Power Plant

On December 28, 2019, the first of many earthquakes shook Puerto Rico. On January 8, 2020, President Trump issued an Emergency Declaration for Puerto Rico, wherein direct federal assistance was granted to aid Puerto Rico in the preliminary damage assessments, after Puerto Rico experienced a 5.8 magnitude earthquake on January 6, 2020, and a 6.4 magnitude earthquake on the following day (the "January 2020 earthquakes").

The January 2020 earthquakes caused significant damage in the southern region of the island of Puerto Rico. Since then, there have been more than 500 earthquakes of magnitude 2 or greater, primarily in the same region. A disaster declaration for federal individual assistance covering Guánica, Guayanilla, Peñuelas, Ponce, Utuado and a federal public assistance declaration covering Guánica, Guayanilla, Peñuelas, Ponce, San Germán and Yauco were issued on January 16, 2020. Since then, 9 additional municipalities have been added to the individual assistance program and 8 additional municipalities to the public assistance program.

Two units of the Costa Sur power plant in Guayanilla were severely damaged in the early January 2020 earthquakes. The damaged units provide approximately 25% of the Authority's baseload generation capacity. On May 22, 2020, PREB approved the Authority's expenditure of $25.2 million to repair the Costa Sur damaged units. PREB also allowed the Authority to obligate an additional $15 million for the repairs. In August 2020, the first Costa Sur unit damaged in the January 2020 earthquakes was returned to service and the second unit came online in January 2021.

The Authority and the insurers have reached an agreement regarding the Hurricane María and Earthquake insurance claims. The agreement is in the process of being formalized to be approved by Title III court.

COVID-19 Effects on the Authority's Operations

On March 11, 2020, the World Health Organization declared the COVID-19 as a global pandemic. The COVID-19 outbreak started disrupting supply chains and affecting production and sales across a range of industries and businesses in Puerto Rico and has contributed to significant price inflation. While the disruption was expected to be temporary, there is considerable uncertainty around the duration of the impact.

Approval of $9.6 Billion to Repair Grid

In October 2020, FEMA approved approximately $9.6 billion in federal grants for approximately $10.5 billion in total project costs to enable the Authority to repair damage to its electric grid caused

Note 17 - Natural Disasters and Global Pandemic – (continued)

Approval of $9.6 Billion to Repair Grid – (continued)

by the Hurricanes. The federal funding is targeted to repair and replace thousands of miles of transmission and distribution lines, electrical substations, power generation systems, and other grid improvements. The federal funding is subject to the Authority contributing a 10% cost share. The FEMA funding will help protect the electrical system from future catastrophic events.

Financial impact of the Natural Disasters and Global Pandemic

The Hurricanes and the January 2020 earthquakes caused significant infrastructure damage and losses to the Authority's power grid and other assets.

In accordance with guidance established by GASB Statement No. 33, "*Accounting and Financial Reporting for Non-Exchange Transactions*", during the fiscal year ended June 30, 2022, the Authority reported as non-operating revenues, approximately $288.6 million in approved grant awards from FEMA, CDBG-DR, ARPA, Premium Pay and Cares Act. A total amount of approximately $302.5 million was collected from those grants' awards corresponding to claims recorded during current and previous fiscal years. An account receivable from the U.S. Federal Government of approximately $148.3 million, as well as an allowance for doubtful accounts of approximately $53.0 million, are presented in the accompanying statement of net position (deficit) as part of the net account receivable from the U.S. Federal Government of approximately $95.3 million. Lastly, the Authority capitalized approximately $6.8 million in new infrastructure.

Emergency repairs incurred subsequent to the Hurricanes and the January 2020 earthquakes of approximately $50.0 million are presented as operating expenses in the accompanying statement of revenues, expenses, and changes in net position (deficit). Proceeds from insurance recoveries of approximately $48.0 million are presented as non-operating revenues, also in the accompanying statement of revenues, expenses, and changes in net position (deficit).

Transformation of the T&D System of the Authority

On May 15, 2020, the Partnership Committee (the "Partnership Committee") established by the Puerto Rico Public-Private Partnership Authority (the "P3 Authority") pursuant to Act 120-2018, as amended, recommended that the T&D Contract for the management, operation, maintenance, repair, restoration, and replacement of the T&D System be awarded to LUMA.

Note 18 - Transformation of the Authority's System-(continued)

Transformation of the T&D System of the Authority-(continued)

On June 22, 2020, after receiving Governing Board and Government of Puerto Rico approval, the T&D Contract was signed by the Authority, the P3 Authority and LUMA. On June 1, 2021, pursuant to the T&D Contract, LUMA began its management and operation of the T&D System.

The Oversight Board negotiated, and the P3 Authority, LUMA, and the Authority executed, a supplement to the T&D Contract (the "Supplemental Agreement") to provide for LUMA to commence its services on an interim basis ("Interim Service Commencement") prior to the Authority's Title III exit. Interim Service Commencement occurred on June 1, 2021. On November 29, 2022, the Oversight Board approved a proposed extension of the T&D Contract, as supplemented, among the P3 Authority, LUMA, and the Authority. Under the extension, the Termination Date is now the date on which the following conditions shall have been satisfied or waived: (i) the Title III exit shall have occurred; and (ii) the Authority's plan of adjustment and order of the Title III Court confirming same shall be reasonably acceptable to LUMA. The Authority's exit from Title III, is a condition precedent to the T&D OMA Service Commencement Date. Upon the T&D OMA Service Commencement Date, the T&D Contract will be in effect for fifteen (15) years. This contract may be extended for an additional period by mutual agreement of the Authority (or, the P3 Authority acting on behalf of the Authority) and LUMA. No extension will become effective until approved by PREB, to the extent require by applicable law. LUMA has the exclusive right to enter upon, occupy and use the T&D System, and its sites, for the sole purpose of performing the operation and maintenance services.

Service fees charged by LUMA are determined in accordance with the T&D Contract or Supplemental Agreement and amounted to approximately $117.3 million for the year ended June 30, 2022. They are presented as operating expenses in the accompanying statement of revenues, expenses, and changes in net position (deficit). Incentive fees are applicable after the T&D OMA Service Commencement Date; thus, no incentive fees apply during the fiscal year 2022.

In accordance with the T&D OMA, costs and expenses incurred by LUMA on behalf of the Authority (the T&D Pass-Through Expenditures) are billed while providing O&M Services, without markup for profit. T&D Pass-Through Expenditures amounted to approximately $369 million, which were mostly related to payroll expenses and third-party costs incurred while providing T&D OMA services. These Pass-Through Expenditures include payroll expenses and nonpayroll costs from certain LUMA affiliates incurred while providing T&D OMA services and are charged without mark up for profit.

As part of a shared service agreement signed on June 1, 2021 (the Shared Service Agreement), between LUMA, the Authority and the P3 Authority, the parties agreed that the Authority would

Note 18 - Transformation of the Authority’s System – (continued)

Transformation of the T&D System of the Authority-(continued)

receive certain services, on a temporary basis, primarily related to Finance, IT/OT, Risk Management, Facilities, and certain operations. These costs are charged at cost, without markup for profit. These costs are part of the pass-through expenses disclosed above.

The outstanding balance owed to LUMA amounted to $118 million as of June 30, 2022, which is presented as part of the accounts payable and other accrued liabilities in the accompanying statement of net position (deficit).

The Authority must maintain the minimum levels of working capital needed to ensure all necessary and approved operational and capital investment expenditures.

Based in this contract, LUMA’s obligations consist of, among others:

- Provide management, operation, maintenance, repair, restoration and replacement and other related services for the T&D System.
- Administer and perform contracts, leases, licenses, permits and other similar arrangements of all types related to the T&D System that have been entered into by the Authority, including its payment obligations.
- Providing system information (both financial and operational), as available, to support the Authority’s financing activities, and to assist on the Authority's preparation of reports, and other documents, to satisfy the Authority's reporting requirements.
- T&D System Operation Services: responsible for all electric transmission, distribution, load serving and related activities for the safe and reliable operation and maintenance of the T&D System. These include system operator activities, engineering activities, maintenance of technical documentation, energy efficiency activities, planning, environmental and regulatory, legal services, insurance and claims, and other activities.
- Asset Management and Maintenance Services: responsible for managing and maintaining all assets of the T&D System including machinery, equipment, structures, improvements and conditions assessments of the electrical system components. These include inventory control, fleet management and refueling, necessary equipment and systems, information technology, public lighting, and generator interconnection.
- Government, Community and Media Relations: communications with customers and government officials, responsible for coordinating and conducting communications with local, state and federal representatives and organizations, community and media relations, and customer contact.

Note 18 - Transformation of the Authority's System – (continued)

Transformation of the Generation System of the Authority

- Regulatory, Finance, and Accounting Services: responsible for regulatory proceedings, finance, accounting, budgeting, long-term financial forecasting and treasury operations related to the T&D System.
- Emergency Response: curtailments and shutdowns, implementation of the emergency response plan that addresses disaster recovery and emergency response and restoration, and all necessary business continuity, reporting and communication functions relating to the T&D System.
- Maintenance: performing all ordinary maintenance of all property constituting T&D System, including machinery, structures, improvements and electrical system components, to keep the T&D System in operational condition.
- Customer Service: maintaining staff dedicated to assisting customers, toll-free customer service hotlines, establish and maintain website for customer inquiries and complaints, public outreach and education campaign, customer satisfaction, and meter-related services including repair and replacement of meters.

On April 16, 2019, the P3 Authority, in collaboration with the Authority, requested statements of qualifications ("SOQs") from companies and consortia interested in developing, constructing, managing and operating new mobile or fixed, flexible, distributed generation units (or a combination thereof) to be located at various locations across Puerto Rico (the "Generation Units"), pursuant to a twenty-five-year power purchase and operating agreement.

In addition, on July 12, 2019, P3 Authority, in collaboration with the Authority, solicited SOQs from companies and consortia interested in providing generation capacity to replace existing generation through a new facility at or adjacent to the existing Palo Seco power plant, pursuant to a long-term public-private partnership contract. On June 10, 2020, the P3 Authority selected the shortlisted respondents qualified to participate as proponents in the corresponding request for proposals ("RFP"). On August 10, 2020, the P3 Authority, in collaboration with the Authority, issued a Request for Qualifications to identify, qualify and select one or more private operators to contract with the Authority to manage, operate and maintain the Legacy Generation Assets to: (i) introduce private sector operational expertise; (ii) increase the safety, reliability, resiliency and efficiency of Legacy Generation Assets operations; (iii) increase cost efficiency in coordination with LUMA; and (iv) implement industry best practices and operational excellence, including compliance with environmental requirements. On October 22, 2020, the P3 Authority selected the shortlisted respondents qualified to participate as proponents (the "Proponents") in the RFP process. Later, the P3 Authority issued the RFP to the Proponents and proposals were received on December 22, 2021.

Note 18 - Transformation of the Authority's System – (continued)

Transformation of the Generation System of the Authority-(continued)

After the approval of the P3 Authority board of directors and the Authority's Governing Board, on January 24, 2023, the P3 Authority, the Authority and Genera PR, the selected proponent, executed the Generation Contract by which Genera PR will operate and administer the Legacy Generation Assets. The Generation Contract is for a term of ten (10) years. The Authority remains the owner of the Legacy Generation Assets during the term of the Generation Contract. On July 1, 2023 Genera PR assumed the Legacy Generation Assets' operational control and management.

The main responsibilities of Genera PR under the Generation Contract are: (1) operating and providing daily maintenance of the Legacy Generation Assets; (2) administering facility contracts, including fuel contracts; (3) supplying, storing and maintaining inventory; (4) maintaining, repairing and replacing equipment; (5) managing blackouts by generation and restoration of power; (6) coordinating with the Authority and LUMA in relation to the dispatch and matters of the T&D System; (7) coordinating with regulators, including PREB and environmental compliance agencies;

(8) managing federal funds for the generating fleet; (9) assisting the Authority in fulfilling any obligation under applicable laws; and (10) representing the Authority before PREB with respect to any matter related to the performance of any of the operation and management services provided by Genera PR under the Generation Contract. See Note 20.

Tranches to Procure Renewable Energy and Battery Storage Systems

The IRP places significant renewable energy production requirements on the Authority, including a requirement that, by 2025, the Authority source at least 40% of the energy production connected to the T&D System from renewable energy generation. The IRP also includes a directive for the Authority to develop a competitive solicitation process for the procurement of new renewable generation and energy storage resources in support of, among other things, achievement of Act 17-2019 targets for renewable energy installations. PREB established a schedule for the procurement of minimum quantities of renewable resources and energy storage resources through an RFP process. In accordance with the above, on February 22, 2021, the Authority issued the Tranche 1 RFP soliciting proposals for renewable energy, energy storage and virtual power plant ("VPP") resources. The Tranche 1 RFP process has three parallel workstreams: an initial set of utility-scale solar PV and BESS projects selected by the Authority, a second set of utility-scale BESS projects mandated by PREB, and VPPs.

In December 2021, the Authority submitted to PREB for its approval the initial set of PPOAs for the total amount of 844 MW of PPOAs and ESSAs for 220 MW of BESS. On February 2, 2022, PREB entered an order approving eighteen (18) PPOAs and took notice of the remaining ESSAs attached

Note 18 - Transformation of the Authority's System – (continued)

Tranches to Procure Renewable Energy and Battery Storage Systems – (continued)

thereto, noting the need for additional information from the ESSAs. The Oversight Board approved the PPOAs on March 25, 2022.

LUMA performed interconnection studies on these solar and BESS projects from January to June 2022. The Authority signed the PPOAs, as amended following completion of the interconnection studies, in the months from June to August 2022. The Authority also signed two of the ESSAs in August 2022. PREB finally approved all PPOAs and these two ESSAs in various orders and resolutions over the months of February to September 2022. As a subsequent event, the Oversight Board approved the two signed ESSAs on December 15, 2022.

In June 2022, PREB also ordered the Authority to select additional utility-scale BESS projects to include in the Tranche 1 RFP awards. This initiated a second contract finalization process.

On October 15, 2021, the Authority filed before PREB a *Motion Submitting Tranche 2 Request for Proposals for Renewable Energy Generation and Energy Storage Resources (RFP)* ("Tranche 2 RFP Submittal Motion"). As part of the Tranche 2 RFP Submittal Motion, the Authority submitted a draft *Request for Proposals No. 128568 Renewable Energy Generation and Energy Storage Resources Tranche 2 of 6* ("Tranche 2 RFP") for PREB's revision, approval and subsequent publication. On October 29, 2021, PREB determined to appoint an independent coordinator (the "PREB-Independent Coordinator") for the Tranche 2 RFP but concluded that the Authority will keep a significant role in the Tranche 2 RFP process. PREB further stated that it would set the detailed powers and duties of PREB-Independent Coordinator as well as the role of the Authority in the Tranche 2 RFP process in a separate resolution.

By order entered on January 27, 2022, PREB formally appointed the Tranche 2 PREB-Independent Coordinator. Said order did not include the detailed powers and duties of the Authority or LUMA in the Tranche 2 RFP process but anticipated that the PREB would adopt a separate resolution establishing the responsibilities of LUMA and the Authority. By June 9, 2022 resolution, PREB created a 6-member selection committee for the evaluation of Tranche 2 RFP proposals and selection of proposals and outlined the responsibilities and duties of the Authority and of LUMA in the Tranche 2 RFP process. The selection committee will consist of (i) the Executive Director of the P3 Authority or his/her delegate; (ii) one (1) officer of the Authority directly concerned with the Tranche 2 RFP process or his/her delegate; (iii) one (1) member of the Authority's Governing Board, selected from the members appointed by the Governor at his sole discretion; (iv) two (2) officials from other government entities, chosen by PREB for their knowledge and/or experience in similar transactions; and (v) one (1) representative chosen by LUMA, with knowledge or experience in similar transactions. LUMA completed the interconnection studies of the proposals that passed to

Note 18 - Transformation of the Authority's System – (continued)

Tranches to Procure Renewable Energy and Battery Storage Systems – (continued)

phase 2. The selection committee have not made the final decisions on which bids should move forward and the Independent Coordinator have not established date for best and final offer from proponents. Refer to Note 20.

Supply of Natural Gas and Conversion of Units 5 and 6 of the San Juan Combined Cycle Power Plant

On March 5, 2019, after a competitive RFP process, the Authority entered into a contract with NFEnergía, the Puerto Rico subsidiary of New Fortress Energy LLC ("New Fortress"), for the supply of natural gas and conversion of units 5 and 6 of the San Juan Power Plant to dual fuel (natural gas and diesel) capacity. Construction of LNG receiving and vaporization facility opposite the San Juan Power Plant commenced in early summer 2019, and conversion of San Juan units 5 and 6 to dual fuel capability commenced during fall 2019. The construction and conversion project were substantially completed during the first quarter of 2020, and LNG receiving and vaporization facilities and San Juan Units 5 and 6 became capable of supporting sustained full load operation of the Units on natural gas in June 2020. LNG has now been received into the NFEnergía facility from vessels calling upon San Juan Harbor, and natural gas has been made available for commissioning both units 5 and 6 on natural gas. San Juan units 5 and 6 have run primarily on natural gas since that time.

On June 18, 2020, the U.S. Federal Energy Regulatory Commission ("FERC") issued an "Order to Show Cause" directing New Fortress to show cause why the NFEnergía LNG handling facility is not subject to FERC's jurisdiction under section 3 of the Natural Gas Act. The Authority entered into its agreement with NFEnergía on the assumption that FERC approval for the siting and construction of the LNG handling facility would not be required. After considering arguments which New Fortress Energy LLC and the Authority presented as to why the NFEnergía LNG handling facility should not be deemed to be subject to the Commission's jurisdiction and stressing the environmental and economic benefits associated with the use of natural gas in place of diesel fuel in San Juan Units 5 and 6, FERC concluded in an order issued on March 19, 2021 that the facility is an "LNG terminal" subject to its jurisdiction under Section 3 of the Natural Gas Act.

The order was upheld on appeal by the Federal Court of Appeals for the District of Columbia Circuit on June 14, 2021. The FERC directed NFEnergía to submit an Application for authorization under Section 3 of the U.S. Natural Gas Act to operate its San Juan Harbor LNG receiving facility but declined to order the suspension of facility operations. NFEnergía submitted the application to FERC on September 15, 2021 in Docket No. CP21-496-000 (the "Application"). FERC issued a notice that motions to intervene in the proceeding and comments on the Application were to be filed by

Note 18 - Transformation of the Authority's System – (continued)

Supply of Natural Gas and Conversion of Units 5 and 6 of the San Juan Combined Cycle Power Plant – (continued)

October 20, 2021. Since then, FERC has issued several data requests to NFEEnergía, which filed the last supplemental responses in February 2022. The Application is still pending before FERC, and the Authority cannot predict when FERC may act on it. In the meantime, the NFEnergía LNG receiving facility continues to operate and to supply natural gas to the Authority's San Juan Units 5 and 6.

On November 11, 2020, environmental advocacy organizations the Sierra Club and El Puente de Williamsburg Inc. (the "Environmental Groups") filed a complaint against the Authority in the Court of First Instance in San Juan seeking preliminary and permanent injunctions and a declaratory judgment suspending the operation of the NFEnergía LNG handling facility. In their complaint, the environmental groups assert that the NFEnergía LNG handling facility was constructed unlawfully.

General Permits Office of Puerto Rico filed a response to the complaint on November 25, 2020. NFEnergía filed a motion to dismiss the complaint on November 27, 2020 and filed an opposition to the requests for preliminary and permanent injunctions on December 1, 2020. The Court of First Instance held a preliminary hearing on December 1. On December 2, 2020, the Court of First Instance dismissed the action for lack of standing.

On December 16, 2020, the Environmental Groups moved for reconsideration of the judgment dismissing the case. The Court denied the motion on January 12, 2021. On February 1, 2021, the

Environmental Groups appealed the judgment dismissing the case with the Puerto Rico Court of Appeals. On May 20, 2021, the Court of Appeals affirmed the Court of First Instance's judgment. No appeal to the Supreme Court of Puerto Rico was taken.

On June 14, 2022, The United States Court of Appeals for the District of Columbia Circuit denied NFE petitions for the review of orders of the Federal Energy Regulatory Commission.

NFE's LNG handling facility has been in continuous operation supplying natural gas to San Juan Combined Cycle Units 5 and 6. As part of NFE's responsibility, the diesel and bunker C fuel pipelines with its unloading connection flanges were relocated from wharf A to wharf C.

The Fuel Supply Contract, which included the conversion to natural gas of the combined cycle units, reached Substantial Completion on August 1, 2021, that was on 13th month of the Contract, when the Unit Base Cost for the LNG was reduced from $8.50/MMBtu to $7.50/MMBtu. On the 25th month, met on August 1, 2023, the Unit Base Cost changed to $6.50/MMBtu. This Unit Base Cost will remain until the end of the Initial Contract Term reached on July 31, 2026.

Note 19 - Commitments, Contingencies and Other Obligations

Commitments

Power Purchase Agreements

Power purchase agreements as of June 30, 2022, were as follows (in thousands):

	Authority Shares	Type	Capacity (MWs)	Outstanding Commitment
EcoEléctrica, L.P.	100%	Gas	507	$ 1,799,839
AES Puerto Rico, L.P.	100%	Coal	454.3	1,516,666
Convergent Coamo Energy Storage, LLC	100%	Renewable	100	542,062
Pattern Santa Isabel, LLC	100%	Renewable	95	595,477
Pattern Barceloneta Solar LLC	100%	Renewable	70	396,781
Ciro Two Salinas, LLC	100%	Renewable	68	155,251
Guayama Solar Energy, LLC	100%	Renewable	50	130,332
Oriana Energy, LLC	100%	Renewable	45	272,296
Tetris Power, LLC	100%	Renewable	45	106,582
Humacao Solar Project, LLC	100%	Renewable	40	315,245
YFN Yabucoa Solar LLC	100%	Renewable	32	226,434
Punta Lima Wind Farm, LLC	100%	Renewable	26	151,125
San Fermín Solar Farm, LLC	100%	Renewable	20	120,307
AES Ilumina, LLC	100%	Renewable	20	84,765
Horizon Energy, LLC	100%	Renewable	10	86,400
Coto Laurel Solar Farm, Inc.	100%	Renewable	10	62,316
Landfill Gas Technologies of Toa Baja, LLC (Toa Baja Landfill)	100%	Renewable	2	12,179
Landfill Gas Technologies of Fajardo, LLC (Fajardo Landfill)	100%	Renewable	2	6,122
Windmar Renewable Energy, Inc. (Cantera Martino/La Rita)	100%	Renewable	2	11,134
Total				$ 6,591,313

The Authority does not have ownership of any assets related to these agreements. As costs are incurred each year, they are recorded as purchased power expense. During the fiscal year ended June 30, 2022, the Authority recorded as expense $535.5 million for its purchased power commitments. Renewable Energy projects usually include a pricing component related to the energy exported to the grid, and a pricing component related to the renewable energy credits ("RECs") associated with the exported energy. Only the two Landfill Gas projects include the REC transfer without an additional charge. The purchase power agreements are scheduled to expire from 2027 to 2050. The outstanding commitment in the table above is a projected cost based on the different

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Commitments – (continued)

variables included in the agreed upon terms throughout the remaining duration of the power purchase agreements. In accordance with the Authority's current and prior fiscal plans certified by the Oversight Board, the Authority has renegotiated several power purchase operating agreements ("PPOAs") to procure a reduction in their current prices and to assume or reject agreements in the Authority’s Title III case. Refer to Note 18 above for the section of *Tranches to Procure Renewable Energy and Battery Storage Systems.*

Construction and Other Commitments

As of June 30, 2022, the Authority has commitments of approximately $581 million in active construction, maintenance, and engineering services contracts.

The Authority’s commitment to its operator as part of the T&D OMA represents a yearly fixed fee, before inflation, of $ 70 million in year one, $90 million in year two, $100 million in year three and $105 million in each subsequent period, up to the year fifteen. Additionally, there is a variable incentive fee which ranges from $0 to $20M per year, before inflation, that is payable annually based on the Operator’s performance across multiple criteria. At present, the T&D OMA Service Commencement Date criteria has not been met, as such the Operator is performing services under the Supplemental Agreement which has a fixed fee commitment amounting to $115 million a year, before inflation, with no incentive fees while this agreement is in place. See Note 18.

Contingencies

Legal Contingencies

General

The Authority is a defendant or codefendant in numerous legal proceedings, including labor related claims, claims for damages due to electrified wires, failure to supply power and fluctuations in the power supply. An accrued liability of approximately $274.0 million to cover such exposure is included in the accompanying statement of net position (deficit).

As disclosed in Note 4, on July 2, 2017, the Oversight Board filed the Title III Case. Accordingly, claims against the Authority for the period prior to July 2, 2017, have been stayed until the Title III stay is lifted pursuant to PROMESA. Most of these claims will be subject to objection in the Title III case and will likely be deemed a pre-petition unsecured claim subject to impairment in the Authority’s Title III case.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

General– (continued)

Under certain circumstances, as provided in Act No. 104 of June 29, 1955, as amended ("Act No. 104"), the Commonwealth may provide its officers and employees, including directors, executive directors, and employees of public corporations and government component units and mayors of the municipalities of the Commonwealth, with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the amount of the judgment that may be paid under the provisions of Act No. 104 in cases before federal court, but in all other cases the Secretary of Justice of the Commonwealth may determine whether, and to what extent, the Commonwealth will assume payment of such judgment. Although the Authority's directors, executive director, and employees are covered by Act No. 104's provisions Act No. 104's Article 19 requires the Authority to cover the costs associated with judgments, expenses, and attorneys' fees incurred by the Commonwealth in the legal representation of the Authority's directors, executive director, and employees. To the extent the Authority is unable to cover these costs and expenses, the Authority would be required to reimburse the Commonwealth from future revenues, as provided by the Secretary of the Treasury of the Commonwealth in consultation with the Authority's board of directors.

Labor Related Claims

- Excess Vacation License Claim
  In 1999, UTIER filed a claim against the Authority with the Conciliation and Arbitrage Bureau of the Puerto Rico Department of Labor and Human Resources ("PRDLegLHR") for the accrued vacation balances over 450 hours based on the ten-year period beginning July 24, 1989. On September 26, 2012, a PRDLegLHR arbitrator resolved that the claim was applicable to all of UTIER's membership and ordered the Authority to pay the following:

  a) Two times the corresponding salary for the vacation day balances in excess of 60 days that the union member employees had or have since August 1, 1995, until the date of the decision based on Act No. 84 of 1995 and Act 180 of 1998;

  b) One-half of the aforementioned amount as a penalty, plus the legal interest since the day of the decision; and

  c) 10% of the total amount for attorneys' fees.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Labor Related Claims – (continued)

On May 18, 2015, the Authority filed a suit to vacate PRDLegLHR's arbitration award in the San Juan Court of First Instance. On April 18, 2016, the Court ruled against the Authority and dismissed the Authority's case. On May 20, 2016, the Authority appealed the dismissal to the Puerto Rico Court of Appeals. The appeal was automatically stayed as a result of the filing of the Title III Case, and on November 17, 2017, the Court of Appeals issued a ruling confirming the stay of the proceedings. Management's estimate of loss contingency is accounted for in the accompanying financial statements.

- Christmas Bonus

On December 17, 2014, UTIER filed a claim against the Authority with the Puerto Rico Labor Relations Board ("PRLRB") due to the Authority's decision to reduce employee Christmas bonuses due in December 2014 to approximately $600, in accordance with Article 11 of Act 66 of June 14, 2014. UTIER claimed that, as of June 30, 2014, the December 2014 Christmas bonus was already earned. On May 31, 2017, the Hearing Officer issued a recommendation to the PRLRB that the Authority should be ordered to pay the amount by which the Christmas bonus was reduced in December 2014.

On July 31, 2017, the Authority informed PRLRB that the Title III stay was in effect due to the filing of the Title III Case. Thereafter, the Puerto Rico Supreme Court ordered PRLRB to evaluate, on a case-by-case basis, all monetary claims where the Authority is the defendant, to determine whether or not the cases are stayed under PROMESA. After the Title III stay is lifted, should the Authority not succeed in its defense, management has estimated a probable loss, including penalties, which is recorded as a liability in the statement of net position (deficit).

In 2014, a group of the Authority's management employees filed with the Public Service Appeals Commission ("PSAC") a claim against the Authority related to the December 2014 Christmas bonus, which was reduced to $600, in accordance with Article 11 of Act 66 of June 14, 2014. The Commission has not issued a resolution regarding this matter.

Some of these cases have been consolidated by the PSAC on the basis of the year in which the bonus is claimed. The respective motions to assume legal representation for the Authority have been filed, but the PSAC has not yet ruled on all of them. Motions to stay the matter have been filed due to the Title III Case filing, but the PSAC has not yet ruled on all of them. For the cases

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Labor Related Claims – (continued)

above, management has estimated a probable loss, including penalties, which is recorded as a liability in the statement of net position (deficit).

- Re Employment Bargaining Agreement Violations

  In May 2010, UTIER submitted to the PRDLHR a total of 171 claims against the Authority, for violations of the collective bargaining agreement. Around this time, the Authority recruited new employees, and previously displaced emergency employees were not considered for these roles, pursuant to the UTIER collective bargaining agreement. The arbitration hearing was held on May 14, 2010. On June 18, 2013, the Arbitrator concluded that the Authority violated the collective bargaining agreement, because it did not give priority to displaced employees before hiring new employees. The Authority was ordered to pay all of the salaries that would have been earned by the previously displaced employees from the date the new employees were hired. Management's estimate of loss contingency has been accounted for in the accompanying financial statements. The case has been stayed due to the Title III Case filing.

- Mealtime Penalty Claim

  On December 31, 1997, Unión Insular de Trabajadores Industriales y Construcciones Eléctricas ("UITICE") and the Authority signed a stipulation in accordance with Act 41 of 1990. Through this stipulation, the Authority would pay a penalty for work performed during an agreed upon mealtime period from the time Act 41 of 1990 became effective until the date of the stipulation. After the agreement, the Puerto Rico Supreme Court resolved another case in which it stated that workers' right to a mealtime period existed since 1974. Thereafter, UITICE requested an Arbitrator with jurisdiction over the case provide retroactive relief in accordance with the Supreme Court's decision.

  On July 7, 2000, the PRDLHR issued a new decision in which it determined that the stipulation signed on December 31, 1997, was not final, and determined that the payment should be retroactive, as per Supreme Court's decision. On June 30, 2017, the parties signed a new stipulation to comply with the court order. The case has been stayed as a result of the filing of the Title III Case. Management's estimate of loss contingency has been accounted for in the accompanying financial statements.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Labor Related Claims – (continued)

- Other Cases Related to Collective Bargaining Agreement Matters

  In 2007, UTIER filed with PRLRB a claim against the Authority because of multiple alleged violations to collective bargaining agreement provisions by the Authority from December 11, 2006, through August 23, 2008. These alleged violations include issues regarding work schedules, daily relief time for on-duty employees, and publication of available job positions within the Authority.

  On April 23, 2014, PRLRB resolved that the relevant collective bargain agreement provisions at issue should have been implemented during the period at issue. On July 16, 2014, the Authority appealed this decision to Puerto Rico Court of Appeals. The process to determine payment amount was stayed as a result of the filing of the Title III Case. Management's estimate of loss contingency has been accounted for in the accompanying financial statements.

CAPECO Litigation

In 2009, a large fire at an industrial facility for the storage of fuel and diesel products owned by CAPECO caused major damage to surrounding areas. The Authority stored some of its fuel at this facility. In the aftermath of the fire, numerous claims were filed against CAPECO. Some of the plaintiffs included the Authority as a defendant in these suits, alleging that the Authority failed in its duty (as the owner of fuel stored at the site) to properly monitor CAPECO's operations in the storage facility. On August 12, 2010, CAPECO filed for bankruptcy. Claims against the Authority have been stayed due to the Title III Case filing. This loss contingency does not meet the probable criteria, and no liability has been recorded in the accompanying statement of net position (deficit) related to this contingency.

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Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Consumer Billing Litigation

- Ismael Marrero, ET AL. V. The Authority, ET AL.

  This is a class action lawsuit against the Authority, William A. Clark, Edwin Rodríguez, and César Torres, as well as several laboratories, and oil supply companies. The plaintiffs claim that the defendants entered into a RICO conspiracy whereby the Authority paid for noncompliant fuel oil at compliant fuel oil prices, in exchange for kickbacks to the individual defendants. Plaintiffs further alleged that they were overcharged under monthly electricity invoices as a result of the alleged RICO conspiracy.

  The District Court bifurcated the case and, subsequently, certified the class. Defendants appealed the decision. Class certification was affirmed by the First Circuit, but the appeal petition was denied. The case is currently stayed. The Oversight Board's special claims committee ("SCC") and the unsecured creditors committee ("UCC") as co-plaintiff trustees on behalf of the Authority filed an avoidance action with the Title III Court and are currently in the avoidance action. The SCC, UCC and the vendor defendants stipulated to the stay being lifted for the limited purpose of briefing and determination of motions to dismiss or judgment on the pleadings. Those motions are being briefed. Discovery in the avoidance action remains stayed. On February 8, 2019, plaintiffs filed a motion in the District Court to lift stay as to all defendants except the Authority. On May 9, 2019, the petition was denied.

  The Authority will litigate the case vigorously, defending the merits phase of the case and denying all allegations against it. Plaintiffs are not claiming at this time a specific amount of damages from the Authority. Management's estimate of loss contingency has been accounted for in the accompanying financial statements.

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Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Consumer Billing Litigation – (continued)

- Pedro Santiago V. AEE, ET AL.

  The case of Pedro Santiago v. AEE, et al., Civil No. KPE20160618, is a consumer class action against the Authority under 32 L.P.R.A. § 3341. A proposed class of plaintiffs, all of whom are residential energy consumers, are challenging the fuel adjustment charge and the purchase of energy charge on various grounds, including breach of contract claims. Plaintiffs also claim unjust enrichment, damages of up to approximately $600 million, antitrust violations, and requests permanent injunction. The case is stayed as a result of the Title III Case's filing. Once the stay is lifted, the Authority will vigorously defend the case and maintains that there is no cause of action against the Authority. Management's estimate of loss contingency has been accounted for in the accompanying financial statements.

PREPA v. Vitol Inc.

In 2009, the Authority filed suit in the Court of First Instance against Vitol, Inc. and Vitol S.A. (collectively, "Vitol") seeking declaratory judgment as to the nullity of two fuel supply agreements due to Vitol's failure to disclose (a) certain corruption criminal charges to which Vitol S.A. pled guilty and (b) various other investigations. Vitol removed this suit to the U.S. District Court for the District of Puerto Rico ("District Court") and filed a counterclaim alleging that the Authority owed Vitol, Inc. approximately $45 million, consisting of approximately $28 million in fuel that was delivered to, and used and not paid for by, the Authority and approximately $17 million for reimbursement of excise taxes, plus interests, costs, and attorneys' fees. The Authority sought the matter's remand to the Court of First Instance.

On November 28, 2012, the Authority filed a second complaint against Vitol in the Court of First Instance seeking essentially the same remedies sought in the first action but as to four other contracts, after discovery revealed the date in which Vitol learned of the investigations in the corruption cases. Vitol also removed this action to the District Court. The Authority requested remand back to the Court of First Instance. The two cases were consolidated by the District Court. The Authority claims approximately $3.89 billion in the aggregate.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

PREPA v. Vitol Inc. – (continued)

Vitol, Inc. resolved its claim for approximately $17 million in excise taxes and had stated that it would amend its counterclaim to dismiss that claim. The case was remanded to the Court of First Instance, and that forum set November 15, 2019, as the date for the Authority and Vitol to file simultaneous motions for summary judgment. On November 14, 2019, Vitol removed the case again to the District Court in the Authority's Title III Case, due to the SCC in the Title III case having filed an amended complaint in an adversary proceeding alleging claims against Vitol under the contracts in question in the Court of First Instance. The Authority moved for remand to the Court of First Instance once again, but the District Court denied the Authority's motion on March 13, 2020. The case then continued before the District Court as an adversary proceeding in the Authority's Title III case. After hearing cross summary judgment motions by the parties, on September 27, 2021, the District Court granted, in part, and denied, in part, each cross motion. It ruled against the Authority on its claim for $3.89 billion and for Vitol on its counterclaim for $28.4 million plus interest. The District Court ordered the parties to identify any issues remaining to be resolved in the adversary proceeding and file a (i) stipulation resolving any such issues, including but not limited to (a) the relevant period and rate for calculating any pre-judgment interest, (b) the total amount of any pre-judgment interest payable, (c) Vitol's claim for attorney's fees, and (d) whether the judgment may properly be entered upon the resolution of the outstanding issues, or (ii) a status report including a proposed briefing schedule for any outstanding legal issues.

On November 1, 2021, the parties filed a joint status report on the remaining legal issues and agreed to the Court entering a final judgment regarding a sum certain in pre-judgment interest, and withdrawal of Vitol's claims for attorneys' fees and post-judgment interest. On November 2, 2021, the Court issued a final judgment, which: (i) denies any monetary recovery by the Authority; (ii) orders a final judgment against the Authority in the amount of $41.5 million on Vitol Inc.'s counterclaim, which amount includes prejudgment interest accrued through July 2, 2017, the date the Title III Case filing; (iii) taxes all allowable costs against the Authority under Fed. R. Civ. P. 54(d)(1); and (iv) denies all relief not granted in the judgment. On December 2, 2021, the Authority appealed the Court's final judgment to the First Circuit. On May 2, 2022, the Authority filed its opening brief. On July 20, 2022, the parties informed the First Circuit that they reached an agreement in principle to settle their dispute and requested that the Court hold the appeal in abeyance and stay all deadlines to allow the parties to finalize their settlement agreement. On August 18, 2022, the parties filed a status report and informed the court that they had exchanged drafts of a settlement

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

PREPA v. Vitol Inc. – (continued)

agreement and are working diligently and cooperatively to finalize the agreement. On August 31, 2022, the parties entered a stipulation of dismissal with prejudice, and, on September 13, 2022, the First Circuit entered a judgment dismissing the case. Pursuant to the settlement agreement, Vitol Inc.'s claim shall be deemed allowed in the aggregate amount of $41,457,382.88 and, on the effective date of the Authority's plan of adjustment, Vitol Inc.'s claim shall be in a class in which Vitol Inc. shall be paid a distribution on account of the claim that shall equal one-half of what the claims receive in the class of non-bond general unsecured claims not for money borrowed. The agreement is conditioned on the Title III Court's approval of the Plan. Management's estimate of loss contingency has been accrued in the accompanying financial statements.

Tradewinds Energy Barceloneta LLC and Tradewinds Energy Vega Baja Arbitration

The Authority and Tradewinds Energy LLC entered into two Power Purchase and Operating Agreements ("Tradewinds PPOAs") to develop wind energy facilities, which were assigned to Tradewinds Energy Barceloneta and Tradewinds Energy Vega Baja (collectively, "Tradewinds"). On January 18, 2016, Tradewinds filed a demand for arbitration under the two Tradewinds PPOAs claiming approximately $30 million in damages. The parties have selected the arbitrator but have yet to execute the arbitration submission agreement so that the Authority may proceed to answer the claim for arbitration. The Authority will deny any and all liability to Tradewinds and denies having breached any obligations under the Tradewinds PPOAs. The case has been stayed as a result of the filing of the Title III Case. Since this contingency does not meet the probable criteria, no liability has been recorded in the accompanying statement of net position (deficit) related to this contingency.

ReSun (Barceloneta) LLC Litigation and Arbitration

ReSun (Barceloneta) LLC ("ReSun") and the Authority entered into a Power Purchase and Operating Agreement ("ReSun PPOA"). ReSun claims that the Authority breached its obligations under the ReSun PPOA and demanded arbitration. The Authority asserted that it did not have to submit to arbitration and, on December 30, 2015, ReSun filed a complaint before the Commonwealth of Puerto Rico Court of First Instance, San Juan Part, to compel the Authority to submit to arbitration.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

ReSun (Barceloneta) LLC Litigation and Arbitration – (continued)

Thereafter, the Authority filed a motion for summary judgment, and, on April 20, 2016, the Court granted the Authority's motion and dismissed the complaint to compel arbitration. On June 23, 2016, ReSun appealed the summary judgment. The Court of Appeals affirmed the summary judgment. ReSun filed a petition for certiorari before the Puerto Rico Supreme Court, which has been stayed as a result of the filing of the Title III Case.

PBJL Energy Corporation Litigation v. The Authority

On December 20, 2011, the Authority and PBJL Energy Corporation ("PBJL") entered into a Master Renewable Power Purchase and Operating Agreement ("PBJL MPPOA") pursuant to which PBJL, in its discretion, could propose to the Authority solar photovoltaic ("PV") energy projects pursuant to which, if the Authority's system could interconnect the proposed projects, and the Authority accepted a proposed site and interconnection point, the Authority and PBJL could enter into a Power Purchase and Operating Agreement ("PBJL PPOA"). On May 5, 2015, PBJL filed a complaint against the Authority and various employees in their official and personal capacities, claiming that the Authority had an obligation to award PBJL PPOAs to PBJL and that the Authority breached its obligations under the PBJL MPPOA by refusing to award PBJL PPOAs to PBJL under the PBJL MPPOA.

PBJL claims damages in the amount of approximately $210 million. The Authority has denied any liability to PBJL and has asserted that the Authority did not have any obligation to award a PBJL PPOA to PBJL under the PBJL MPPOA because the same is not a contract, and that, to the extent that the PBJL MPPOA is a contract, the same is null and void for lack of consideration and due to PBJL's failure to provide the Authority the sworn statement required by Act 458 of 2000, as amended, among other defenses raised by the Authority in its answer to the complaint. The case was in the discovery stage when, on August 30, 2017, the Court of First Instance stayed this case due to the Title III Case's filing. Since this contingency does not meet the probable criteria, no liability has been recorded in the accompanying statement of net position (deficit) related to this contingency.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Whitefish

On October 30, 2020, Whitefish Energy Holdings, LLC ("Whitefish") filed an Administrative Expense Motion against the Authority in the Title III case, seeking allowance of an administrative expense claim based on services rendered to the Authority consisting of repairs in the aftermath of the Hurricanes. Whitefish alleged an entitlement to said administrative claim based on outstanding invoiced amounts and interest that continued to accrue at 1% monthly. On March 1, 2022, the Authority filed a motion to approve a settlement (the "Settlement Agreement") with Whitefish. On March 21, 2022, the Title III Court issued an Order approving the Settlement Agreement. The Settlement Agreement resolves all matters in dispute arising under or in any way related to the Whitefish's contract, invoices, and finance charges including interests and penalties asserted by Whitefish as an administrative claim. Under the Settlement Agreements no further interest will accrue from the date of execution provided all payments by the Authority under the Settlement Agreement are timely and fully made. Management's estimate of loss contingency has been accrued in the accompanying financial statements. Pursuant to the settlement, Whitefish has an allowed administrative expense claims in the amount of approximately (i) $33.9 million for accrued interest charges; and (ii) $6.0 million for additional costs related to invoices for mobilization and demobilization services.

On August 15, 2023, the Authority paid approximately $31.2 million in interest charges, as per settlement, and on December 28, 2023, the Authority paid the $6.0 million in mobilization and demobilization services.

Cobra

On September 30, 2019, Cobra Acquisitions LLC ("Cobra") filed an Administrative Expense Motion against the Authority with the Title III Court, seeking allowance of an administrative expenses claim, for amounts arising from various services provided by Cobra to the Authority to assist in the rebuilding of the Authority's power grid in the aftermath of the Hurricanes. The case was stayed pending the resolution of the then-ongoing criminal charges brought against Cobra's former president and two FEMA officials, who were indicted and arrested for fraud and conspiracy to commit bribery in connection with Cobra's work on the Authority's electric grid, under the contracts Cobra seeks to enforce. *See U.S.A. v. Tribble*, Case No. 19-CR-541-FAB, ECF No. 3 (D.P.R. Sep. 3, 2019) (the "Criminal Case"). On May 18, 2022, the officials each entered into a conditional guilty

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Cobra – (continued)

plea on lesser charges. The officials were sentenced on December 13, 2022 with no other further impact on the Authority.

On January 7, 2023, the parties filed a Joint Status Report including an updated status of FEMA's review of the Authority's costs incurred under its second contract with Cobra to determine if the costs were eligible for federal reimbursement, the Criminal Case, and the position of the parties regarding the continued stay. The Authority argued that the stay should continue in place through July 31, 2023, to provide time for the parties to work collaboratively to appeal the November and December 2022 FEMA Eligibility Determination Memos regarding Cobra's second contract and to pursue a potential settlement of the remaining disputes. Following that status report, on January 18, 2023, the Court ordered the parties to file a further status report by July 31, 2023.

On March 27, 2023, FEMA obligated approximately $233 million in public assistance funding for costs the Authority incurred under its second contract with Cobra. Of this amount, $117 million was reimbursement of the federal share (90%) of amounts the Authority had already paid to Cobra. The remaining $93 million was obligated as the federal share (90%) of amounts invoiced by Cobra, but not yet paid to the Authority (the "Approved Unpaid Invoices").

On May 16, 2023, Cobra requested that Judge Swain modify the court's administrative stay on Cobra's administrative expense litigation against the Authority to pursue $99 million of its claims. Cobra argued that changed circumstances warranted lifting the litigation stay. On May 23, 2023, the Oversight Board objected to Cobra's motion, explaining that the Authority was in the process of completing its internal validation process for the Approved Unpaid Invoices so that it could request the funds from the Central Office of Response, Recovery, and Resilience ("COR3"). On June 13, 2023, the Title III Court ordered that no later than June 14, 2023, the Authority shall provide (i) Cobra and the Title III Court with the status of the Authority's review of the Approved Unpaid Invoices; and (ii) the Title III Court with information regarding the expected timeline for COR3 to review and process the submitted invoices for payment. The Authority complied with the order and provided the requested information on June 14, 2023. Thereafter, on July 10, 2023, Cobra filed an informative motion expressing concern regarding the timing of the Authority's invoice validation process. In response, on July 21, 2023, the Oversight Board and the Authority informed the Title III Court that the Authority has been working diligently to complete the invoice review and validation

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Cobra – (continued)

process. Furthermore, the Oversight Board expressed its belief that settlement of all outstanding issues with Cobra is the best path forward, and that it is committed to working in good faith to achieve it.

From July 2023 through December 2023, Cobra and the Oversight Board submitted several additional joint status reports to update the Title III Court. On December 4, 2023, the Title III Court ordered (i) the Authority and the Oversight Board to provide to Cobra, by December 5, 2023, the name(s) of the individual(s) at COR3 who are able to provide information regarding the status of the approved unpaid invoices; (ii) the parties to report the status of any remaining unpaid approved invoices by January 16, 2024; (iii) the Authority and the Oversight Board to provide a detailed written summary of each of their objections to the approximately $1.5 million of disputed approved unpaid invoices by January 3, 2024; and (iv) the parties to meet and confer by January 10, 2024, in a good faith effort to resolve objections to the disputed approved unpaid invoices.

On January 3, 2024, the Oversight Board filed a detailed summary the Authority's objections to the approved unpaid invoices. On January 16, 2024, the Oversight Board filed a status report stating that (1) the FEMA appeals remain under review, (2) the ongoing disputes regarding the Cobra contracts are subject to ongoing mediation, and (3) although the Authority directed its account payable service provider to make a payment of $13,352,755.27 on accounts of approved unpaid invoices, further disbursement is delayed by lawsuits against Cobra for unpaid municipal and construction excise taxes requiring the Authority to withhold certain amounts from any payment due to Cobra. Thereafter, on January 19, 2024, the Court ordered the parties to file an updated status report by March 27, 2024 if the dispute has not been resolved, directed the parties to mediation over any unpaid approved invoices and extended the litigation stay of Cobra's administrative expense motion to April 5, 2024.

With regard to the administrative status of the amounts potentially due to Cobra, in May 2021, FEMA formally denied reimbursement of approximately $46.0 million under the Authority's first contract with Cobra in FEMA Project Worksheet (PW) 251. It found about $24.4 million of the total invoiced amount was not authorized because Cobra had more than the maximum number of line workers allowed on the job without written authorization from the Authority. The remaining $21.5 million was denied as charges unsupported by the terms of the contract. The Authority provided proof of the written authorization with respect to the $24.4 million denial. On May 31, 2022, FEMA

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Cobra – (continued)

approved the $24.4 million reimbursement, but denied the appeal with respect to the remaining $21.5 million. The Authority had previously received this funding from FEMA.

On July 29, 2022, the Authority filed a Request for Arbitration with the U.S. Civilian Board of Contract Appeals (the "Board") requesting the Board direct FEMA to reinstate the $21.5 million denied amounts. On November 16, 2022, the Board formally denied the Authority's request for the costs at issue. There is no right of judicial review or appeal of this decision. Thus, the Board's decision is final. The denied amounts represent costs FEMA had already obligated and paid to the grant recipient, COR3, which in turn disbursed the funding to the Authority, which in turn paid Cobra, the result of the Board's decision is that FEMA will automatically claw back the funding from COR3's federal bank account and the Authority now owes this amount to COR3.

The Authority's first contract with Cobra contained a provision that requires the Authority to reimburse Cobra for taxes it pays to the Government of Puerto Rico in excess of 8.5% of the amounts Cobra is paid under the contract ("tax gross-up"). These amounts are eligible for FEMA reimbursement. FEMA indicated that it will defer its decision on the tax gross-up payable under the contract and eligible for reimbursement to project closeout, and indicated that the Authority will be required to provide specific documentation establishing the amount of taxes paid in excess of 8.5% that were payable under the gross-up provision. The Authority and Cobra disagree on how much tax gross-up is payable to Cobra under the first contract.

FEMA has formulated two projects under the Authority's second contract with Cobra (Project Worksheet (PW) 466 and PW 11211) and issued an Eligibility Determination Memorandum for each project on November 21, 2022 and December 21, 2022, respectively. For PW 466, FEMA determined $49,278,986.07 eligible for reimbursement at 100% federal cost share and denied $5,599,775.33 as ineligible for various reasons. For PW 11211, FEMA determined $233.7 million eligible for reimbursement at 90% federal cost share and denied $68.1 million as ineligible for various reasons. The Authority filed an administrative appeal of FEMA's determination regarding PW 466 on January 20, 2023 and filed an administrative appeal regarding PW 11211 on February 17, 2023.

On March 27, 2023, FEMA obligated the 90% federal cost share of the $233.7 million approved under PW 11211, or $210.3 million. Of the total $233.7 million approved amount, $130.2 million was for costs already paid to Cobra. The remaining $103.5 million is approved for invoiced costs that the

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Cobra – (continued)

Authority has not yet paid. On June 26, 2023, the Authority submitted a Request for Reimbursement (an "RFR") to COR3 for the $130 million already-paid costs and COR3 disbursed the associated 90% obligated—$117.2 million on. The Authority undertook a process of internally validating and approving for paying the Approved Unpaid Invoices. From June 1, 2023 to February 26, 2024, the Authority paid Cobra approximately $110.6 million in invoiced amounts that the Authority was able to internally validate. It submitted an associated RFR to COR3 to obtain reimbursement of the amount paid. On November 1, 2023, the Authority submitted an RFR for $82,366,354.47 in approved unpaid invoices to COR3. These invoices are subject to 90% funding from FEMA, meaning the Authority is responsible for the other 10%. On or about January 2, 2023, the Authority received a disbursement from COR3 in the amount of $74,006,628.54. As of the date hereof, the Authority continues to dispute approximately $1.5–$2.9 million in Approved Unpaid Invoices. Each of these disputed charges is a portion of an invoice the Authority otherwise approved and submitted to COR3.

Key Contested Motions and Adversary Proceedings in the Title III Case

- Current Expense Litigation

    a. Fuel Line Lenders

    On July 9, 2019, Fuel Line Lenders, filed a complaint against the Authority and other parties. The Fuel Line Lenders requested the Title III Court to enter judgment declaring that all amounts allegedly owed to them are current expenses under the 1974 Agreement and assert they must be paid before any further payments are made to the 1974 Trustee or bondholders. The Authority, Oversight Board, and FAFAA jointly filed motions to dismiss the amended complaint on November 11, 2019. The Title III Court adjourned the hearing.

    On December 1, 2022, the Oversight Board, as Title III representative of the Authority, and the Fuel Line Lenders entered into a Plan Support and Settlement Agreement. The agreement is conditional on the Title III Court approval of the Plan. On December 2, 2022, FAFAA and the Fuel Line Lenders filed a stipulation that, subject to the terms of the Plan Support and Settlement Agreement, stays the litigation until the termination of

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Case – (continued)

the Plan Support and Settlement Agreement. On July 25, 2023, the Oversight Board informed the Title III Court that it had entered into an amendment to the Plan Support and Settlement Agreement with the Fuel Line Lenders to align the agreement with the projections in the Certified 2023 Fiscal Plan.

b. PREPA ERS

On October 30, 2019, PREPA ERS filed an amended complaint against the Authority and other parties. PREPA ERS requested the Title III Court to determine that all amounts owed to the PREPA ERS are Current Expenses as defined in the 1974 Agreement because contributions made to pensions and the retirement system allegedly qualify as Current Expenses under the 1974 Agreement. The PREPA ERS asserts these "Current Expenses" must be paid before any further payments are made to the 1974 Trustee or the Authority's bondholders.

The Authority, Oversight Board, and FAFAA jointly filed a motion to dismiss the amended complaint, which the PREPA ERS opposed. On September 29, 2022, the Title III Court terminated the motion to dismiss, stating that the "current expense" issue will be addressed only after security and recourse issues have been resolved or in connection with the Plan's confirmation.

c. 2023 Current Expense Litigation

On December 8, 2023, the UCC, UTIER, PREPA ERS, Blue Beetle III LLC, and EIF Recourse Recovery LLC filed a complaint that named the Oversight Board, the Authority, FAFAA, and the 1974 Trustee as defendants, and requested that the Court subordinate the claims of the 1974 Trustee and the Authority's bondholders to the claims of UTIER, PREPA ERS, Blue Beetle, EIF, and all other holders of asserted "Current Expense" claims.

Upon the Oversight Board settling with the UCC regarding the UCC's Plan objections, the UCC agreed to not prosecute the litigation and withdraw as plaintiff on the Plan's effective date if it is confirmed.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Case – (continued)

On December 14, 2023, the Title III Court stayed this litigation pending resolution of the Plan confirmation hearing, without prejudice to the plaintiffs' ability to raise the litigation issues in their objections to confirmation of the Oversight Board's proposed Plan.

- Lien Challenge

On July 1, 2019, the Authority, the Oversight Board, and FAFAA filed a complaint (the "Lien Challenge") against the 1974 Trustee asking the Title III Court to (a)(i) declare that the 1974 Trustee's security interest in the Authority's property is limited to funds deposited to the credit of the "Sinking Fund" and certain other funds under the 1974 Agreement; (ii) declare the 1974 Trustee has not perfected any security interest in any of the Authority's property other than cash deposited to the credit of the Sinking Fund; (iii) avoid any security interest granted to the 1974 Trustee in any of the Authority's property other than cash deposited to the credit of the Sinking Fund, preserving all avoided liens for the benefit of the Authority; (b)(i) declare that contractual covenants and remedies set forth in the 1974 Agreement are obligations of the Authority, not the Authority's property, and do not and cannot constitute collateral in which the Authority has granted a security interest to secure the Authority's bonds; (ii) declare the 1974 Trustee has not perfected any security interest in any such covenants and remedies and that the Authority's interest in such is entitled to priority over any interest of the 1974 Trustee under Puerto Rico law; (iii) avoid any security interest in such covenants and remedies, preserving all avoided liens for the benefit of the Authority; and (c) disallow all claims asserting security interests either not granted under the 1974 Agreement or that are unperfected.

The Title III Court stayed the proceeding from July 16, 2019 to September 29, 2022. On October 2, 2022, the Oversight Board filed an amended complaint asserting seven counts and broadly requesting disallowance of the bondholders' claims to the extent the claims: (i) seek to assert a security interest in property other than the revenues actually deposited to the credit of the Sinking Fund and certain other designated funds, and subordinating the 1974 Trustee's security interest against that property to the Authority's interest; (ii) assert a security interest in the covenants and remedies; and (iii) assert an unsecured claim against the Authority. While the Amended Complaint eliminated FAFAA as a plaintiff, on October 17, 2022, the Court approved

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Case – (continued)

a stipulation between the Oversight Board and FAFAA to allow FAFAA to intervene as a plaintiff. The Court approved numerous stipulations allowing parties on both plaintiff and defendant side to intervene. The Authority's bondholders and monoline insurers intervened as defendants.

On October 24, 2022, both the Oversight Board and the defendants filed cross-motions for summary judgment.

On March 22, 2023, the Court held that: (i) the Trust Agreement granted the Bondholders security interests only in moneys actually deposited to the Sinking Fund, Self-insurance Fund, Capital Improvement Fund, Reserve Maintenance Fund, and Construction Fund (as defined in the Trust Agreement); (ii) Bondholders have perfected their liens in the Sinking Fund, Self-insurance Fund, and Reserve Maintenance Fund, over which the Trustee has established control; (iii) Bondholders have no security interest in the covenants and remedies provided for by the Trust Agreement; but (iv) based on the Authority's payment and equitable relief covenants in the Trust Agreement, Bondholders have an unsecured claim to be liquidated by reference to the value of future Net Revenues (as defined in the Trust Agreement) that would, under the waterfall provisions of the Trust Agreement and applicable nonbankruptcy law, have become collateral upon being deposited in the specified funds and payable to the Bondholders over the remainder of the term of the Bonds (the "Unsecured Net Revenue Claim").

The Court ruled that it would conduct estimation proceedings for the Bondholders' Unsecured Net Revenue Claim.

After the Title III Court held the estimation hearing, on June 26, 2023, the Court issued its opinion rejecting the Bondholders' contention that their Unsecured Net Revenue Claim should be valued at the face value of the bonds (roughly $8.5 billion) and, instead, valued the claim at $2.388 billion.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Case – (continued)

On November 29, 2023, the Title III Court dismissed the remaining counterclaims asserted by the Bondholders. Thereafter, the Oversight Board, FAFAA, multiple Bondholder parties, and the UCC appealed different aspects of the dismissal order, judgment, or the interlocutory orders merged into the judgment (*e.g.*, the summary judgment order and the estimation order). The First Circuit heard oral arguments on January 29, 2024, and took the matter under advisement.

Bodily Injuries Claims

The Authority is a defendant in several legal actions claiming physical bodily injuries suffered by individuals coming into contact with wires and similar accidents and events. Aggregate claims amount to approximately $243.0 million.

Management's estimate of loss contingency has been accrued in the accompanying financial statements as a contingent liability to settle these legal claims but intends to continue to defend the cases vigorously. These claims are stayed as a result of the filing of the Title III Case.

Environmental Contingencies

Facilities and operations of the Authority are subject to regulations under federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act, Resource Conservation and Recovery Act, Safe Drinking Water Act, Emergency Planning and Community Right-to-Know Act, and Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). The Authority monitors its compliance with laws and regulations and reviews its remediation obligations on an ongoing basis.

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Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Environmental Contingencies – (continued)

As of July 1, 2023, Genera PR LLC ("Genera") assumed responsibility for the operation and maintenance of the Authority's Legacy Generation Assets pursuant to and as defined in the Puerto Rico Thermal Generation Facilities Operation and Maintenance Agreement ("Agreement"), dated as of January 24, 2023.

1999 Consent Decree

In 1993, the United States of America ("United States"), through the United States Department of Justice ("DOJ") and the United States Environmental Protection Agency ("EPA"), filed a complaint against the Authority in the United States District Court for the District of Puerto Rico (the "court") (Civil Action No. 93-2527 CCC). The complaint alleged environmental violations by the Authority under multiple federal environmental statutes, including those relating to air, water, and waste at the Palo Seco, San Juan, Aguirre, and Costa Sur generation facilities, and the Monacillos Transmission Center. In 1999, the court entered a consent decree in the case ("Consent Decree"). The Consent Decree requires that the Authority improve and implement programs and operations to ensure compliance with environmental laws and regulations.

In 2004, the court entered a Consent Decree modification ("2004 Modification"). The 2004 Modification required the Authority to reduce the sulfur content in the No. 6 fuel oil used in certain generating units at its Costa Sur, Aguirre, Palo Seco, and San Juan Power Plants. Additionally, the 2004 Modification required the Authority to implement a nitrogen oxide emissions reduction program at certain units and to modify the optimal operating ranges for units subject to the Consent Decree.

In 2014, representatives from the Authority and the United States met to discuss terminating certain completed compliance programs/provisions under the Consent Decree and 2004 Modification. As a result, the United States requested that the Authority submit information regarding the Authority's compliance with the programs for its review and evaluation. In September 2014, the Authority submitted the information requested, and submitted a written partial termination request to the United States covering those programs/provisions.

As of the issuance of these financial statements, a draft modified Consent Decree is under review by the United States. After such negotiations conclude, the modified Consent Decree would need to be lodged with the court and must go through a public notice and comment process prior to court approval.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

1999 Consent Decree – (continued)

The Authority has not been informed about any related costs that would be considered accruable as a contingent liability, therefore, there is no amount recorded in the accompanying financial statements.

Air and Water Quality Compliance

The Authority is required to maintain compliance with air quality (including opacity) and water quality requirements. Under the Consent Decree, the Authority is subject to stipulated penalties for deviations. The Authority had paid stipulated penalties of approximately $78 thousand in fiscal year 2022.

Compliance Programs

The Authority continues to develop and implement a comprehensive program to improve environmental compliance. This program has been, and continues to be, updated to conform to new regulatory requirements.

Mercury and Air Toxics Standards

The Mercury and Air Toxics Standard ("MATS") under the Clean Air Act, through the EPA regulations, establishes national emission standards for hazardous air pollutants, including emission limits and work practice standards, that apply to coal- and oil-fired electric utility steam generating units ("EGU") in continental and non-continental areas. The Authority owns and operates fourteen (14) oil fired EGUs that are affected by the regulation.

Since MATS went into effect on April 16, 2015 (for Aguirre, April 16, 2016), the Authority's units have experienced various periods of noncompliance with the standard.

Should the Authority reach a settlement with the United States regarding MATS noncompliance, the resulting consent decree will almost certainly require the Authority to make various compliance related expenditures and may require the payment of civil penalties.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Compliance Programs – (continued)

Mercury and Air Toxics Standards – (continued)

On August 24, 2020, PREB issued its final order on the Authority's IRP, approving it in part and making certain modifications. The Authority's IRP is expected to inform the basis of a potential MATS compliance plan. The state implementation plan for the 1-hour sulfur dioxide (SO_2) national ambient air quality standard, which was submitted by the Puerto Rico Department of Natural and Environmental Resources ("DNER") to EPA and was deemed complete by EPA on December 1, 2022, described below, is also expected to inform any such consent decree.

The Authority has not identified any contingent losses that would be considered probable of occurrence in relation to MATS noncompliance and the Authority's IRP; therefore, no amount has been recorded in the accompanying financial statements.

SO_2 National Ambient Air Quality Standard Compliance

On January 9, 2018, EPA published in the *Federal Register* the third round of final area designations under the 2010 sulfur dioxide ("SO_2") national ambient air quality standards ("NAAQS"). The non-attainment designations took effect on April 9, 2018. EPA identified two (2) SO_2 non-attainment areas in Puerto Rico, the San Juan Area and the Guayama-Salinas Area. The Clean Air Act requires air agencies to take steps to control air pollution in SO_2 non-attainment areas. Those steps include stricter controls on sources of SO_2. State and local governments detail these steps in plans that demonstrate how they will meet the SO_2 standard. Those plans are known as state implementation plans ("SIPs").

On August 26, 2022, DNER issued a proposed SIP and proposed amendments to the Puerto Rico Regulation for the Control of Atmospheric Pollution ("RCAP") for public comment and hearing. On September 14, 2022, DNER held a public hearing on the proposed SIP and RCAP amendments. According to DNER and EPA, the Authority's power plants are principal emitters of SO_2 in the identified areas. The Authority's affected facilities in the non-attainment areas are the San Juan, Palo Seco, and Aguirre Power Plants. The Authority submitted written comments on the proposed SIP and proposed RCAP amendments and also participated in and provided additional comments during the public hearing, including on the status of the implementation of the Authority's IRP and projects, approved by PREB in August 2020, as well as reliability considerations.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Compliance Programs – (continued)

SO_2 National Ambient Air Quality Standard Compliance – (continued)

On November 21, 2022, the Authority received notification that DNER had approved amendments to the RCAP with an effective date of November 21, 2022. On November 22, 2022, DNER notified the Authority of the SIP Approval Resolution, whereby DNER adopted the Official Examiner's recommendation to adopt the SIP.

On December 1, 2022, EPA determined that the SIP submittal by DNER is administratively and technically complete. The EPA is now reviewing the submittal for approvability in a subsequent rulemaking.

The SIP adopted by DNER and submitted to EPA included the following requirements: (i) retirement dates for certain Authority's generating units, contingent upon the effective integration of new renewable energy projects forecasted by PREB; (ii) fuel-switching to ultra-low sulfur diesel fuel at the Authority's combustion turbines located within the nonattainment areas; and (iii) establishment of an SO_2 attainment air monitoring network within the nonattainment areas.

The Authority has not identified any contingent losses that would be considered probable of occurrence regarding this matter; therefore, no amount has been recorded in the accompanying financial statements.

Palo Seco MobilePac Units NOV

On December 8, 2023, the EPA issued a Notice of Violation ("NOV") to the Authority and Genera. EPA alleged that Genera and the Authority violated certain Clean Air Act regulations and Puerto Rico Regulations for the Control of Air Pollution related to the operation of three MobilePac turbines at the Palo Seco Steam Power Plant, located in Toa Baja, Puerto Rico. Specifically, EPA alleged the Authority and Genera violated fuel consumption limits established in the MobilePac turbines' air permit as issued by DNER, violated a separate air permit condition by failing to timely request a permit modification following a change in the Palo Seco Steam Power Plant's responsible official, and violated the applicable NSPS, 40 C.F.R. part 60 subpart KKKK, and the applicable NESHAP, 40 C.F.R. part 63 subpart YYYY, by failing to conduct timely annual and performance testing of the MobilePac turbines, respectively. Genera and EPA have agreed to meet in January 2024 to discuss the NOV. As of the date of the issuance of these financial statements, the Authority does not expect

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Compliance Programs – (continued)

Palo Seco MobilePac Units NOV-(continued)

any material penalties or fines or material restrictions on our operations to result from this enforcement action, but will update and supplement this notice as appropriate.

Pollution Remediation Obligation (PRO)

Pollution remediation obligations ("PRO") are recorded by the Authority when an obligating event occurs, as defined in GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*", and if a reasonable estimate of the remediation costs can be made. Three different locations require the analysis of pollution remediation obligations, including the Protección Técnica Ecológica Superfund site in Peñuelas (the "Proteco Site"), the Vega Baja Solid Waste Disposal Superfund Site (the "Vega Baja Site"), and the Palo Seco site.

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Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Pollution Remediation Obligation – (continued)

The Proteco Site

On March 28, 2019, EPA issued a notice of potential liability and request for information to the Authority under CERCLA in relation to the Proteco Site. EPA alleges that the Authority is a potentially responsible party ("PRP") for the Proteco Site as an arranger, who by contractor or arrangement, arranged for the disposal or treatment of hazardous substances at the Proteco Site. On June 28, 2019, the Authority received a special notice letter from EPA requesting that the Authority enter into an administrative settlement agreement and order on consent ("ASAOC") to conduct a remedial investigation and feasibility study ("RI/FS") [2] of the Proteco Site (hereinafter, the "June 28, 2019, Special Notice Letter"). The Authority believes that a similar special notice letter was sent to other PRPs.

In September 2020, the Authority and other PRPs ("PRP Group") entered into an ASAOC (CERCLA-02-2020-2010) with the EPA to conduct the RI/FS. The ASAOC requires payment from the PRP Group to EPA in the amount of approximately $445 thousand for past response costs. On December 8, 2020, the Authority paid its $75 thousand share. The agreement also requires that the PRP Group provide financial assurance, initially in the amount of approximately $5 million (based on the estimated cost of work), for EPA's benefit.

The Authority share will be applied to any payment of RI/FS work to be carried out at the Proteco Site and considered part of the liability, as well as to pay and absorb any future liability that may be imposed for noncompliance with the ASAOC. The RI/FS is in the earliest stages.

As of the date of the issuance of these financial statements, the Authority's Governing Board authorized an initial expenditure of up to approximately $1.5 million (included as part of Claims and Judgments in the accompanying financial statements) to pay for the Authority's share of the RI/FS. The $1.5 million is the only cost capable of being estimated at this time, and, therefore, that is the amount accrued by the Authority.

[2] An RI/FS is the regulatory-mandated process for collecting data to characterize site conditions, determining the nature of wastes at the site, assessing risk to human health and the environment (if any), and identifying and evaluating potential remediation options based on the collected data. *See* Superfund Remedial Investigation/Feasibility Study (Site Characterization) | US EPA.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Pollution Remediation Obligation – (continued)

The Vega Baja Site

In 2002, the Authority received a Special Notice Concerning Remedial Investigation/Feasibility Study for Soil at the Vega Baja Site. EPA has identified the Authority and six other entities as PRPs.

On April 25, 2013, the Consent Decree civil action (No. 12 1988 (ADC)) was filed in the U.S. Court for the District of Puerto Rico. An Environmental Escrow Agreement ("EEA") was entered into by and among the GDB, as the escrow agent, the Puerto Rico Land Authority ("PRLA"), the Puerto Rico Housing Department ("PRHD"), the Authority and the United State of America. The EEA serves as financial assurance for the performance of the obligation under the Consent Decree. On June 24, 2013, the Authority deposited approximately $400 thousand into an escrow account as provided in the Consent Decree and the EEA. If the escrow account balance is reduced below $250 thousand, the Authority, PRLA, and PRHD must establish and maintain a performance guarantee for the benefit of EPA equal to the difference between the escrow account balance and $250 thousand. Public agencies may elect to satisfy this performance guarantee requirement by providing separate performance guarantees which total the amount required to be maintained as set forth above, either individually or collectively. The main corrective action of removing the lead from the residential area to a nonresidential site was completed in 2015. The costs that will be incurred in the future are restricted to operational annual assessments, and if any corrective action is deemed necessary in nonresidential and residential areas, the Authority, PRLA and PRHD will be responsible. At the time of the issuance of these financial statements, no corrective actions have been identified.

The Authority, on behalf of PRLA and PRHD, has requested disbursements be charged against the escrow account, and such payments have been processed. All payments required to be charged against the escrow account is to cover projects required by the Consent Decree. If payments are not fulfilled, services can be suspended by the contractors resulting in the application of fines for noncompliance as stipulated in the Consent Decree.

This Consent Decree can be terminated upon motion by any party, provided that all public defendants have satisfied their obligations of payments of certain "Response Cost and Stipulated Penalties." Termination of the Consent Decree shall not affect certain "Covenants Not to Sue" including all reservations pertaining to those covenants and shall not affect any continuing obligation of the Authority, PRLA and the PRDH (all referred in the Consent Decree as the Settling Defendants).

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Pollution Remediation Obligation – (continued)

The Vega Baja Site – (continued)

Currently, the appointment of a Supervisory Contractor is in progress. The inspection and reporting work required in the Environmental Escrow Agreement is being carried out by a project coordinator appointed by the Authority, in coordination with the representatives appointed by the PRLA and the PRDH. In September 2020, EPA conducted a 5-year review of whether the remedial action is protective of human health and the environment. As part of this review, the EPA contractor inspected a number of properties that were not remedied because the lead concentration detected in the field was below 450 ppm. The information collected was evaluated by EPA, and it determined that the Authority, PRLA, and PRHD have not failed to operate and maintain the remedial action as required and no further response actions for the Site have to be undertaken at the moment. The Authority shall pay to EPA all future costs not inconsistent with the required contingency plan for the Vega Baja Site.

As of the time of this issuance of these financial statements, the Authority has not identified any PRO that would be considered probable of occurrence, therefore no amount has been recorded in the accompanying financial statements.

The Palo Seco Site

The Palo Seco Site is located in Toa Baja, Puerto Rico (near San Juan), and includes the Palo Seco Power Plant, a depot area, and the former Bayamón river channel.

In 1997, as a result of an inspection by EPA and the Puerto Rico Environmental Quality Board (the "EQB") at the Authority's Palo Seco Power Plant, EPA issued an Administrative Order (CERCLA-97-0302) for the investigation and possible remediation of seven areas of interest identified by EPA at the Palo Seco Site. The Administrative Order required the Authority to carry out a RI/FS.

Following the RI/FS, additional action was taken to address separate phase hydrocarbons at two of the areas of interest. On November 6, 2008, EPA and the Authority entered into an Administrative Order on Consent ("AOC") to address the separate phase hydrocarbons (No. CERCLA-02-2008-2022). Subsequently, the Authority completed a removal action at one of the areas of interest to remove separate phase hydrocarbons. In July 2012, EPA issued for public comment its proposed plan for no further action at the site. In September 2012, EPA issued its Record of Decision for the site, which selected the "No Further Action" remedy.

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Pollution Remediation Obligation – (continued)

The Palo Seco Site – (continued)

The AOC included various conditions for the Authority to reimburse EPA for costs incurred by EPA in connection with the site. On December 4, 2015 and on May 11, 2016, EPA sent the Authority a cost package for response costs. The cost package included two components: (i) $62 thousand that EPA had incurred in connection with the oversight of the removal action performed under the AOC; and (ii) $1.5 million in costs that did not fall in that category (i.e., those not directly related to the AOC), including investigative and other response costs that, as of July 31, 2015, had been paid by EPA pursuant to CERCLA with respect to the site.

With respect to the first category of costs, on March 7, 2016, EPA sent the Authority a bill collection notice for the $62 thousand incurred by EPA in connection with the AOC. The Authority paid this amount on March 8, 2016.

With respect to the second category of costs, on July 10, 2017, a settlement agreement (CERCLA-02-2017-2014) was signed requiring the Authority to pay EPA the principal sum of $1 million, plus interest, in three annual installments. First installment was paid on August 9, 2017, for the amount of $333 thousand. Second installment was paid on May 29, 2018, for the amount of $338 thousand. The third and final installment was paid on July 19, 2019, for the amount of $340 thousand. The third payment completed the Authority's financial commitments under the settlement agreement.

Asset Retirement Obligations

In accordance with GASB Statement No. 83, *"Accounting and Financial Reporting for Certain Asset Retirement Obligations"*, the Authority records a liability and a deferred outflows associated with the retirement of tangible capital assets that it has an enforceable legal obligation to retire. GASB No. 83 requires governmental entitles to record a liability and a corresponding deferred outflow at the time there is an external obligating event such as a federal or state regulation, a legally binding contract or court judgment and when there is an internal obligating event which exits at the time an asset is acquired or if constructed placed in service. In accordance with GASB No. 83, the Authority estimated and recorded its AROs at the current value of outlays expected to be incurred using site

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Asset Retirement Obligations – (continued)

specific cost studies performed by third-party consultants or published cost studies of similar sites. Current value is the amount that would be paid, if all equipment, facilities, and services included in the estimate were acquired at the end of the current reporting period. This approach includes probability weighting of potential outcomes when this information can be obtained at a reasonable cost.

The Authority recorded AROs of applicable tangible assets such as thermal generation, hydroelectric power facilities, select T&D System components, and other assets, following the requirements of GASB No. 83. The useful life of assets examined range between 10 and 80 years. Federal energy laws and regulations, federal environmental laws and regulations, and Commonwealth environmental laws and regulations issued by the Puerto Rico Department of Natural and Environmental Resources have been reviewed to determine AROs.

For the fiscal year ended June 30, 2022, new information resulted in modified estimating techniques for the cost estimating approach used for the major generation assets and the craft labor rates. These changes in approach affected the carrying amount of the ARO liability, representing a change in accounting estimate when compared with the recorded ARO as of beginning of year. The Authority does not have assets restricted for payment of these liabilities.

The Authority records AROs as a non-current liability in the accompanying statement of net position (deficit). AROs at June 30, 2022 (in thousands) were:

ARO:	2022
Balance at July 1, 2021	$120,734
Additions	34,822
Change due to updates	17,940
Balance at June 30, 2022	$ 173,496

The Authority amortizes its deferred outflows using the straight-line method over the remaining useful life of the asset or lease term, if leased. The liability is reduced as actual decommissioning costs are paid. Amortization/accretion of ARO costs of approximately $20.2 million is presented under depreciation and amortization in the accompanying statements of revenues, expenses, and changes in net position (deficit).

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Asset Retirement Obligations – (continued)

Deferred outflows related to the Authority's assets retirement obligations are as follows for the fiscal year ended June 30, 2022 (in thousands):

Deferred outflows - ARO		2022
Balance at July 1, 2021	$	54,555
Additions		30,852
Change due to updates		1,759
Balance at June 30, 2022	$	87,166

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Note 20 - Subsequent Events

Subsequent events were evaluated through March 27, 2024 to determine if any such events should either be recognized or disclosed in the 2022 basic financial statements.

The Authority's Fiscal Plan

On June 23, 2023, the Oversight Board approved the Certified 2023 Fiscal Plan for the Authority, and on April 3, 2023, Oversight Board certified the Commonwealth Fiscal Plan. Even though the Authority has its own Fiscal Plan, the Commonwealth Fiscal Plan includes a discussion of energy reform and the Authority's transformation. The Commonwealth Fiscal Plan provides that, over the next five years, the power sector in Puerto Rico must continue its transformation and modernization to support the delivery of reliable, clean, and affordable power. The Commonwealth must continue to implement a comprehensive energy sector reform to enable a successful transformation and unlock the resulting growth from Fiscal Plan projects. Pursuant to the Commonwealth Fiscal Plan, the successful transformation of Puerto Rico's power sector depends on: (1) implementing regulatory reform supported by PREB, (2) transitioning the Authority's electricity grid operation and generation assets to private operators through private public partnerships, while moving the energy system to 100% renewables, and (3) restructuring the Authority's legacy debt obligations to be able to access capital markets and support the modernization of the power grid.

Key Contested Motions and Adversary Proceedings in the Title III Case

- The Authority's Plan of Adjustment Mediation

On May 3, 2019, the Oversight Board, FAFAA, and the Authority (the "Government Parties"), entered into a restructuring support agreement (the "2019 RSA") with a substantial portion of the Authority's bondholders and Assured Guaranty Corp. and Assured Guaranty Municipal Corp (the "Ad Hoc Group"). On May 10, 2019, the Oversight Board and FAFAA filed the 9019 Motion. Certain parties filed objections to the 9019 Motion on October 30, 2019. However, in response to the COVID-19 pandemic, on March 27, 2020, the Oversight Board and FAFAA asked the Title III Court to adjourn all hearing and briefing deadlines in connection with the 9019 Motion. The Court granted the motion, and the 9019 Motion was stayed. On March 8, 2022, FAFAA exercised its right to terminate the 2019 RSA with the support of the Oversight Board. FAFAA's termination results in the 2019 RSA being void and of no further force or effect as to all parties.

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Note 20 - Subsequent Events – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Case – (continued)

- The Authority's Plan of Adjustment Mediation – (continued)

On April 8, 2022, the Title III Court entered an order appointing three sitting bankruptcy judges as mediators for the Authority's Title III Case and related proceedings on the terms set forth in a contemporaneously issued order establishing the terms and conditions of mediation. The Court also formally designated the following mediation parties: (a) the Oversight Board, (b) FAFAA, (c) the Ad Hoc Group of Authority Bondholders, (d) National Public Finance Guarantee Corporation, (e) Assured Guaranty Corp. and Assured Guaranty Municipal Corp., (f) Syncora Guarantee, Inc., (g) UTIER, (h) PREPA ERS, (i) the Official Committee of Unsecured Creditors (the "UCC"), and (j) the Authority's fuel line lenders.

Mediation terminated on September 17, 2022, as no consensus was reached among the mediation parties. Thereafter, the appointed mediators filed a report (the "Mediation Report") with the Title III Court stating that the mediation had ended and advising the Title III Court that no consensus was reached in the mediation, but that a settlement was still achievable under a revised mediation process.

On September 29, 2022, the Title III Court issued an order that, among other things, (i) directed the Oversight Board to file a confirmable Plan by December 1, 2022, a disclosure statement, and a proposed confirmation schedule; and (ii) stayed a motion to dismiss the Title III Case filed by the Bondholders until the earlier of (a) the day after the deadline set by the Court for filing a proposed Plan, if such plan deadline is not met, and (b) the termination of

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Note 20 - Subsequent Events – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Case – (continued)

- The Authority's Plan of Adjustment Mediation – (continued)

the plan confirmation process. The December 1 date was subsequently extended and the Oversight Board filed the Plan on December 16, 2022.

Also on September 29, 2022, the Title III Court entered an order amending the terms and conditions of mediation and establishing a new mediation deadline of December 31, 2022, subject to extension by the Mediation Team without court order through January 31, 2023, if it believes there has been material progress in the mediation. On December 28, 2022, the deadline was extended by the Mediation Team to January 31, 2023. Thereafter, the mediation termination deadline was extended on multiple occasions. The current mediation termination deadline is April 30, 2024.

- The Authority's Plan of Adjustment and Disclosure Statement

On December 16, 2022, the Oversight Board filed the first iterations of the Plan and Disclosure Statement.

The Plan's Confirmation Hearing was scheduled for July 2023, but significant developments regarding the Certified 2023 Fiscal Plan caused a suspension of such schedule. The Certified 2023 Fiscal Plan's load projections are substantially lower (and cost projections are substantially higher) than those in the Authority's 2022 certified fiscal plan. Both the projected base rate and surcharge for fuel and purchases power costs are substantially higher. Based on the most current data the Oversight Board has, the Certified 2023 Fiscal Plan's debt sustainability analysis provides the maximum amount for creditors the Authority can reasonably sustain is approximately $2.5 billion. Therefore, the Oversight Board informed the Title III Court that the Plan would be amended to reduce the amount of new bonds to be issued from $5.68 billion to $2.388 billion.

As a result of these developments, the Title III Court ordered the Oversight Board to file an amended Plan. On August 25, 2023, the Oversight Board filed its third amended plan of adjustment for the Authority (as modified, amended, or supplemented, the "Amended Plan"). The Amended Plan incorporated settlements reached in mediation between the Oversight Board and (i) Vitol Inc.; (ii) the Fuel Line Lenders; and (iii) National Public Finance Guarantee Corporation. It also included a restructuring support agreement with funds and

Note 20 - Subsequent Events – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Case – (continued)

- The Authority's Plan of Adjustment and Disclosure Statement-(continued)

accounts managed by BlackRock Financial Management Inc. and its affiliates, with Nuveen Asset Management LLC, Franklin Advisers, Whitebox Advisors LLC, and Taconic Capital Advisors LP, who together hold over 40% of the Authority's uninsured bonds.

On September 15, 2023, the Oversight Board filed a supplemental Disclosure Statement for the Plan. After considering multiple objections and a hearing on the matter, the Title III Court approved the Disclosure Statement on November 17, 2023. Certain Authority bondholder parties appealed this decision to the First Circuit. On December 28, 2023, the First Circuit dismissed the appeal for lack of jurisdiction.

The latest version of the Amended Plan was filed on February 16, 2024. This version incorporates the terms of a settlement the Oversight Board reached with the UCC. The Amended Plan includes multiple impaired accepting classes, and reduces the Authority's obligations by approximately 75%, to approximately $2.54 billion, excluding pension liabilities. Significant discovery and litigation over the Amended Plan has taken place and the confirmation proceeding was held from March 4, 2024 to March 19, 2024. The Title III Court took the matter under advisement.

- UTIER's Challenge to Local Fiscal Laws

  On August 7, 2017, UTIER filed an adversary proceeding with the Title III Court challenging several Puerto Rico laws enacted to deal with the fiscal crisis, and certain Authority and Commonwealth fiscal plans and budgets. On February 4, 2022, the Title III Court dismissed UTIER's adversary complaint against the Authority. On March 2, 2022, UTIER appealed this decision to the First Circuit, but voluntarily dismissed the appeal on March 18, 2022. On September 20, 2022, the Title III court granted summary judgment in favor of the remaining defendants and entered a judgment and closed the case on September 29, 2022. UTIER did not appeal the final order.

- Challenges to T&D Contract

  On April 20, 2021, UTIER and others filed an adversary proceeding against the Authority challenging the implementation of the T&D Contract. On May 21, 2021, the Title III Court denied UTIER's request for preliminary injunction, and on July 19, 2021, the Authority filed a motion to dismiss UTIER's complaint. UTIER filed a response to the motion to dismiss on September 7, 2021. On August 31, 2023, the Title III Court entered an order dismissing the complaint.

Note 20 - Subsequent Events – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Case – (continued)

- Challenges to T&D Contract-(continued)

  On May 6, 2021, when PREPA ERS filed a complaint with the Title III Court with substantially similar causes of action as in the UTIER adversary proceeding, on July 19, 2021, the Authority filed a motion to dismiss PREPA ERS' complaint, to which PREPA ERS responded to on September 7, 2021. On October 4, 2021, the Authority filed a reply in support of its motion to dismiss. On August 31, 2023, the Title III Court entered an order dismissing the complaint.

  On June 1, 2021, the President of the Senate of Puerto Rico also filed a complaint challenging the T&D Contract in the Puerto Rico Court of First Instance in San Juan. On June 3, 2021, the matter was removed to the Title III Court. On February 7, 2022, the Title III Court issued a memorandum order and judgment declaring the Senate President's complaint null and void, and ordered the Senate President to withdraw the complaint no later than February 14, 2022. On February 15, 2022, the Senate President filed with the Court of First Instance a withdrawal of the complaint in compliance with the Title III Court's memorandum order and judgment.

- Challenges to the Generation Contract

  On June 16, 2023, UTIER filed an adversary proceeding against the Authority challenging the implementation of the Generation Contract. On July 10, 2023, UTIER moved to voluntarily dismiss the adversary proceeding. The Title III Court entered its judgment dismissing the adversary proceeding on July 12, 2023.

- GoldenTree Lift Stay Motion

  On August 24, 2023, GoldenTree Asset Management ("GoldenTree") and Syncora Guarantee ("Syncora") filed a motion for relief from the Title III automatic stay to allow bondholders to seek the appointment of a receiver for the Authority for the benefit of all bondholders. On August 25, 2023, the Title III Court stayed the motion as substantially duplicative of a previous motion to dismiss the Title III Case or to lift the stay and appoint a receiver filed by the Ad Hoc Group of Authority Bondholders and Syncora and substantially dependent on property rights asserted in the Lien Challenge.

  On August 29, 2023, GoldenTree and Syncora appealed the Title III Court's decision and requested that the Title III Court's order be vacated with instructions to conduct a hearing on

Note 20 - Subsequent Events – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Case – (continued)

- GoldenTree Lift Stay Motion-(continued)

  the matter. On December 4, 2023, the First Circuit heard oral arguments on the appeal. On January 22, 2024, the First Circuit affirmed Title III Court's order staying GoldenTree and Syncora's motion, but stated that GoldenTree and Syncora could file a renewed lift stay motion because the Lien Challenge proceeding was fully resolved (subject to appeals)

  On February 16, 2024, GoldenTree and Syncora filed a renewed motion to relief from the automatic stay to enforce their right to appointment of a receiver for the Authority. On February 20, 2024, the Title III Court found that GoldenTree and Syncora had waived their rights to a preliminary hearing within 30 days and ordered that responses to the renewed motion are due April 24, 2024 and replies are due May 1, 2024. The hearing is set for May 22, 2024.

- GoldenTree Takings Claim Litigation

  On November 12, 2023, GoldenTree and Syncora filed a complaint against the Commonwealth, Governor Pierluisi, FAFAA, and FAFAA Executive Director Omar Marrero in the U.S. District Court for the District of Puerto Rico alleging that the defendants breached the Commonwealth's non-interference covenant under the Authority's enabling act (the "Authority Act"), tortiously interfered with plaintiffs' contractual rights, violated the Authority Act through fault or negligence, and took the private property of the plaintiffs without just compensation in violation of the Fifth Amendment to the U.S. Constitution. On November 15, 2023, the matter was assigned to Judge Laura Taylor Swain.

  On November 24, 2023, the Oversight Board filed a motion for an order holding the complaint void and directing plaintiffs to withdraw the complaint (the "Withdrawal Motion"). Thereafter, on December 8, 2023, GoldenTree and Syncora objected to the Withdrawal Motion arguing that the Authority is not a party to the action, but the Commonwealth owes separate and independent obligations to Authority bondholders and that the automatic stay does not apply to non-debtors such as the Commonwealth. The Oversight Board replied to the objection on December 15, 2023, and argued that the objection demonstrates that the complaint violates the automatic stay by seeking damages and injunctive relief against the Commonwealth and the other defendants designed to assert control over the Authority's revenues for purposes of converting them into collateral and increasing the plaintiffs' recoveries. The Withdrawal Motion is now fully briefed and pending adjudication.

Note 20 - Subsequent Events – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Case – (continued)

- GoldenTree Vote-Buying Litigation

  On November 12, 2023, GoldenTree filed an adversary proceeding complaint against the Oversight Board and the Authority alleging that the Oversight Board and the Authority illegally bought the votes of certain preferred creditors on the proposed Plan. On January 3, 2024, the Title III Court stayed the adversary proceeding. The Title III Court concluded that the issues raised by the complaint are more fairly and efficiently addressed in the context of the Plan's Confirmation Hearing.

- Rejection of UTIER and UEPI Collective Bargaining Agreements

  On January 2, 2024, the Oversight Board filed a motion to reject the Authority's collective bargaining agreements ("CBAs") with UTIER and UEPI. In its motion, the Oversight Board noted that the Authority cannot (i) cure the billions of dollars of underfunding of the defined benefit pension plans as required under the CBAs; (ii) meet future funding obligations as required by the CBAs; or (iii) pay the unions' asserted grievance claims. Moreover, the Oversight Board argued that assumption of the CBAs would be inconsistent with pension reform measures it deems essential to ensuring adequate funding for accrued pension benefits and would also be inconsistent with the treatment of other government employees. UTIER objected to rejection motion on January 9, 2024, and UEPI also objected on January 12, 2024. On January 19, 2024 the Title III Court adjourned the motion without a date pending the Court's determination as to the appropriate standard of scrutiny and whether an evidentiary hearing is necessary.

PREPA ERS Solvency and Funding Status

As of May 2023, the PREPA ERS's liquid assets were depleted. The Authority has been meeting the PREPA ERS's current pension obligations in a PayGo manner. On December 15, 2023, the Commonwealth and the Authority executed a loan agreement for funding the Authority's pension obligations, and certain accrued benefit withdrawal requests, through approximately October 2024. For further details on this loan agreement, refer to the Due to Primary Government section below.

As of the date of these financial statements, the established normal employer contributions for the applicable mobility period of employees in mobility are being made by the applicable employers. FAFAA is facilitating such payment on behalf of the individual employers to the PREPA ERS. On April 12, 2023, FAFAA paid approximately $8.0 million to cover the employer's established normal

Note 20 - Subsequent Events – (continued)

PREPA ERS Solvency and Funding Status-(continued)

contribution from July 1, 2021 to October 31, 2022. On November 15, 2023 PREPA ERS billed an additional established normal contribution of approximately $4.5 million covering the period from November 1, 2022 to September 30, 2023. The PREPA ERS's funding status is currently being addressed in the Authority's Title III case.

Tranches to Procure Renewable Energy and Battery Storage Systems

As explained in Note 18 above, the PREB request to the Authority to select additional utility-scale BESS projects to include in the Tranche 1 RFP awards. As a result, LUMA performed interconnection studies on the additional BESS projects from July to November 2022 and revised certain interconnection studies related to the initial set of projects. The Authority and proponents then engaged in discussions over final levelized cost of storage and interconnection issues for these BESS projects during December 2022 and January 2023.

In parallel with the utility-scale project workstreams, the Authority finalized a grid services agreement ("GSA") related to a 17 MW VPP on November 2, 2022. PREB approved the GSA on December 19, 2022. The Oversight Board approved the GSA on February 13, 2023. The GSA was signed on April 21, 2023. The developer of the VPP decided to quit from Tranche 1.

The Authority's Tranche 1 procurement process continues with the finalization of 7 additional ESSAs with a capacity of 290 MW and the approval process for those ESSAs and the GSA. Executed PPOAs and ESSAs also require the commencement of commercial operation for the contracted projects within 24 months after the PPOA and ESSA "closing date," which occurs after the agreement signing date once certain conditions precedent have been met. The parties are required to use commercially reasonable efforts to cause the "closing date" to occur no later than 180 days after the agreement date but have up to 240 days to achieve the closing date milestone. The

Authority is currently negotiating amendments of the PPOAs and ESSAs to extend the 240-day period to 300 days.

As stated in Note 18, the agreement dates for the solar PPOAs for Tranche 1, for half of the proponents occurred on June 30, 2022, and the other half during various dates in August of 2022. However, after some procedural events, on April 24, 2023, the Energy Bureau, noting that negotiations with the resource providers are still ongoing, authorized the Authority to extend automatic termination date to May 31, 2023. Therefore, the Authority estimates closing dates will occur in May to June 2023, with additional timeline extensions up to September 2023. However, by

Note 20 - Subsequent Events – (continued)

Tranches to Procure Renewable Energy and Battery Storage Systems – (continued)

June 30, 2023, the negotiations with the resources/providers were ongoing. Resources providers have not been able to comply with all the Conditions Subsequent in a timely manner.

There are four BESS projects pending for Point of Interconnection (POI) study and contract signature. The process cannot be completed until LUMA provides the cost estimates and completes the POI studies. The new estimated completion date for Tranche 1 is June 2024.

The Authority's responsibilities and duties include providing necessary information, document review and comments, legal advice, and other guidance concerning lessons learned as part of the Tranche 1 process for collaboration with PREB-Independent Coordinator as part of the Tranche 2 RFP process. LUMA's responsibilities and duties include providing necessary data, guidance and collaboration with PREB-Independent Coordinator including any required studies to evaluate the interconnection of projects of the Tranche 2 RFP. The last day for proponents to submit proposals to compete in the Tranche 2 RFP was December 5, 2022. By June 30, 2023, the evaluation process was ongoing. For the Tranche 2, during the second week of January 2024, the PREB-Independent Coordinator decided to request from all bidders a revision to their Best and Final Offer. All bids received were higher than the expected. As for Tranche 3, the PREB's IC has not completed the bid evaluation process.

On February 1, 2023, PREB-Independent Coordinator announced that it will soon open Tranche 3 to procure 500 MW of renewable resource generating capacity and 250 MW of energy storage capacity. As for Tranche 1 there are nine PPOA (solar projects) and two ESSAs (BESS projects) in compliance with the Conditions Subsequent. The construction of those eleven projects shall conclude by the 4th Qtr. of year 2025. In addition, there are three currently BESS projects approved by the PREB and the Oversight Board with its ESSA pending signature, and four other BESS projects under reconsideration. At Tranche 2, during the second week of January 2024, the PREB's IC decided to request from all bidders a revision to their Best and Final Offer. All bids received were higher than the expected. The Tranche 3, the PREB's IC has not completed the bid evaluation process. PREB reiterated that it will make all final decisions required during the Tranche 2 RFP process and neither the Authority nor LUMA shall delay that process and expressly warned the Authority and LUMA that noncompliance with PREB's orders or applicable legal requirements may carry the imposition of administrative fines of up to $25,000 per day, per violation and/or other sanctions that PREB may deem appropriate. The proposals and responses to RFI were expected to be received during the first week of September 2023. Instead, the PREB Independent Coordinator decided to move forward with the Best and Final Offer from the developers. The submittal closing date has not been established.

Note 20 - Subsequent Events – (continued)

September 2022 Hurricane Fiona Impact on Electric System

On September 18, 2022, Hurricane Fiona, a Category 1 hurricane, made landfall in Puerto Rico by the municipality of Cabo Rojo, and shortly thereafter the President issued a disaster declaration for certain affected municipalities. Most of the damage from Fiona was caused by the heavy rains, flooding and landslides, concentrated in the southern, southeastern area of Puerto Rico. Hurricane Fiona caused a general blackout throughout Puerto Rico, due to the damages caused to the electric power system. It took approximately three weeks for power to be fully restored. Hurricane Fiona caused significant damages to critical T&D assets, the generation fleet, dams, hydroelectric systems, irrigation systems, and reservoirs. The storm also forced the utility to operate expensive peaking units to restart and maintain generation, resulting in incremental operating costs due to more fuel consumption.

Shortly after the passing of hurricane Fiona the Federal Emergency Management Agency ("FEMA") together with the United States Army Corp of Engineers ("USACE") provided and operated approximately 15 temporary power generation units ("the Equipment") installed at The Authority's permanent power generation sites in Palo Seco and San Juan. This Equipment is currently operated by the USACE through contracts with Weston Solutions Inc. with funds provided by FEMA as a Direct Federal Assistance pursuant to section 403 (42 U.S.C. § 5170b). During the month of

December of 2023, FEMA informed the Authority that effective March 15, 2024, the USACE will cease to operate the Equipment. Also, during the month of December 2023 FEMA informed the Central Office for Recovery, Reconstruction and Resiliency (COR3) of its determination that the Authority's acquisition of the Equipment or temporary units located at the two sites mentioned above is an eligible expense under the Stafford Act from funding available to Puerto Rico under section 406 (42U.S.C. § 5172) and 428 (42 U.S.C. § 5189f) from Hurricane Maria and that they could be funded by them through a Project Worksheet.

As of January 9, 2024, the Authority received from FEMA and COR3 approximately $68.6 million for the operation and maintenance and the fuel expenses caused by Hurricane Fiona in the generation units.

The Authority's Reorganization Implementation

Pursuant to Act 17-2019, the Authority was required to restructure by unbundling its T&D and generational operations into separate and distinct entities. On December 29, 2022, PREB approved an interim revised corporate structure, and the creation of the GenCo, HydroCo and PropertyCo subsidiaries; these were formed and registered subsequently with the Department of State on March

Note 20 - Subsequent Events – (continued)

The Authority's Reorganization Implementation – (continued)

3, 2023, and further amended on June 2, 2023. Efforts are currently ongoing to segregate balances among the Authority and the newly created entities.

Conversion of Units 5 and 6 of the San Juan Combined Cycle Power Plant

The Authority made principal and interest payments to the note payable with NFEnergía for the conversion to natural gas of the combined cycle units. As of the date of the issuance of these financial statements the amounts paid are of approximately $21.7 million.

Due to Primary Government

Since July 1, 2023, Genera PR has been responsible for the management and operation of the Legacy Generation Assets pursuant to the Generation Contract. The Generation Contract requires the Authority to maintain several restricted operational reserve accounts. These accounts were initially funded on June 20, 2023, with funds from a $447.4 million loan from the Commonwealth.

On December 1, 2023, the Oversight Board certified a jointly developed budget resolution approving the Commonwealth's amended annual budget for fiscal year 2024 (the "FY24 Amended Budget Resolution"). The FY24 Amended Budget Resolution provides for a new appropriation in the amount of three hundred million dollars ($300 million) to be loaned to the Authority for (i) funding Authority pension obligations, and (ii) accrued benefit withdrawal requests from certain former Authority employees no longer able to accrue service in the PREPA ERS after their employment at the Authority ceased as a result of the Authority's agreements with LUMA and Genera PR (the "Rollover Requests"). After all requisite approvals, in accordance with the FY24 Amended Budget Resolution, on December 15, 2023, the Commonwealth, as lender, and the Authority, as borrower, executed the $300 million loan agreement. In accordance with the terms of such loan agreement, on December 18, 2023, the Authority requested the Commonwealth to deliver the initial $115 million, which were received on December 19, 2023.

PRASA Memorandum of Understanding

In March 2023, a Memorandum of Understanding ("Interagency Agreement") was signed between the Authority and the PR Aqueduct and Sewer Authority (PRASA) to reconcile and solve all outstanding and disputed amounts and provide for the payment of certain outstanding balances owned by PRASA to the Authority for the provision of electrical services to PRASA and the purchase of water from the Authority. In this Interagency Agreement, the Authority agreed on

Note 20 - Subsequent Events – (continued)

PRASA Memorandum of Understanding – (continued)

adjusting from its books the balance of $21.7 million related to the preferential rate and PRASA agreed to pay to the Authority the undisputed amount of $37.7 million.

Global Settlement Agreement

In June 2023, the Authority, the Puerto Rico Office of Management and Budget and the Puerto Rico Treasury Department entered into a Global Settlement Agreement. This agreement was to address the fact that certain agencies and instrumentalities of the Government of Puerto Rico, have outstanding debts with the Authority that covers period up to May 31, 2021. Those outstanding debts were referred to as the "Claim" of approximately $73.3 million. Through this agreement, the above- mentioned parties have reached a consent to settle any and all claims between them pertaining to any and all outstanding debts, related to unpaid electrical and service charges up to a global amount of approximately $50.6 million.

Early Warning System

On April 26, 2023, the Authority's Governing Board, through Resolution 5040, authorized an RFP process for the design and build project of the Early Warning System, with a federally approved funding amount of $100 million. On February 9, 2024, the Authority made the award notification to two awardees, with the contested bid process concluded without any disputes being filed. Currently, the related contracts are being processed.

SOW for Acquisition of temporary generation units - FEMA

On January 14, 2024, the Authority sought the Energy Bureau's approval for the initial scope of work (SOW) to acquire and own the temporary generation units installed in the Palo Seco Steam Plant (150MW) and the San Juan Power Plant (200MW). After Hurricane Fiona adversely impacted the generation fleet of the Authority and various private companies in Puerto Rico, an urgent need arose for at least 700 MW of additional temporary power generation for the grid. In response to the Authority and the Government of Puerto Rico's request for assistance, the Federal Emergency Management Agency (FEMA) approved funding through the Direct Federal Assistance program (DFA). Temporary generation units were then installed in the Palo Seco Steam Plant (150 MW) and the San Juan Power Plant (200 MW), adding much-needed power to the electrical grid.

On February 2, 2024, FEMA issued a notification specifying funding sources for acquiring the temporary units. FEMA agreed to fund the acquisition through a new program authorized by Section 428 of the Stafford Act. It further indicates that the acquisition would be separate from the

Note 20 - Subsequent Events – (continued)

SOW for Acquisition of temporary generation units - FEMA

existing $9.5 billion 428 FAAST project for the power grid. On March 15, 2024, the Energy Bureau issued a Resolution and Order approving the Authority's scope of work (SOW) submitted by the Authority for acquiring the 350MW temporary generation units. On March 15, 2024, the Energy Bureau issued a Resolution and Order approving the final Temporary Generation SOW. Likewise, the Oversight Board approved the contract with conditions. On the same date, the Authority and NFE Power PR, LLC executed the Asset Purchase Agreement to acquire the temporary generation units.

AES PPOA

On October 11, 1994, the Authority entered into AES PPOA with AES-PR. The AES PPOA was subsequently amended on November 16, 1999, and July 17, 2015. On November 7, 2023, the Authority filed a petition with the Energy Bureau seeking approval of a third amendment to the AES PPOA. The Energy Bureau issued a Resolution and Order on February 1, 2024, preliminarily approving the proposed amendment subject to certain modifications. Upon the Authority submitting a revised version, on February 27, 2024, the Energy Bureau approved the proposed third amendment to the AES PPOA on a final basis. Following the Energy Bureau’s approval, and the Oversight Board’s approval on March 1, 2024, the third amendment to the AES PPOA was executed on March 1, 2024.

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of Changes in the Authority's Net Pension Liability
and Related Ratios (Unaudited)
(In thousands)
For the fiscal year ended June 30, 2022

	Measurement period ended June 30,							
	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability								
Service cost	$ 88,104	$ 86,298	$ 82,860	$ 80,783	$ 95,768	$ 79,927	$ 86,627	$ 38,420
Interest on total pension liability	159,659	168,281	171,460	184,768	168,407	209,459	205,706	249,451
Difference between expected and actual experience	(86,796)	(31,400)	(1,958)	(50,005)	(21,443)	(19,815)	11,763	47,103
Changes in assumptions	442,859	71,207	339,551	253,387	(284,071)	947,510	(60,243)	1,796,904
Benefit payments	(279,711)	(287,503)	(287,486)	(273,727)	(268,469)	(254,624)	(279,479)	(216,811)
Refunds of contributions	(1,383)	(380)	(996)	(1,091)	(709)	(1,200)	(1,126)	(795)
Net change in total pension liability	322,732	6,503	303,431	194,115	(310,517)	961,257	(36,752)	1,914,272
Total pension liability - beginning	6,075,821	6,069,318	5,765,887	5,571,772	5,882,289	4,921,032	4,957,784	3,043,512
Total pension liability - ending (a)	$ 6,398,553	$ 6,075,821	$ 6,069,318	$ 5,765,887	$ 5,571,772	$ 5,882,289	$ 4,921,032	$ 4,957,784
Plan's fiduciary net position								
Adjustment to beginning Plan net position	$ -	$ -	$ -	$ -	$ (58)	$ -	$ 1,672	$ -
Contributions-employer	261,026	241,928	224,436	129,728	120,326	113,384	99,179	100,145
Contributions-members	20,866	19,931	18,203	22,985	24,871	26,470	28,242	36,871
Net investment income	163,165	36,620	34,440	94,616	134,564	18,700	69,991	179,191
Benefit payments	(279,711)	(287,883)	(288,482)	(274,818)	(268,469)	(254,625)	(279,479)	(216,811)
Administrative expense and other	(584)	(449)	(106)	(156)	(230)	(385)	(598)	(348)
Employee Contribution Refunds	(1,383)	-	-	-	(709)	(1,200)	(1,126)	(795)
Transfers from other systems	203	-	-	-	162	309	437	1,275
Impairment loss on deposits held in GDB	-	-	-	-	-	(4,129)	-	-
Net change in plan fiduciary net position	163,582	10,147	(11,509)	(27,645)	10,457	(101,476)	(81,682)	99,528
Plan fiduciary net position-beginning	1,197,204	1,187,057	1,198,566	1,226,211	1,215,754	1,317,230	1,398,912	1,299,384
Plan fiduciary net position-ending (b)	$ 1,360,786	$ 1,197,204	$ 1,187,057	$ 1,198,566	$ 1,226,211	$ 1,215,754	$ 1,317,230	$ 1,398,912
Net pension liability-ending (a)-(b)	$ 5,037,767	$ 4,878,617	$ 4,882,261	$ 4,567,321	$ 4,345,561	$ 4,666,535	$ 3,603,802	$ 3,558,872
Covered-employee payroll	$ 209,588	$ 213,353	$ 218,151	$ 247,705	$ 258,210	$ 270,705	$ 287,143	$ 341,910
Plan's fiduciary net position as a percentage of the pension liability	21.27%	19.70%	19.56%	20.79%	22.01%	20.67%	26.77%	28.22%
Net pension liability as a percentage of covered-employee payroll	2,404%	2,287%	2,238%	1,844%	1,683%	1,724%	1,255%	1,041%

See accompanying notes to required supplementary information and independent auditors' report

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Employer Contributions- Pension Plan (Unaudited)
(In thousands)

For the fiscal year ended June 30, 2022

Fiscal Year Ended June 30,	Actuarially Determined Employer Contribution	Actual Employer Contribution	Actual Employer Deficiency/ (Excess)	Covered Employee Payroll	Actual Contributions as a percentage of Covered employee payroll
2022	$ 206,299	$ 26,700	$ 179,599	$ 166,022	16.08%
2021	235,690	72,392	163,298	209,588	34.54%
2020	241,856	73,692	168,164	213,353	34.54%
2019	224,368	75,349	149,019	218,151	34.54%
2018	124,634	82,232	42,402	247,705	33.20%
2017	120,326	120,326	-	258,210	46.60%
2016	113,384	113,384	-	270,705	41.88%
2015	99,179	99,179	-	287,143	34.54%
2014	100,145	100,145	-	341,910	29.29%
2013	89,481	89,481	-	347,095	25.78%
2012	85,361	85,361	-	357,758	23.86%

See accompanying notes to required supplementary information and independent auditors' report

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in the Authority's Total OPEB Liability
and Related Ratios (Unaudited)
(In thousands)
For the fiscal year ended June 30, 2022

	Measurement period ended June 30,				
	2021	2020	2019	2018	2017
Total OPEB liability					
Service cost	$ 3,365	$ 3,392	$ 3,059	$ 2,929	$ 3,235
Interest	9,535	10,385	10,567	11,446	10,674
Difference between expected and actual experience	(44,721)	(23,148)	-	(18,671)	(5,274)
Changes of assumptions or other inputs	20,144	2,639	14,252	8,368	(18,948)
Benefits payments	(6,072)	(7,937)	(12,570)	(17,785)	(17,952)
Net change in total OPEB liability	(17,749)	(14,669)	15,308	(13,713)	(28,265)
Total OPEB liability - beginning	361,516	376,185	360,877	374,590	402,855
Total OPEB liability - ending (a)	$ 343,767	$ 361,516	$ 376,185	$ 360,877	$ 374,590
Covered-Employee Payroll	$ 209,588	$ 213,353	$ 218,151	$ 247,705	$ 258,210
Total OPEB liability as a percentage of Covered-Employee Payroll	164.02%	169.45%	172.44%	145.69%	145.07%

See accompanying notes to required supplementary information and independent auditors' report

Note 1 - Benefit Changes

There was no pension or OPEB plan changes since the prior measurement date.

Note 2 - Changes in Assumptions - Pensions

The following were the changes in assumptions for the measurement period ended June 30, 2021:

- The discount rate used to determine the total pension liability was decreased from 2.69% to 2.19%.
- The municipal bond index rate decreased from 2.66% to 2.18%.
- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2020 to PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2021.

The following were the changes in assumptions for the measurement period ended June 30, 2020:

- The discount rate used to determine the total pension liability was decreased from 2.84% to 2.69%.
- The municipal bond index rate decreased from 2.79% to 2.66%.
- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Below Median Mortality Table projected generationally using Scale MP-2019 to PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2020.

The following were the changes in assumptions for the measurement period ended June 30, 2019:

- The discount rate used to determine the total pension liability was decreased from 3.05% to 2.84%.
- The municipal bond index rate decreased from 2.98% to 2.79%.
- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019 to PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2019.

The following were the changes in assumptions for the measurement period ended June 30, 2018:

- The discount rate used to determine the total pension liability was decreased from 3.40% to 3.05%.
- The municipal bond index rate decreased from 3.13% to 2.98%.
- The mortality rates assumptions were changed from RP-2014 Employee Mortality Projected to 2018 using Scale BB to PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019.
- The projected cash flows used to determine the discount rate assumed that the Authority will

Note 2 - Changes in Assumptions – Pensions-(continued)

contribute 34.54% of closed group compensation for 2018, while for 2017 the assumption was that the Authority will contribute 46.60% of closed group compensation.

- For June 30, 2018, the basis for the target asset allocation and best estimates of arithmetic real rates of return for each major asset class is the Survey of Capital Market Assumptions, 2019 Edition, published by the Horizon Actuarial Services, LLC. For June 30, 2017, this basis was provided by the PREPA ERS's investment consultants.

During the measurement period ended June 30, 2017, the only change in assumption was on the discount rate used to determine the total pension liability which was increased from 2.93% to 3.40% since the prior measurement date.

During the measurement period ended June 30, 2016, the changes in assumptions were the following:

- The discount rate used to determine the total pension liability was reduced from 4.37% to 2.93% since the prior measurement date.
- Assumed rates of retirement for members hired before January 1, 1993, have been adjusted.
- Assumed rates of disability retirements have been adjusted.
- Assumed rates for active and healthy annuitants mortality have been updated to the RP-2014 Mortality Table projected to 2018 using Scale BB, set back one year for males.
- Assumed rates for disabled annuitants mortality have been updated to the RP-2014 Disabled Annuitant Mortality Table projected to 2018 using scale BB.
- The merit component of the salary scale was adjusted.
- Assumed rate of wage inflation was reduced from 3.50% to 2.50%.
- Assumed rate of price inflation was reduced from 2.50% to 2.25%.
- The assumed rate of return on assets was reduced from 8.25% to 5.75%.
- The payroll growth assumption for amortizing the unfunded actuarial accrued liability as a level percentage of payroll was reduced from 3.50% to 0.00%.

There were no changes in assumptions during the measurement periods ended June 30, 2015 and June 30, 2014. Amounts presented as expense represents amortization of prior years' changes in assumptions.

Note 3 - Actuarially Determine Contributions - Pensions

Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. Methods and assumptions used to determine contribution rates for the fiscal year ended June 30, 2022, and related information for the Plan and supplemental benefits follow:

Note 3 - Actuarially Determine Contributions – Pensions - (continued)

Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Remaining amortization period	21 years
Asset valuation method	5-year smoothed market
Inflation	2.25 percent
Salary increases	2.5 to 7.25 percent, including inflation
Investment rate of return	5.75 percent, net of ERS System investment expense, including inflation

Note 4 - Changes in Assumptions - OPEB

The following were the changes in assumptions for the measurement period ended June 30, 2021:

- Since the prior measurement date, the discount rate changed from 2.66% to 2.18% due to a change in the Municipal Bond Rate.

- The mortality rates assumptions were changed from PUB 2010 Headcount-Weighted Median Mortality Table projected generationally using Scale MP-2020 to PUB 2010 Headcount-Weighted Median Mortality Table projected generationally using Scale MP-2021.

The following were the changes in assumptions for the measurement period ended June 30, 2020:

- Since the prior measurement date, the discount rate changed from 2.79% to 2.66% due to a change in the Municipal Bond Rate.

- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2019 to PUB 2010 Headcount-Weighted Median Mortality Table projected generationally using Scale MP-2020.

The following were the changes in assumptions for the measurement period ended June 30, 2019:

- Since the prior measurement date, the discount rate changed from 2.98% to 2.79% due to a change in the Municipal Bond Rate.

- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019. PUB 2010 Headcount-Weighted Median Mortality Table projected generationally using Scale MP-2019.

Note 4 - Changes in Assumptions - OPEB – (continued)

The following were the changes in assumptions for the measurement period ended June 30, 2018:

- Since the prior measurement date, the discount rate changed from 3.13% to 2.98% due to a change in the Municipal Bond Rate.
- The mortality rates assumptions were changed from RP-2014 Employee Mortality Projected to 2018 using Scale BB to PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019.

The following were the changes in assumptions for the measurement period ended June 30, 2017:

- The discount rate changed from 2.71% to 3.13% due to a change in the Municipal Bond Rate.

The schedules are intended to show information for 10 years. Additional years will be added in the future when they become available.