UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO

In re:	PROMESA Title III
THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO,	
as representative of	No. 17 BK _____ - ( )
PUERTO RICO ELECTRIC POWER AUTHORITY,	
Debtor.	
Tax I.D. No. 66-0433747	

NOTICE OF FILING OF *STATEMENT OF OVERSIGHT BOARD REGARDING PREPA'S TITLE III CASE*

To the Honorable United States District Court Judge:

The Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") respectfully avers:

1. On June 30, 2016, the Oversight Board was established under PROMESA section 101(b).

2. Pursuant to PROMESA section 315, "[t]he Oversight Board in a case under this title is the representative of the debtor" and "may take any action necessary on behalf of the debtor to prosecute the case of the debtor, including filing a petition under section 304 of [PROMESA] . . . or otherwise generally submitting filings in relation to the case with the court."

3. On September 30, 2016, the Oversight Board designated Puerto Rico Electric Power Authority ("PREPA") as a covered instrumentality under PROMESA section 101(d).

4. On July 2, 2017 the Oversight Board filed a voluntary petition for relief for PREPA pursuant to PROMESA section 304(a), commencing a case under title III thereof (the "Title III Case").

5. The Oversight Board respectfully submits a *Statement of Oversight Board Regarding PREPA's Title III Case* to provide the Court with information regarding the circumstances that led to the filing of this Title III Case attached hereto as **Exhibit A**.

6. The Oversight Board has provided notice of this Statement to: (a) the Office of the United States Trustee for the District of Puerto Rico; (b) the indenture trustees and/or agents, as applicable, for PREPA's bonds; (c) the entities on the list of creditors holding the 20 largest unsecured claims against PREPA; (d) the Office of the United States Attorney for the District of Puerto Rico; (e) counsel to the Puerto Rico Fiscal Agency and Financial Advisory Authority; (f) the Puerto Rico Department of Justice; (g) the Other Interested Parties;[1] and (h) all parties filing a notice of appearance in this Title III Case.

[1] The "Other Interested Parties" include the following: (i) counsel to certain of the insurers and trustees of the bonds issued by PREPA; and (ii) counsel to certain ad hoc groups of holders of bonds issued by PREPA.

WHEREFORE the Oversight Board respectfully notifies the Court and the Clerk's Office of the PREPA filing and the attached statement.

Dated: July 2, 2017
San Juan, Puerto Rico

Respectfully submitted,

<u>/s/ Martin J. Bienenstock</u>
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UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO

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In re: THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO, as representative of PUERTO RICO ELECTRIC POWER AUTHORITY, Debtor. Tax I.D. No. 66-0433747	PROMESA Title III No. 17 BK _____ - ( )

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STATEMENT OF OVERSIGHT BOARD REGARDING PREPA'S TITLE III CASE

The Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), as representative of the Puerto Rico Electric Power Authority ("PREPA") in the above-captioned Title III case, respectfully submits this statement (the "Statement") in connection with PREPA's petition under Title III of the *Puerto Rico Oversight, Management, and Economic Stability Act* ("PROMESA").[1] Title III is a specific statutory vehicle that allows the Commonwealth of Puerto Rico and its instrumentalities, such as PREPA, to adjust their debt. This Statement is submitted to provide the Court with information regarding the fiscal emergency surrounding PREPA that led to the filing of its Title III petition on July 2, 2017 (the "Petition Date"). Except as otherwise provided below, the historical facts have been furnished to the Oversight Board by PREPA and its representatives.

[1] PROMESA is codified at 48 U.S.C. §§ 2101-2241.

I. FACTUAL BACKGROUND

A. <u>History of PREPA and Operations</u>

1. PREPA was created in 1941 as a public corporation and governmental instrumentality of Puerto Rico by Act No. 83 of the Legislative Assembly of Puerto Rico, approved May 2, 1941. PREPA generates, transmits and distributes substantially all the electric power used in Puerto Rico. PREPA is one of the largest municipal utilities in the United States, ranking first in number of clients and revenues among public power utilities.

2. Approximately two-thirds of PREPA's energy generation is produced by PREPA-owned and operated facilities. PREPA owns six major generating plants and a number of smaller facilities. Nearly all these facilities are dependent on fuel oil, although PREPA has converted, and is in the process of converting, plants to use natural gas or burn dual fuel (natural gas and fuel oil). The remaining one-third of PREPA's energy generation is purchased from third-party owners and operators of independent power production facilities.

Power Plant in Palo Seco, PR

3. As of April 30, 2017, PREPA employed approximately 6,400 people. The majority, approximately 4,500 employees, are unionized. These employees are affiliated with four labor unions: (i) approximately 3,600 employees in Electric and Irrigation Industry Workers Unions ("<u>UTIER</u>"); (ii) approximately 610 employees in Industrial and Electric Construction

Worker's Insular Union ("UITICE"); (iii) approximately 300 employees in the Professional Employees Union ("UEPI"); and (iv) 5 employees in the Pilots Union ("UPAEE").[2]

B. Summary of PREPA's Material Liabilities

4. PREPA believes that, as of the Petition Date, it has over $10 billion in liabilities that it must restructure so that it can operate as a viable business entity. PREPA's obligations can be divided broadly into two categories: (i) financial indebtedness, and (ii) other material liabilities. This section provides a general overview of PREPA's liabilities:

i. Financial Indebtedness

5. The financial obligations are composed of approximately $8.3 billion principal amount of power revenue bonds, Build America Bonds ("BABs") and relending bonds (the "Relending Bonds" and together with the power revenue bonds and the BABs, the "Bonds," and the holders of such Bonds, the "Bondholders"). Approximately $2.25 billion principal amount of the Bonds (the "Insured Bonds") are insured by "monoline" bond insurers (collectively, the "Monolines").[3]

6. The financial obligations are also comprised of (i) approximately $700 million principal amount under two matured fuel line loans; (ii) approximately $52.2 million principal amount under two interest rate swaps; and (iii) approximately $35.0 million principal amount outstanding on a collateral line of credit from the Government Development Bank of Puerto Rico ("GDB").

- Power Revenue Bonds. All the Bonds were issued under the 1974 Trust Agreement (as amended), and have the same priority, lien and collateral structure, secured by a lien on all of PREPA's revenues. The Insured Bonds represent approximately 27.24% of outstanding principal and are insured by one of three Monolines. In addition, the

[2] The acronyms are based on the Spanish translation for each of the four unions.

[3] The Monoline insurers are: (i) National Public Finance Guarantee Corporation; (ii) Assured Guaranty Corp. and Assured Guaranty Municipal Corp.; and (iii) Syncora Guarantee Inc.

Monolines beneficially own approximately $218.96 million of the Bonds. The remaining Bonds, totaling approximately $5.0 billion, are not insured (the "Uninsured Bonds").

- The Uninsured Bonds include approximately $675.9 million of subsidized BABs, which are also power revenue bonds. In addition, PREPA issued approximately $374 million of Relending Bonds, pursuant to bond purchase agreements executed with the creditors that are parties to that certain Restructuring Support Agreement, dated January 27, 2016 (as amended, modified and supplemented from time to time, the "Restructuring Support Agreement") (as further discussed below).

- Fuel Line Loans. PREPA currently has outstanding approximately $700 million under two unsecured revolving lines of credit that were previously used to fund fuel purchases and other working capital expenses (the "Fuel Lines"). The Fuel Lines are structured under two credit agreements:

  (i) Credit Agreement, dated May 4, 2012 (the "Scotiabank Credit Agreement"), with Scotiabank de Puerto Rico (in its capacity as administrative agent, "Scotiabank"), a portion of which was syndicated to other lenders (the "Scotiabank Lenders"); and

  (ii) Credit Agreement, dated July 20, 2012, (the "Solus Credit Agreement") with Solus Opportunities Fund 5 LP, SOLA LTD and Ultra Master LTD (collectively, "Solus" or the "Solus Lenders").

  As of February 2017, there was approximately $550.0 million in aggregate principal amount outstanding under the Scotiabank Credit Agreement and approximately $146.0 million in aggregate principal amount outstanding under the Solus Credit Agreement. By their terms, the Solus Credit Agreement matured in late 2014, and the Scotiabank Credit Agreement matured upon termination of the Restructuring Support Agreement.

- Swap Claims. PREPA is currently a party to two interest rate swaps, with JPMorgan and UBS as counterparties. As of June 30, 2015, the rate swap with JPMorgan was approximately $35.5 million out-of-the-money, on a $169.53 million notional amount; the rate swap with UBS was approximately $16.7 million out-of-the money on a $83.34 million notional amount. Both swaps mature on July 1, 2029.

- GDB Collateral Line of Credit. PREPA collateralizes its interest rate swap positions through a $100 million collateral line of credit with the GDB, on which $35.1 million was outstanding as of September 30, 2016.

ii. Other Material Liabilities

7. PREPA's material non-financial liabilities fall into six primary categories: (i) accounts payable ("AP"); (ii) collective bargaining agreements; (iii) pensions and other post-

employment benefits; (iv) renewable energy contracts; (v) environmental liabilities and litigation; and (vi) contingent or unliquidated litigation liabilities.

- Accounts Payable. PREPA had accounts payable totaling approximately \$480.0 million, excluding accrued employee benefits, as of April 2017. This liability is primarily composed of (i) fuel oil and cogeneration AP vendors; (ii) non-fuel oil/non-cogeneration AP vendors, composed of general vendors, professional fees, rents, security, fleet and storage and government-related expenses; and (iii) major construction vendors.

- Collective Bargaining Agreements (each a "CBA"). PREPA's work force includes unionized, managerial, and executive personnel. As described above, the unionized employees belong to one of four labor unions. Each union has a separate CBA with PREPA, which sets forth terms of employment for the unionized employees as well as pension and other post-employment benefits. PREPA estimates its annual payroll and benefits payable for active employees to be approximately \$530 million.

- Pensions and Other Post-Employment Benefits ("OPEB"). The Employees' Retirement System of the Puerto Rico Electric Power Authority (the "PREPA ERS") is responsible for meeting the defined-benefit pension obligations of PREPA's active and retired employees (including beneficiaries). As of April 30, 2017, PREPA had approximately 10,000 retired employees in addition to its active employees. PREPA ERS was created in 1945 pursuant to PREPA's CBA with UTIER. The pension plan was constituted by Resolution Number 200 of June 25, 1945, adopted by PREPA's Board of Directors creating a retirement fund called the "PREPA Employees' Retirement System." PREPA ERS is funded through a combination of employee contributions and funds from PREPA. Based on the 2014 actuarial report, PREPA ERS was underfunded by approximately \$1.7 to \$2.2 billion.

  PREPA also has OPEB liabilities, largely related to medical care. PREPA estimates that its OPEB liabilities total approximately \$384 million, as reported in the 2012 actuarial report (as revised as of October 2015). PREPA has no assets set aside to cover this liability.

- Renewable Contracts. PREPA is currently party to 60 Power Purchase and Operating Agreements ("PPOA"). Some PPOAs were signed under eight Master Power Purchase and Operating Agreements ("MPPOA").[4] PREPA entered into the PPOAs largely in response to Act 82-2010, which established minimum amounts of renewable power that PREPA must sell (i.e., actually distribute) to its customers, known as Renewable Portfolio Standards. The PPOAs are structured with a maximum megawatts capacity and are priced as the aggregate of a fixed price per kilowatt hour (subject to an annual escalator) and a Renewable Energy Certificate charge, also on a

[4] An MPPOA is an agreement that established maximum deliverable output from a particular counterparty, which may be divided amongst several projects.

kilowatt hour-basis. Accordingly, the price PREPA would expect to pay on each contract is a function of usage, making it difficult to estimate the size of the liability.

- Environmental Liabilities. PREPA is currently subject to two consent decrees with the Department of Justice, acting on behalf of the Environmental Protection Agency ("EPA"). Under the first decree, which relates to air quality, PREPA pays annual estimated penalties of $55,000 and is required to make continuing investments in projects to improve environmental compliance.

  The second decree provides for penalties and reimbursement of costs related to a 30-year maintenance and restoration project of contaminated soil at the Vega Baja Superfund Site. PREPA has already paid the penalties contemplated by the second decree and deposited $400,000 into escrow for the effort. However, PREPA may be required to add to that escrow account in the future if necessary.

  The EPA is also seeking $1.5 million in penalties for soil contamination in the Palo Seco area. PREPA is involved in negotiations to reduce the total outstanding claim amount.

- Contingent or Unliquidated Litigation Liabilities. PREPA faces over $1.5 billion in estimated contingent or unliquidated litigation liabilities. The nature of the various litigations includes actions alleging breach of contract, class action complaints, discrimination, personal injury and civil rights violations. The strength of PREPA's arguments, rights and defenses varies across these litigations.

II. ECONOMIC AND FINANCIAL CIRCUMSTANCES; PREPA'S ATTEMPTS TO ADDRESS GROWING LIABILITIES

A. Economic & Financial Circumstances

8. Over the past decade, PREPA has been faced with historical challenges, which have resulted in degradation of its infrastructure and a dramatic deterioration of its financial and operating condition. The challenges include: a prolonged recession leading to a significant drop in energy sales; legal requirements to provide power to certain customers at subsidized rates; relatively high levels of theft and non-technical losses; inadequate reinvestments leading to an old, inefficient and unreliable transmission, distribution and generation facilities and outdated information and technology systems; a high dependence on fuel oil and an inability to diversify its fuel mix; a lack of a strategic environmental compliance plan; a disorganized and ineffective

customer service infrastructure; material operating liabilities; and a significant debt burden leading to a debt crisis.

9. PREPA's chronic underinvestment and inconsistent management have led PREPA's facilities and business practices to fall significantly behind industry standards. This condition has been aggravated by the fact that PREPA operates an isolated system in a challenging terrain subject to frequent storms and other natural atmospheric events. PREPA's aging infrastructure is evidenced by a median plant age of 44 years, compared to an industry average age of 18 years. In addition, PREPA's generation facilities face significant forced outages at a rate more than 50% higher than U.S. historical averages. PREPA's operations and financial condition have been further challenged by environmental compliance costs, caused by violations of Federal air quality standards.

10. PREPA's cash flow has been adversely impacted by ineffective collection and monitoring policies, including a failure to collect service charges from certain customers, and substandard customer service infrastructure and monitoring and metering standards. With respect to government-related accounts, PREPA's ineffective collections practices resulted in overdue balances in excess of $255 million. With respect to residential and wholesale customers, PREPA had a practice of delaying service suspensions and failure to collect on severely overdue accounts. In addition, PREPA's deficient billing practices led to high numbers of disputed invoices with high balances, sometimes spanning years. PREPA had a pervasive culture of accepting higher than industry standard non-technical loss rates that, when coupled with a disorganized theft reduction effort and a lack of meaningful theft deterrents, led to a low probability of reducing theft rates.

11. PREPA failed to make fuel related improvements necessary to generate annual run-rate savings. PREPA's forecasting system provided limited information, which led to unnecessary build-up of fuel inventory. Limited coordination also prevented PREPA from capitalizing on opportunities to optimize dispatch. With respect to fuel procurement, PREPA's processes did not provide sufficient opportunities for PREPA to secure the best terms from fuel vendors. PREPA maintained spinning reserve levels at higher than required levels.

12. PREPA's underinvestment in its infrastructure, its substandard policies, and labor issues have led to a safety system and safety record dramatically below industry standards. As of 2014, PREPA's safety system effectiveness rating is less than Level 1-Fundamentals, meaning that the basic elements for protecting the public and workers are not in place. In 2012, PREPA's employees had a "total recordable incident rate" of injury or illness five times the industry average. This safety system and historical safety record have led to unsustainably high wages and annual insurance costs.

13. PREPA's current debt crisis has resulted from PREPA funding deficits from bond proceeds, leading to underfunded infrastructure and an unsustainable debt structure.

B. The Restructuring Support Agreement with Ad Hoc Group of Bondholders, Insurers, and Fuel-Line Lenders

14. PREPA negotiated with its stakeholders to address its principal financial indebtedness. To that end, on November 5, 2015, PREPA entered into a restructuring support agreement (the "Initial RSA") with certain of these key stakeholders: (i) an ad hoc group of Bondholders (the "Ad Hoc Group"); (ii) the credit agreements lenders; and (iii) GDB. The Initial RSA provided a structured framework to implement previously announced economic agreements, and was designed to provide PREPA with a five-year debt service relief of approximately $700 million and a permanent reduction in PREPA's principal debt burden of

approximately $600 million (*i.e.*, approximately 6% of PREPA's total debt outstanding of over $10 billion). The agreement also outlined other elements of PREPA's recovery plan, including new governance standards, operational reforms, a rate structure proposal and a capital plan. Although the Initial RSA and all subsequent RSAs are referred to as agreements, they have contained multiple "agreements to agree" on material issues, such that the Oversight Board does not regard them as legal, enforceable agreements for most purposes.

15. On December 23, 2015, PREPA entered into an amended and restated restructuring support agreement (the "December RSA") with the parties to the Initial RSA and certain of the Monolines. The December RSA was similar in structure to the Initial RSA, but provided that the Legislative Assembly of Puerto Rico must approve the terms of the December RSA by January 22, 2016. The December RSA was terminated on January 23, 2016, after the deadline passed without legislative approval.

16. Thereafter, on January 27, 2016, the parties to the December RSA as well as additional parties entered into the Restructuring Support Agreement, which provided for the same debt-adjustment framework, including an exchange of the Bonds for new securities issued by the Puerto Rico Electric Power Authority Revitalization Corporation (the "Securitization SPV", and the new securities to be issued by Securitization SPV, the "Restructuring Bonds").

17. On February 16, 2016, the Legislative Assembly of Puerto Rico enacted, and the Governor of Puerto Rico signed into law, Act 4-2016, known as the PREPA Revitalization Act (the "Act"). In connection with the Restructuring Support Agreement and the Act, the Puerto Rico Energy Commission ("PREC") issued a Restructuring Order on June 21, 2016 (the "Restructuring Order"). PREC reviewed and approved the method for setting the transition

charge (the "Transition Charge"),[5] which was a method agreed-upon by PREPA and the parties to the Restructuring Support Agreement to help implement the terms under the Restructuring Support Agreement.[6] Additionally, after the enactment of PROMESA, the RSA was amended to preserve PREPA's ability to file for Title III to adjust its debt, but at the same time required that the restructuring of PREPA's financial obligations was to be consummated pursuant to a Qualifying Modification under Title VI of PROMESA.

18. The Restructuring Support Agreement included, among other things, a series of milestones related to the restructuring process. The parties to the Restructuring Support Agreement continued to negotiate a debt adjustment, and agreed to extend the term and amend the terms of the Restructuring Support Agreement on multiple occasions. Notably, the first ten supplements encompassed in the Restructuring Support Agreement contained certain conditions to effectiveness in Section 11 that were not satisfied by the applicable deadline. For example, the first ten supplements required the adoption of certain PREPA board resolutions and the registration of certain documents with the Office of the Comptroller of the Commonwealth of Puerto Rico to become effective, which did not occur prior to expiration of the prior Supplement.[7]

19. The Restructuring Support Agreement also left certain material issues and transactions subject to further negotiation, meaning that the agreement was never actually completed. For example, the following material issues remained outstanding regarding the

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[5] The Transition Charge represents that portion of a customer's total payment which PREPA agreed to treat differently from the rest of the customer's payment. Specifically, PREPA agreed to separate the Transition Charge payments (which would be owned by Securitization SPV) from the rest of its revenues, then transfer those payments to Securitization SPV for application to the indebtedness under the Restructuring Bonds.

[6] Subsequent to PREC's issuance of the Restructuring Order, business groups filed suit to challenge the Transition Charge that was meant to pay for the new, securitized debt.

[7] *See* Restructuring Support Agreement § 11.

Restructuring Support Agreement: (i) the Restructuring Support Agreement failed to address how monoline insurers would provide required principal deferrals,[8] (ii) the terms of the new fuel line credit agreements required by the Restructuring Support Agreement had yet to be negotiated,[9] (iii) a revised electric rate structure had yet to be approved by the PREC;[10] (iv) the standard of care in a servicing agreement had yet to be agreed upon;[11] (v) the validation proceedings and any appeals therefrom were not complete;[12] and (vi) there had been setbacks in the validation proceedings in connection with the Act, creating risks of the inability to procure the legal opinions necessary to issue the new bonds required by the Restructuring Support Agreement.[13] As such, the Restructuring Support Agreement contained many material conditions that have not been completed.

20. Further, assuming the Restructuring Support Agreement had been completed, its consummation would have required additional short-term liquidity of several hundred million

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[8] *See* Restructuring Support Agreement, Schedule II ("Principal Deferral Arrangement") ("The Monolines and PREPA will continue to negotiate a refinancing arrangement whereby the payment of the principal of Legacy Bonds currently outstanding and insured by the monolines that come due in the first six years after the Closing Date . . . will be deferred, through a refinancing by the Monolines . . . . The form of the Deferral Bonds and any conditions to the issuance and purchase thereof shall be set forth in one or more forward bond purchase agreements or otherwise evidenced in a manner that is acceptable to PREPA and the Monolines . . . . This Term Sheet is subject, in all respects, to the changes required to implement the Principal Deferral Arrangement negotiated by the parties and described above. The terms and structure of the Principal Deferral Arrangement shall be subject to approval by all RSA Parties.").

[9] *See* Restructuring Support Agreement, Schedule III ("Other Loan Terms") (". . . . PREPA and Scotiabank will negotiate mutually agreeable covenants and related events of default to be included in the Scotiabank Credit Agreement Amendment executed prior to the Closing Date, which provisions may include, among other things, rate covenants agreed to by the parties.").

[10] *See* Restructuring Support Agreement, Annex D ("Rate Structure") ("PREPA will seek Energy Commission approval for a new rate structure . . . incorporating the elements set forth in Schedule VI hereto, including without limitation approval by the Energy Commission of the Rate Structure on an expedited basis."). The Oversight Board understands the rate structure approved by the Energy Commission does not achieve the goals of the Restructuring Support Agreement, so a new rate structure would need to be approved in accordance with the preceding quoted language.

[11] *See* Restructuring Support Agreement, Schedule I-B ("Servicer").

[12] *See* Restructuring Support Agreement, Schedule I-B ("Conditions Precedent").

[13] *See* Restructuring Support Agreement, Schedule I-B ("Conditions Precedent"); Restructuring Support Agreement, Schedule II ("Legislation, Documentation and Opinions").

dollars, for which there was no source under the Restructuring Support Agreement. The liquidity is needed to (i) build the Aguirre Offshore Gas Port ("AOGP"), (ii) replace the funds in the Self Insurance Fund (the "SIF"), (iii) upgrade the transmission and distribution ("T&D") system, (iv) implement other operational improvements, and (v) provide for working capital. The construction of the AOGP is necessary for PREPA to be in compliance with the Mercury and Air Toxics Standards ("MATS") issued by the EPA; indeed, the EPA can currently pursue remedial measures against PREPA because of its non-compliance with certain consent decrees. Further, PREPA has failed to adequately invest in its T&D system for years. As a result, the T&D system is below industry standards and needs substantial maintenance and upgrades to ensure reliable service for Puerto Rico.

21. Additionally, the Restructuring Support Agreement contained provisions causing hikes in electricity prices. Based on input from its economic advisors, the Oversight Board was concerned that making it more expensive to do business and to live in Puerto Rico could render it impossible to terminate Puerto Rico's negative economic growth and to achieve sufficient positive growth to restore Puerto Rico's overall economic health. That could undermine the Oversight Board's statutory mission to provide a method for fiscal responsibility and access to capital markets. Fortunately, PROMESA allows the Oversight Board to invoke Title III for PREPA.

22. On June 26 and June 27, 2017, the Oversight Board met with the creditor parties to the Restructuring Support Agreement to propose additional modifications to the Restructuring Support Agreement to address the foregoing problems. Although no agreement was reached, the Oversight Board, PREPA, and certain creditors have continued to discuss potential restructuring terms.

23. On June 28, 2017, the Oversight Board denied certification of the Restructuring Support Agreement and did not grant authority to PREPA to invoke Title VI of PROMESA to implement the Restructuring Support Agreement, pursuant to PROMESA sections 104(i) and 601(e). PREPA and AAFAF posted a letter on the Electronic Municipal Market Access System (EMMA) on June 29, 2017 that provided notice of the occurrence of several termination events under the Restructuring Support Agreement. PREPA had a debt service payment of $450 million due on July 1, 2017. Default on that payment exposes PREPA to the risk its creditors would seek to exercise remedies, including the potential appointment of a receiver under Section 804 of the Trust Agreement and Section 207 of the Puerto Rico Electric Power Authority Act (22 L.P.R.A. § 207).

24. Some PREPA creditors contend the Oversight Board was required to certify the Restructuring Support Agreement under PROMESA and to authorize its implementation, according to a complaint they filed to enforce their claims. *See National Public Finance Guarantee Corp., et al. v. The Financial Oversight and Management Board for Puerto Rico, et al.*, No. 17-cv-01882(FAB) (D.P.R. June 26, 2017).

C. Negotiations with Other Creditors

25. In addition to negotiating with the bondholders, insurers, and credit line lenders, PREPA has negotiated with its major fuel suppliers that supply PREPA with the necessary fuel for PREPA to operate its facilities.

26. With respect to PREPA's largest fuel supplier, Freepoint Commodities, LLC ("Freepoint"), PREPA was able to enter into an amendment to its fuel supply contract on April 10, 2017, after weeks of negotiations. Under the amendment, PREPA not only extended its contract by a year, through October of 2018, but also incorporated provisions that provide for Freepoint to continue supplying fuel during this Title III Case, and to continue providing

favorable trade terms, under the conditions set forth in the amendment. The amendment ultimately provides PREPA a reasonable runway to operate while it proceeds through this Title III Case, and ensured a reliable and continuous source of fuel that might not be otherwise readily available in the context of a pending Title III Case.

27. PREPA has also engaged in periodic negotiations with its labor unions, negotiated certain modifications to existing power purchase contracts, negotiated potential modifications to other supply contracts, and has had discussions with the developer of the proposed Aguirre OffShore Gasport. Such negotiations and discussions are ongoing.

III. Enactment of PROMESA, Establishment of the Oversight Board, Oversight Board's Designation of PREPA as a "Covered Territorial Instrumentality"

28. Puerto Rico has been facing a debt crisis for the past decade, since it entered into a recession in 2006. The recession decreased the population on the island by 9%, thus eroding the tax base and ultimately, after 2014, stifled Puerto Rico's access to capital markets, on which it heavily relied to raise operational funds.

29. As a result, numerous Puerto Rico public corporations (such as PREPA) faced liquidity issues and began to default on their debt obligations. This in turn triggered numerous creditor lawsuits to collect on their debts.

30. Thereafter, on June 29, 2016, Congress passed PROMESA, which President Obama signed into law on June 30, 2016. PROMESA established the Oversight Board, which consists of seven members appointed by the President of the United States and one *ex officio* member designated by the Governor of Puerto Rico.

31. The Oversight Board is empowered to compel Puerto Rico (and its instrumentalities including PREPA) to balance the budget and effectuate a restructuring with bondholders and other creditors if an agreement is not reached.

32. On September 30, 2016, the Oversight Board designated PREPA as a "covered territorial instrumentality" under PROMESA.[14]

33. PREPA's designation as "covered territorial instrumentality" subjected it to the Oversight Board's control.

IV. CERTIFICATION OF PREPA FISCAL PAN

34. Pursuant to Section 201 of PROMESA, PREPA submitted a Fiscal Plan to the Oversight Board on March 13, 2017 for its review and certification. The Fiscal Plan, among other requirements, demonstrated a method by which PREPA will achieve fiscal responsibility and access to the capital markets within the period (not less than five years) set forth in the plan.

35. On April 28, 2017, the Oversight Board certified the Fiscal Plan, subject to certain amendments, as compliant with PROMESA section 201(b).

36. The certified PREPA Fiscal Plan is attached hereto as **Exhibit 1**.

V. COMMENCEMENT OF PREPA'S TITLE III CASE

37. After termination of the Restructuring Support Agreement and facing the upcoming debt service payment, the Oversight Board decided that the best path forward was to file a petition on behalf of PREPA for it to adjust its debts through this Title III Case. The filing of the Title III Case will afford PREPA and its officers the protection of the Title III automatic stay, while PREPA continues its efforts to negotiate with its creditors to adjust its debts. The Oversight Board and PREPA intend to continue pursuing consensual negotiations with PREPA's key stakeholders and are hopeful that the parties can reach consensual resolutions.

[14] The term "covered territorial instrumentality" means: "a territorial instrumentality designated by the Oversight Board pursuant to [PROMESA section 101] to be subject to the requirements of [PROMESA]." 48 U.S.C. § 2104(7). The term "territorial instrumentality" means: "any political subdivision, public agency, instrumentality—including any instrumentality that is also a bank—or public corporation of a territory, and this term should be broadly construed to effectuate the purposes of [PROMESA]." *Id.* § 2104(19)(A).

38. Further information and documents filed in this Title III Case are available free of charge by accessing the website maintained by Epiq Bankruptcy Solutions LLC (the "Claims and Noticing Agent") at http://dm.epiq11.com/PREPA or by contacting the proposed Claims and Noticing Agent directly at (888)-697-8557 (toll free for U.S. and Puerto Rico) or (503)-520-4450 (for international callers).

Dated: July 2, 2017
San Juan, Puerto Rico

Respectfully submitted,

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Puerto Rico Electric Power Authority Fiscal Plan

San Juan, Puerto Rico

April 28, 2017

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I. Executive Summary

What PREPA's amended Fiscal Plan seeks to achieve

Completing a Restructuring Process That Began 2014 - 2015

- The Puerto Rico Electric Power Authority ("PREPA") has stabilized its external financial situation through long-term forbearance agreements with a majority of creditors. PREPA implemented cash flow forecasting and other operational controls and efficiencies to stabilize the internal financial challenges. PREPA also negotiated a Restructuring Support Agreement, as amended to-date, with a substantial majority of its creditors – establishing the baseline for permanent debt restructuring.
- Since beginning the restructuring process, PREPA has achieved substantial one-time and recurring projected annual savings through operational performance improvements, including fuel supply contracts and inventory controls. Furthermore, Puerto Rico has enacted a series of laws to provide rate transparency, regulatory oversight, enhanced accountability and CILT reform, among others.
- PREPA also commissioned a safety assessment and has been implementing industry-leading safety recommendations addressing systems implementation and safety culture transformation – for the protection of its employees and PREPA's infrastructure.

A Revised & Realistic Fiscal Plan

- At the direction of the Fiscal Oversight Management Board ("FOMB"), PREPA's new management has prepared this Fiscal Plan which supersedes prior submissions. From the date the new Administration took office, and following the appointment of PREPA's new Executive Director, PREPA, AAFAF and their respective advisors have worked ardently, in cooperation with the Board's advisors, to put forth a credible and reliable Fiscal Plan to guide the transformation and restructuring of Puerto Rico's principal utility - amidst a challenging macroeconomic landscape.
- Also at the request of the FOMB, PREPA has revised and updated its financial projections and Fiscal Plan to reflect consistency with the central government's certified Fiscal Plan and its macroeconomic assumptions – as well as account for revised externalities that conform to existing trends (local and world-wide).
- **The Fiscal Plan commits to fiscal responsibility and implements urgently needed infrastructure modernization, public-private partnerships, targeted expenditure reductions/efficiencies (operational and other) and specific revenue enhancements to return PREPA to (i) fiscal stability, (ii) efficient and competitive energy prices, (iii) compliance with environmental and health standards, and (iv) being an agent of economic growth.** In particular, the Fiscal Plan contemplates revised fuel prices, distributed generation trends, urgent infrastructure investments for needed efficiencies and environmental compliance, operational transformation to benefit its customers and Puerto Rico's economy.

A New Vision – PREPA 2.0

- PREPA fully appreciates that, despite fiscal and economic uncertainties, now is the time to transform the electric utility for the 21st Century. This includes modernization of infrastructure through Public Private Partnerships (including the AOGP project), renewable energy, innovative technology to drive efficiencies and improve customer service, professional and independent Board of Directors, fair and efficient rate designs, strategic outsourcing, and a formal Project Management Office (PMO) to drive innovation, operational transformations and restructuring support.

Set of key criteria included in the Fiscal Plan

On February 21, 2017, PREPA submitted a draft Fiscal Plan to the FOMB premised on the concept of equitable burden sharing amongst PREPA's key stakeholders, including a Restructuring Support Agreement with creditors controlling over 70% of its financial liabilities. Based on the FOMB's request, PREPA hereby submits a revised Fiscal Plan that addresses the FOMB's criteria for Fiscal Plan certification

	Area for Revision	Section Addressed
1	Ensure PREPA Fiscal Plan baseline forecasts align with central government macroeconomic assumptions	III. Financial Projections – Assumptions
2	Lower demand and volume baseline projections to align with historical trends of a decline in consumption	IV. Financial Projections
3	Incorporate latest terms of RSA, reflect debt service and determine uses of increased liquidity	V. Restructuring Support Agreement ("RSA")
4	Detailed investment program, including funding gap, total cost, major projects, and timeline	VII. Detailed Investment Program
5	Adopt Formula Rate Mechanism and ensure alignment between PREC and PREPA on path forward	VIII. New Rate Structure
6	Address CILT spending to municipalities	VIII. New Rate Structure
7	Broaden operational savings to include further labor, maintenance strategy, and T&D savings	IX. Operational Performance Improvements
8	Target additional fuel savings by driving generation efficiency	IX. Operational Performance Improvements
9	Demonstrate measures that enable corporate governance to improve compliance and viability of plan	X. Governance

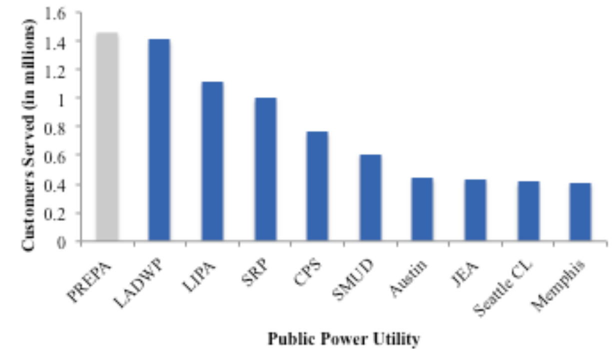
II. Background

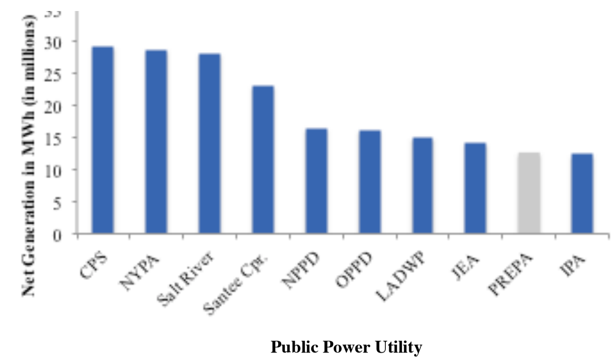
What is PREPA?

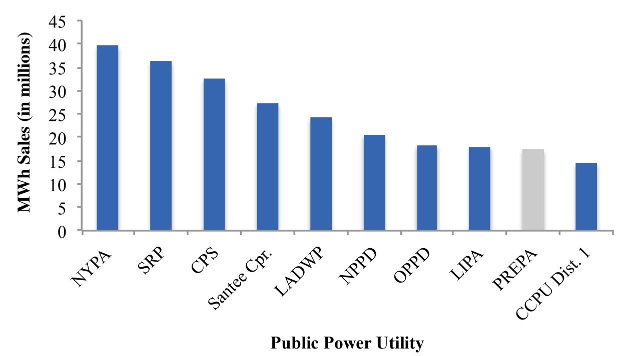
PREPA is one of the largest public power utilities in the United States

As of June 30th, 2016

- Total Revenues: \$2.9bn
- Total Assets: \$9.4bn
- Total Liabilities: \$11.4bn
- Electric System:
  - *Generating Capacity: 5,839 MW*
  - *31 major generating units in 20 facilities*
- Transmission and Distribution:
  - *Transmission Lines: 2,416 miles*
  - *Distribution Lines: 30,675 miles*
  - *38 kV substations: 283*
  - *115 kV substations: 51*
- Reliance on oil 45% versus national average of 3.7%







Source: PREPA, as of June 30, 2016, based on unaudited results

Source: APPA. "U.S. Electric Utility Industry Statistics, 2014". 2016-2017 Annual Directory & Statistical Report

Key historical challenges

- Old, inefficient and unreliable T&D and Generation infrastructure
- High dependence on fuel oil and inability to diversify fuel mix
- Lack of strategic environmental compliance plan, including MATS (Mercury and Air Toxic Standards)
- Relatively high level of theft and non-technical losses
- Changing industry dynamics that required changes in PREPA business model
- Legal requirements to provide power to certain customers at subsidized rate
- Lack of institutionalized processes and procedures
- Outdated systems and information technology
- Disorganized and ineffective customer service infrastructure
- Above-market collective bargaining agreements with evergreen provisions and underfunded pension obligations
- Prolonged and ongoing recession has led to a significant drop in energy sales

These challenges have resulted in a difficult financial situation for PREPA

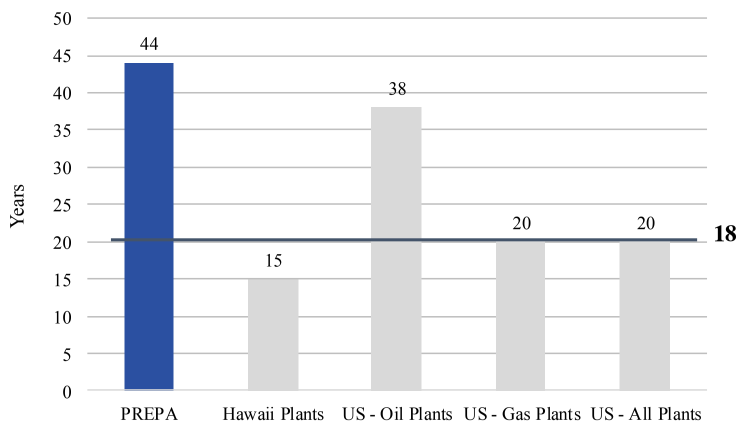
- **No access to bond market and bank financing as of 2014**
- **Over $4bn dollars needed for an infrastructure investment program to stabilize and improve operational efficiency, safety, reliability, environmental compliance, and conversion to clean energy**

PREPA has operated far below industry standards

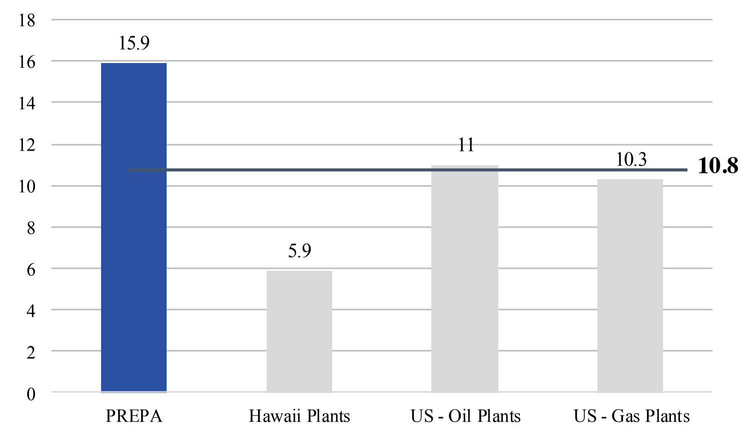
Chronic underinvestment and inconsistent management have led PREPA's facilities and business practices to fall significantly behind industry standards, which is aggravated by the fact that PREPA operates an isolated system, in challenging terrain and is subject to natural atmospheric events

Aging Infrastructure

- PREPA's median plant age is 44 years, compared to an industry average of 18



- PREPA's facilities experience significant forced outages due to underinvestment



Ineffective Collections and Monitoring

- PREPA historically did not effectively collect from municipalities, government agencies or other customers
- Poor customer service infrastructure
- PREPA regularly experiences significantly higher non-technical losses than other utilities due primarily to poor monitoring and metering standards

Source: PREPA Internal Figures

Safety system

PREPA's safety system effectiveness rating is less than Level 1 - Fundamentals

- PREPA's safety system and record is dramatically below industry standards
- Upon field assessment, as of 2014, performance is near Fundamentals level – basic elements are not in place
- Approach to response and investigation of injuries is wrong / deficient
- Total Recordable Incident Rate (2012) is 5x greater than industry average
- Actual costs of injury statistics through July 2014 is unsustainably high (wage losses and annual insurance)
- PREPA safety system is *barely* reactive (vs. proactive)

PREPA's Need for immediate actions

- **Enforcement of safety rules / discipline**
- **Bridge between Management and Union leadership**
- **Deploy Risk Mitigation Teams**
- **Establish Operational Risk Management Systems**

Source: Dupont, Workplace Safety Assessment Report: PREPA, November 29, 2014

Years of underinvestment have led to severe degradation of infrastructure

Certain T&D and generation infrastructure is degraded, unsafe and unreliable. Critical investment for emergency maintenance and upgrading is key to ensure reliable and efficient generation and delivery of energy, including a modernized grid that can drive efficiencies

The outage of September 2016 resulted in a government declared state of emergency

The most recent PREPA power outage impacted 50% of the island's residents without power for nearly a week

Historical outages

PREPA has suffered from significant and above industry average outages. The September 21, 2016 PREPA switchyard fire/explosion incident is the most recent, which affected Puerto Rico's entire energy grid. Full recovery of the system did not occur until September 25, 2016

Incident Report Conclusions

- Incident causes included a combination of technical-mechanical faults/damages in equipment as well as operational issues – together with limited available energy reserves at the time of the incident
- PREPA's financial challenges and staffing shortages affected the utility's ability to undertake sufficient preventive maintenance of its systems, especially in the area of conservation
- Inadequate equipment maintenance programs

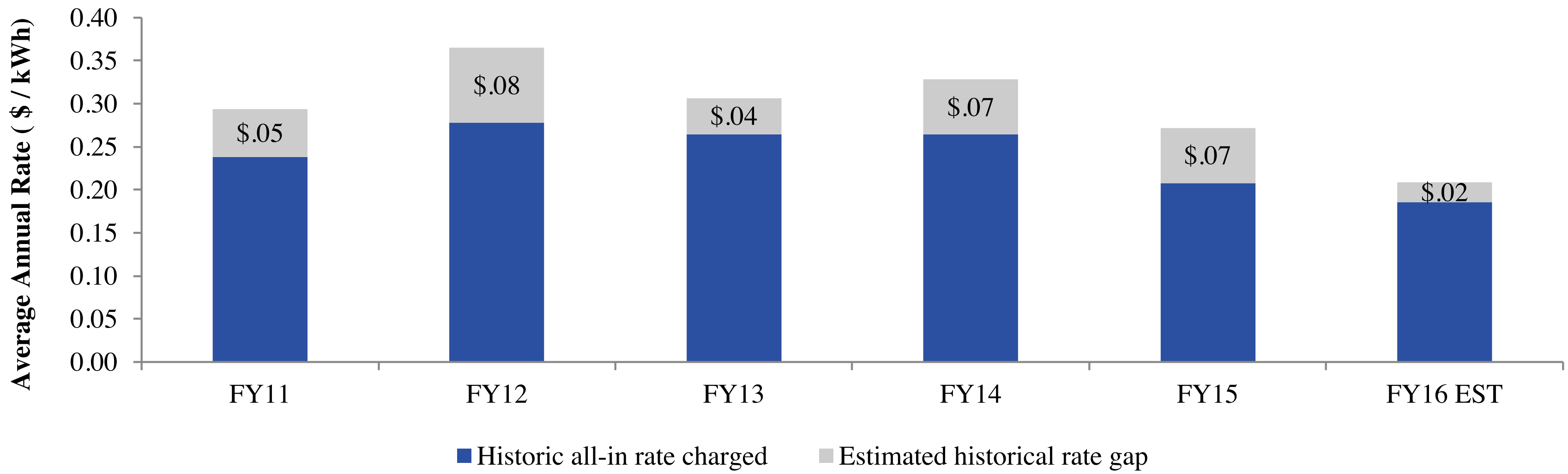
Recommendations

- PREPA needs a robust preventive maintenance program in the short term; T&D system needs to be priority
- Need more resources (human and financial) for operation and conservation programs
- Specialized human resources (technical) is a critical issue; recent trends showing PREPA's loss of key personnel is unsustainable
- Need to revise/update replacement equipment and specs
- Need to revise the safety/protection system for generating units to ensure that they adequately protect (as opposed to overprotect) the entire grid system
- Evaluate the use/application of available technologies, such as SPS/Special Protection Systems and Synchrophasors Measurements, that may provide additional guarantees as well as a reduced risk of total system collapse

Source: Report from the Comisión Especial de Energía, "Colegio de Ingenieros y Agrimensores de Puerto Rico", December 31, 2016.

PREPA's rates historically have not covered costs

- The current debt crisis was founded in years of rate deficits, during which operating expenses incurred were not recovered in rate revenues
- This situation was exacerbated by the practice of meeting operating revenue shortfalls with proceeds from debt issuance, instead of investing these proceeds on infrastructure maintenance or capital investment
- PREPA currently has, and will continue to need, years of catch-up spending and investment in its T&D system to become and remain a catalyst of growth for Puerto Rico's economy



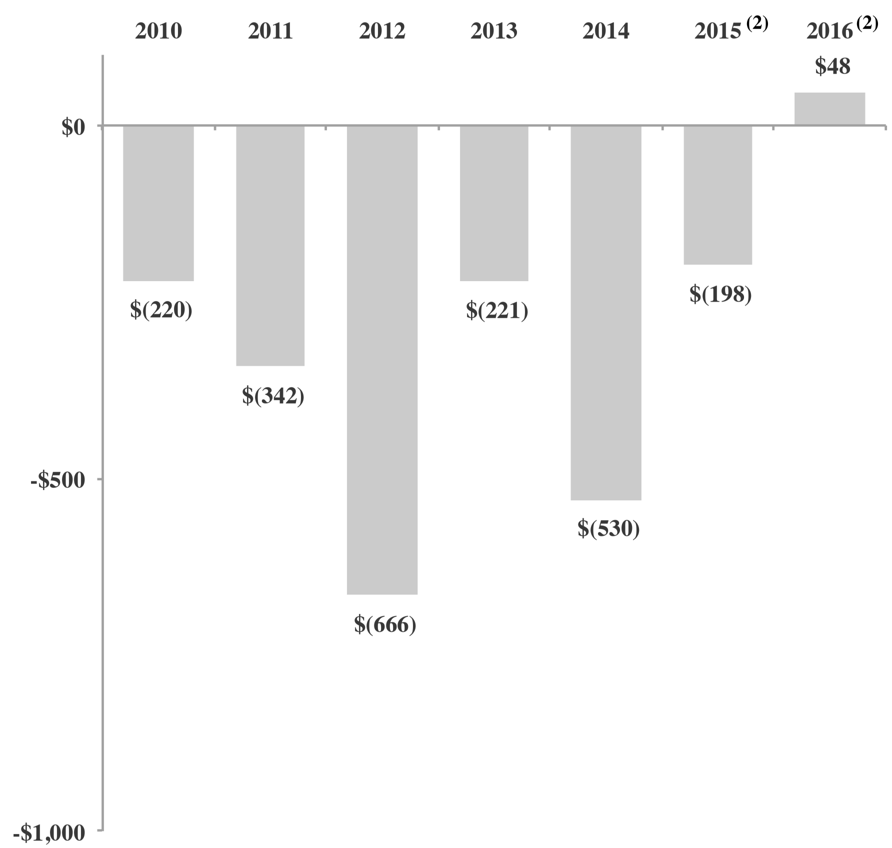
Per kWh

Historical all-in rate[(1)]	$.24	$.28	$.26	$.26	$.21	$.19
Est. rate required	$.29	$.36	$.30	$.33	$.28	$.21
Est. historical gap	**$.05**	**$.08**	**$.04**	**$.07**	**$.07**	**$.02**

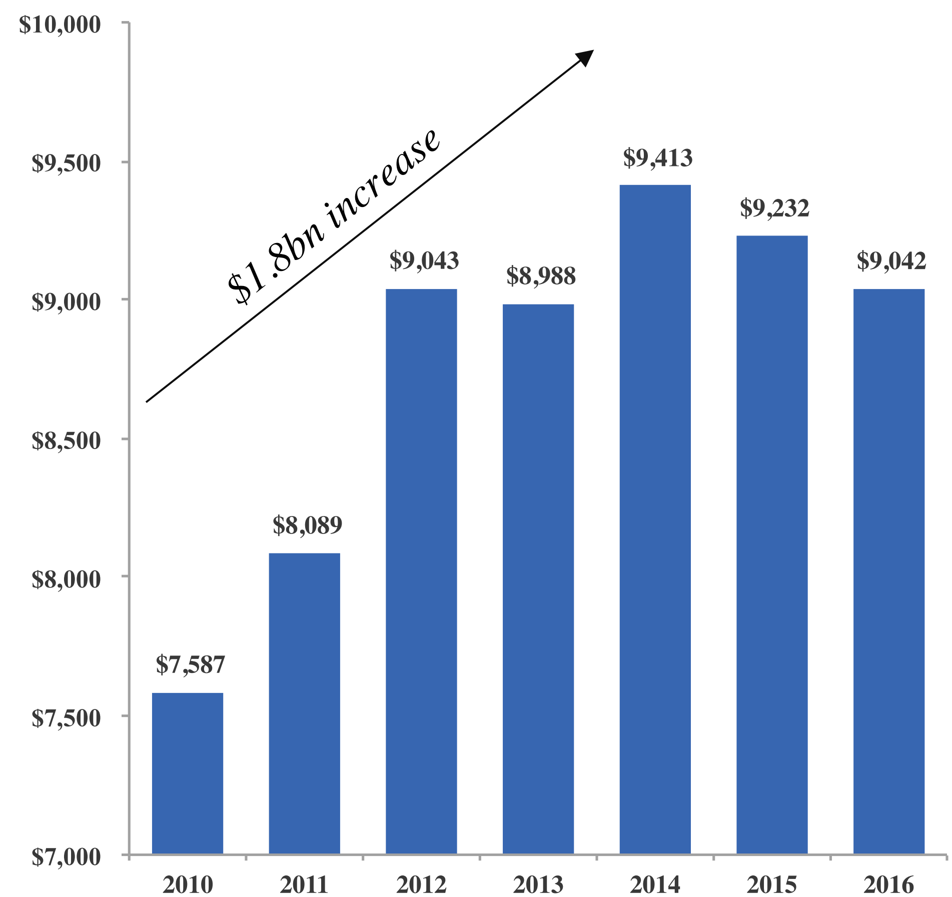
PREPA incurred significant debt to cover costs

As demand has fallen, financial performance has declined and PREPA has borrowed to fund operating expenses. By 2014, PREPA was overburdened with debt and had no access to additional liquidity

Free Cash Flow ($m)

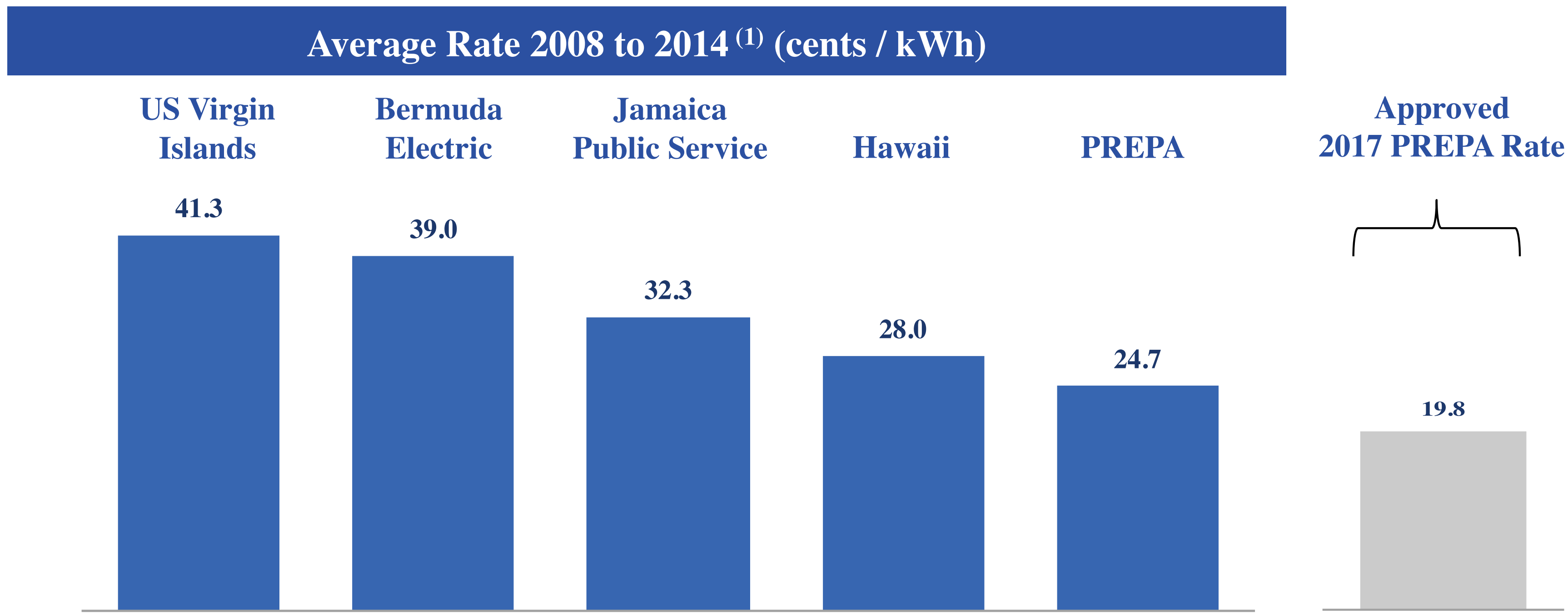


Debt Balance ($m)[1]



1) Fiscal years 2010-2014 as reported in PREPA's audited financial statements. Current balance reflects PREPA's total bonds outstanding, fuel lines and GDB lines of credit
2) FY 2015 and FY 2016 are based on unaudited results. FY2016 free cash flow is due to nonpayment of debt service

Comparison of PREPA rate to other island utilities



	US Virgin Islands	Bermuda Electric	Jamaica Public Service	Hawaii	PREPA
MWh/ Customer	**13.2**	**16.5**	**5.4**	**21.8**	**12.6**
# of Customers (000s)	**~55**	**~40**	**~590**	**~380**	**~1470**

Note: Inclusion of this list should not be read to suggest that the relevant utility is a comparable utility or that the rates should be comparable. Nor should it be read to suggest that it is appropriate to raise rates to the level indicated in the chart.
Rate is defined as operating revenue per kWh.

Source: PREPA data, self-published annual utility financial reports
1) Calendar Year Basis Average 2008 to 2014

Pension system underfunding

- PREPA's Employee Retirement System ("PREPA ERS") is designed to meet the defined-benefit pension and other post-employment benefits ("OPEB") obligations of PREPA's active and retired employees (including beneficiaries)
- The PREPA ERS is significantly underfunded - as much as ~$2.2bn (based on a 6.75% rate of return) - with annual funding requirements of approximately $164m. PREPA is in the process of reviewing and updating these numbers and projections(1)
- PREPA has an outstanding debt of $62m with the PREPA ERS resulting from a contribution shortfall in previous fiscal years
- OPEB ($384m accrued) is entirely unfunded as reported in PREPA's 2012 "Report of Actuary on the Other Post-Employment Benefit REVISED Valuation", revised as of October 2015
- The following chart depicts the funding ratio of the ERS plan under various rates of return:

	PREPA 2014 Actuary Report ($bn)	Estimated 12/12/2016	
Discount Rate	8.50%	6.75%	5.00%
Total Pension Liability ("TPL")	3.1	3.7	4.4
Fiduciary Net Position (PREPA ERS Assets) ("FNP")	1.4	1.4	1.4
Net Pension Liability ("NPL")	1.7	2.3	3.0
Funded Ratio	45%	38%	32%

1) Milliman will be performing a new evaluation to update actuarial deficit

PREPA is facing an environmental / health compliance cliff

- PREPA faces imminent and significant environmental compliance challenges under revised federal Clean Air Act ("CAA") emission standards
  - NAAQS – New National Ambient Air Quality Standards for Sulfur Dioxides (SO2)
  - MATS – Mercury and Air Toxic Standards
- Potential impacts on include:

Liquidity/Working Capital	Federal fines and penalties (accrued and continuing) are substantial/imminent
Working Capital	Required improvements to comply (emission controls, conversion, etc.) are significant
Operations	Operational limitations and constraints would arise under federal law
Rates	Fines, penalties, compliance expenses would increase costs and carry threat of additional regulatory action
Public Health	Public health concerns may exacerbate demographic challenges and quality of life for residents; risk of lawsuits from 3rd parties under CAA, common law and other applicable statutes
Economy	Increased rates, healthcare costs, operational expenses, will negatively impact the economy
Environment	Increased environmental impact is negative all around

Current debt structure totaling $9 billion is not sustainable

PREPA had $9.0bn in funded debt obligations as of December 31, 2016, with debt service obligations of $4.5bn over the next five years:

Obligation ($ in millions)	Principal outstanding	Weighted average interest rate	Maturities
Build America Bonds	$676	*6.10%*	7/1/30 - 7/1/40
Uninsured power revenue bonds	4,958	*5.27%*	7/1/17 - 7/1/43
Total uninsured legacy bonds	**$5,634**	***5.37%***	
Insured power revenue bonds	$2,250	*4.73%*	7/1/17 - 7/1/37
Total legacy bonds	**$7,884**	***5.19%***	
Series 2016 (Relending Bonds)	$375	*8.29%*	1/1/18 - 7/1/22
Total bonds outstanding	**$8,259**	***5.33%***	
Scotiabank Credit Agreement	$550	*7.25%*	8/14/2014
Citi Credit Agreement	146	*7.25%*	1/10/2014
Fuel Line Loans (1), (2)	**$696**	***7.25%***	
Total bond and fuel line obligations	**$8,955**	***5.48%***	
JP Morgan LIBOR Fixed / Floating	$34	*4.08%*	7/2/2029
US LIBOR Fixed / Floating	17	*4.08%*	7/2/2029
Total swap claims	**$51**	***4.08%***	
GDB Loan	35	*6.00%*	12/31/2014
Isabela Dam Loan	1	*7.00%*	6/30/2018
GDB Loans (2)	**$36**	***6.03%***	
Total financial obligations	**$9,042**		

1) Interest rates reflect default interest rates
2) Past due maturities are currently under forbearance

PREPA has been working on a consensual restructuring process based on the principle of an equitable burden-sharing by all stakeholders

- By 2014, PREPA faced a serious liquidity and financial crisis
  - Fuel line maturity of over $700m in summer 2014
  - Lack of liquidity, including inability to pay ongoing fuel suppliers in a timely manner
  - High oil prices leading to elevated electricity costs
- Stabilized its *external* financial situation in August 2014 by signing long-term forbearance agreements with creditors representing more than 60% of PREPA's debt
- Retained Chief Restructuring Officer, and implemented cash flow forecasting, other operational controls and efficiencies to stabilize the *internal* financial situation
- Began process of negotiating a Restructuring Support Agreement ("RSA") with creditors representing more than 70% of PREPA's debt, including fuel line
  - Initial RSA signed in December 2015
  - RSA provided basis for permanent debt restructuring
  - Recent (2017) negotiations with creditors resulted in an agreement in principle on further RSA modifications and benefits for PREPA and ultimately for consumers
- Obtained more than $400m in short term "relending" financings in 2016 from supporting creditors

PREPA has achieved significant progress in its ongoing transformation

- Enactment of PREPA Revitalization Act (Act 4-2016)
- Energy Commission approval of:
  - Transition Charge (June 2016)
  - PREPA's provisional rate adjustment of 1.3 cents per kWh was implemented August 2016
  - PREPA's final authorized rate adjustment of 0.988 cents per kWh was approved January 10, 2017, to be implemented with reconciliation for provisional rate July 1, 2017
  - Final projected increase of $170m in revenues
  - RSA contemplates agreement on modifications to the rate structure to better facilitate PREPA's transformation without impacting repayment of restructured debt.
  - Modified Integrated Resources Plan (September 2016). Motion for reconsideration of certain elements of IRP is pending, including approval by PREC for AOGP
- **Achieved $271m in one-time cash savings and identified $254m in projected recurring annual savings (approximately 1.4 cents/kWh based on present load) through operational improvements[(1)]**
- Implemented recommendations of industry-leading safety consultant (DuPont)
- Freepoint Amendment
  - Contract was amended and extended, enhancing the terms for PREPA and ensuring the supply of No. 6 fuel

1) New management team is in the process of validating the annual savings identified by PREPA's prior restructuring advisor

Goal of PREPA's transformation is to share the burden equitably and to transform PREPA into a world class utility that provides for a safe, reliable and resilient electric system

A Transformed Utility Company

Measure

New Rate Structure

- Implementation of revised, more transparent rate structure that covers PREPA's real and reasonable costs
- Cost based and pro-growth rate design
- Additional enhancements contemplated in RSA

Internal Cost Savings & Efficiencies

- Comprehensive review and assessment of PREPA's operations
- Implementation of initiatives that will result in one-time and recurring improvements
- Make PREPA a 21st century utility by implementing a series of technological initiatives

Legal Reform & Enhanced Oversight

- PREPA Transformation Act (Act 57-2014)
- PREPA Revitalization Act (Act 4-2014)
- PROMESA & FOMB

Adequate Infrastructure Plan

- Combination of self-funding with P3s
- $4.66bn 10-year Infrastructure Program
  - $470m AOGP project and Gas Conversion (1)
  - Actionable plan to achieve MATS compliance
  - Unit upgrades for plan efficiencies via P3s
  - Fully fund maintenance capex on pay-go basis

Sustainable Capital Structure

- Deleveraging and cash flow relief
- Execution of securitization transaction
- Extension of debt maturities
- Facilitation of rate stability that provides lower interest costs
- RSA terms will result in $850m debt burden reduction and ~$2.2bn in debt service relief over first 5 years, following deal execution

Employee Benefits & Pension Funding

- Review of and potential modifications to CBAs and pension plans
- Act 66-2014 & Act 3-2017
- Annual payroll savings

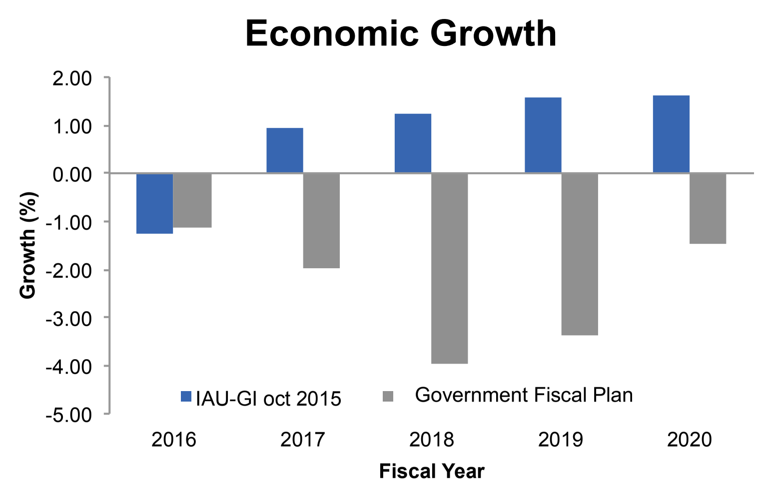
1) Subject to obtaining external funding

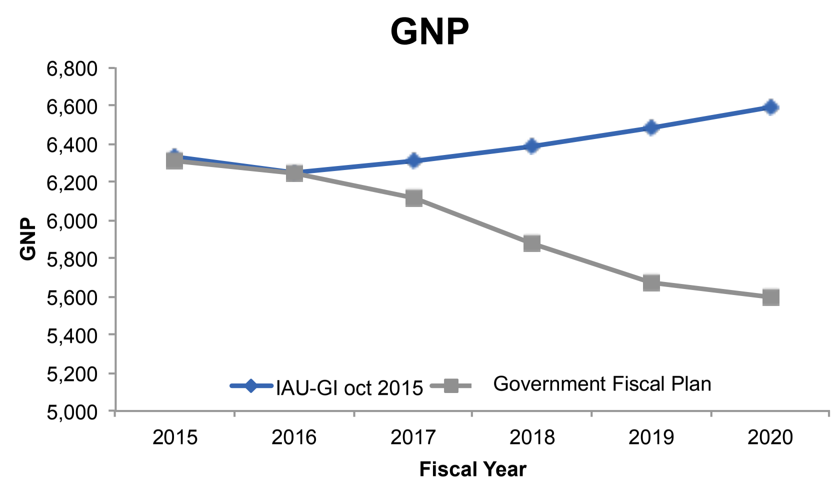
III. Financial Projections –Assumptions

Updated financial projection assumptions

Per the FOMB's request, PREPA updated its financial projections and macroeconomic assumptions to be consistent with the Government of Puerto Rico's certified Fiscal Plan

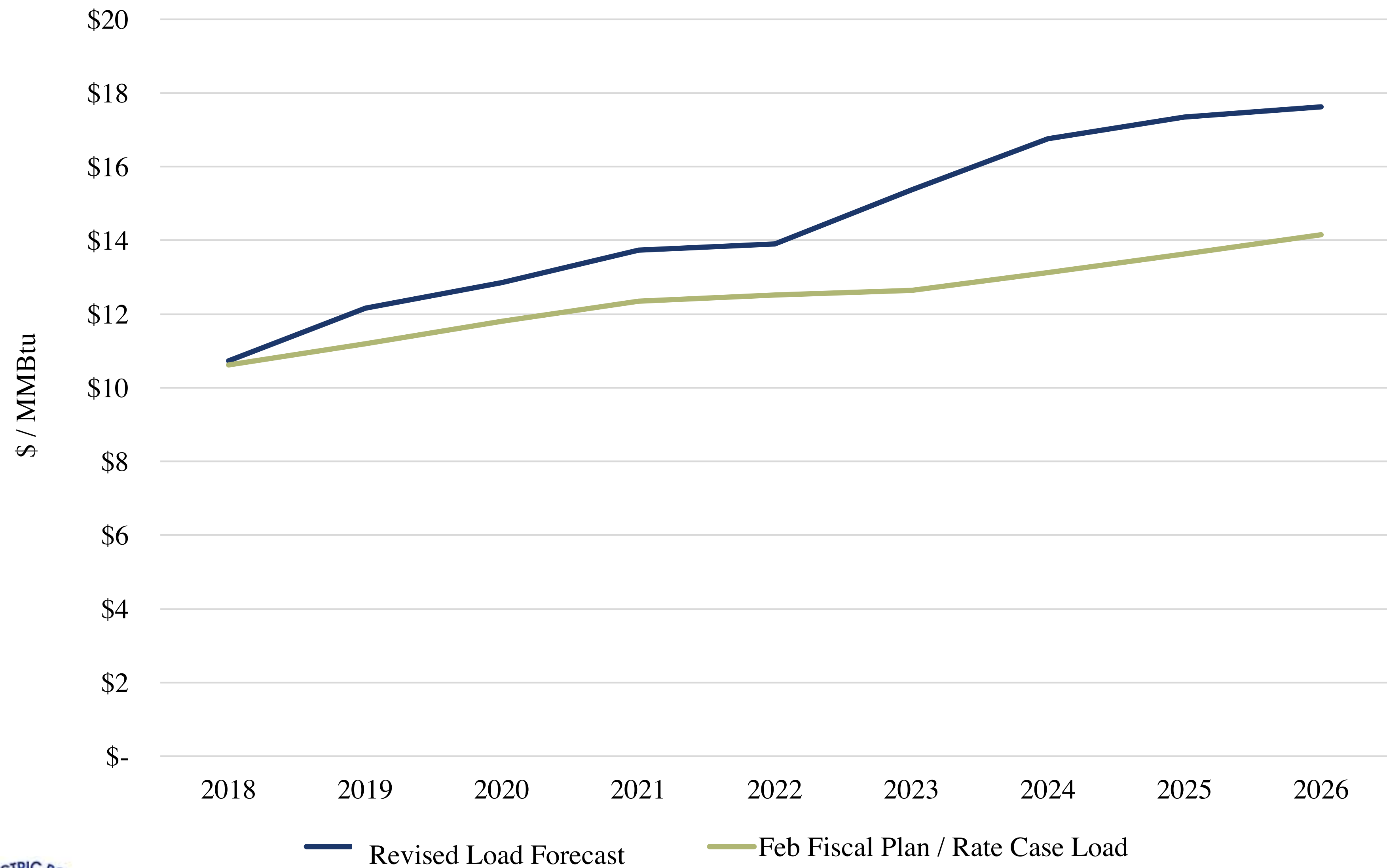
	Revised Assumptions
Energy Sales	▪ Revised econometric model forecasts that energy sales will drop 23% over the 10-year Fiscal Plan Period, compared to the less conservative outlook assumed in the previously submitted Fiscal Plan (the "Original Fiscal Plan") ▪ This significant decrease in projected energy sales, compared to the Original Fiscal Plan, is driven by: • Updated fuel forecasts that reflect materially higher fuel prices over Fiscal Plan period; • Revised results that reflect continued and accelerated deployment of **distributed generation** (240 MW in pipeline per PREPA's records as of January 2017[(1)]); • Pipeline of co-generation units planned by large industrial/commercial clients (42.6 MW) subtracts from overall sales[(2)]
Oil Prices	▪ Updated oil prices forecast provided by the U.S. DOE incorporated in latest model





1) Implicit in PREPA regression analysis
2) Co-generation could be higher as PREPA has identified other industrial and commercial clients that are seeking to install co-generation units

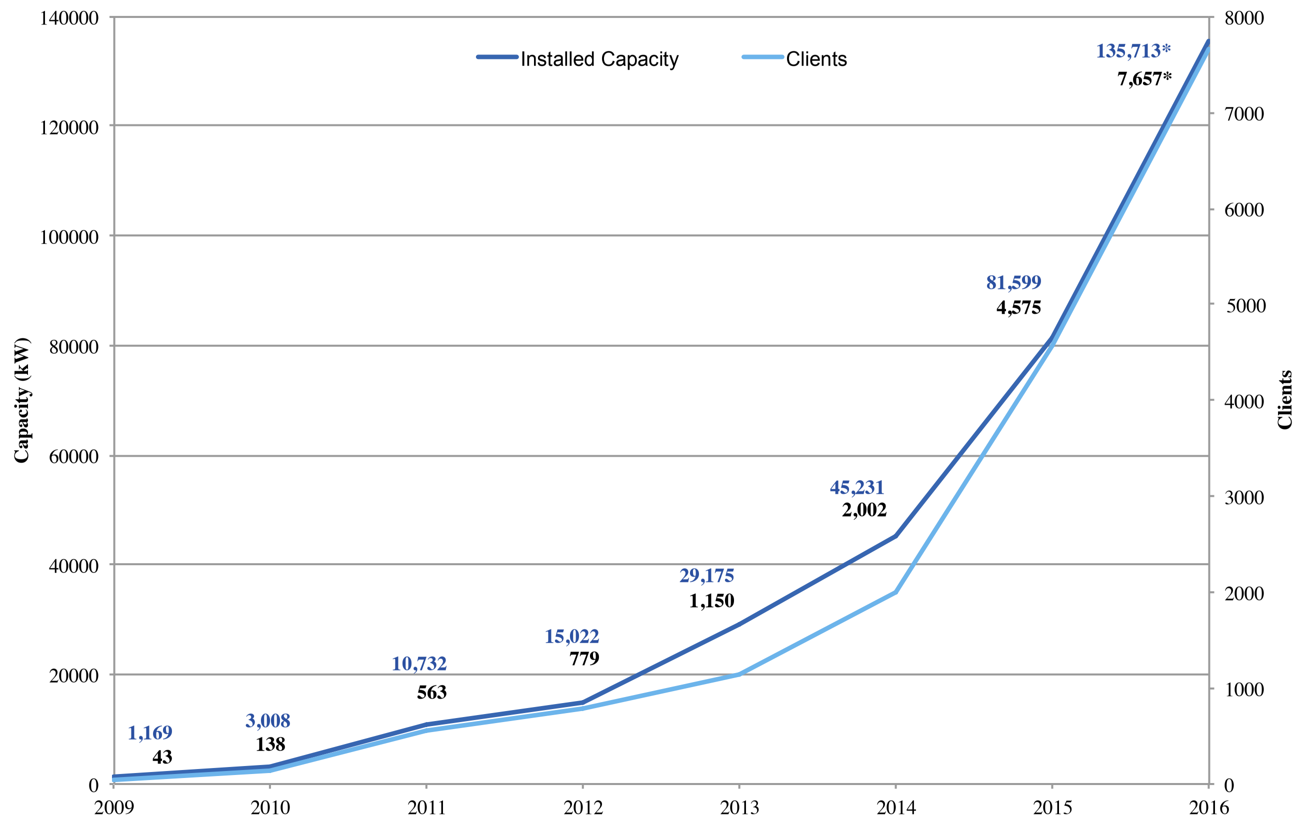
Updated fuel curves show an average increase 64% in fuel costs during the forecast period versus 33% in the February Fiscal Plan



Source: EOD Data

Change in consumer behavior and significant drop in costs of solar panels is accelerating distributed generation, impacting PREPA's load and creating a business model challenge

Integration of Distributed Energy Resources with PREPA's Electric System



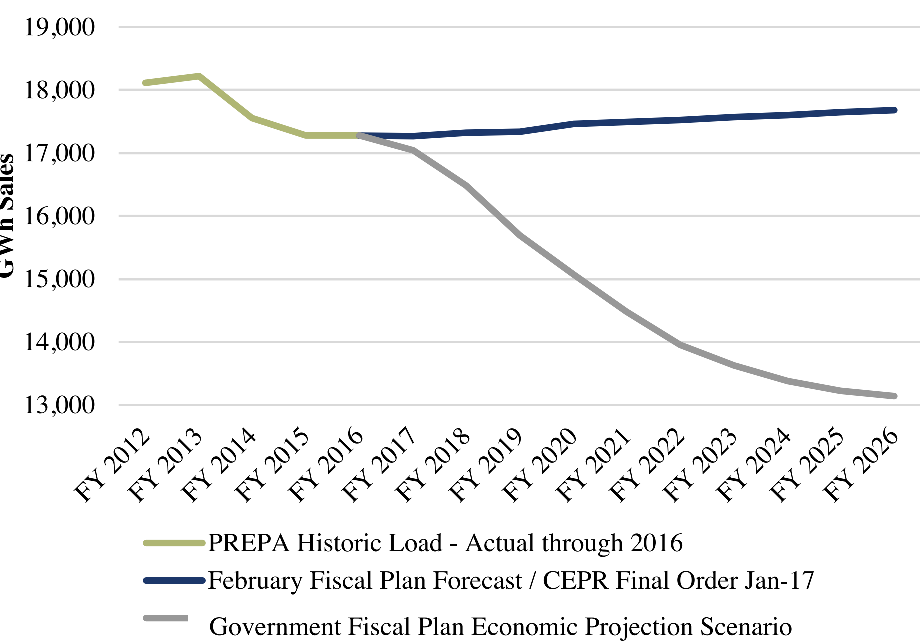
Distributed generation penetration is implicit in PREPA's regression forecast

Source: PREPA Planning Department

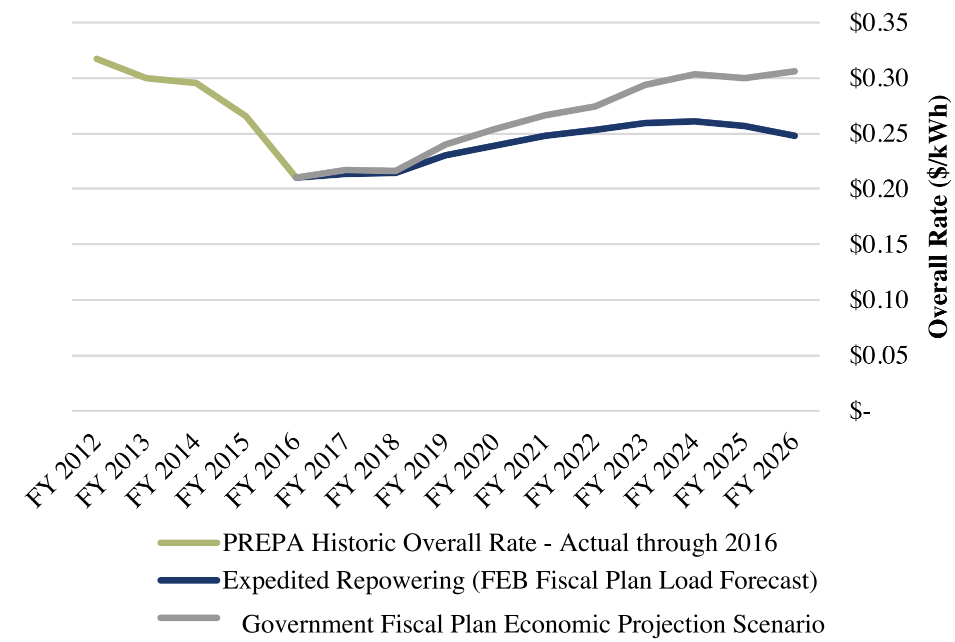
PREPA energy sales / load forecast decreases by 23% over forecast period

- PREPA revised load forecast is consistent with the FOMB GNP and GDP economic projections for the Puerto Rico economy under the certified Fiscal Plan for the Government of Puerto Rico
- PREPA has also incorporated recent[(1)] trends in large commercial and industrial cogeneration facilities
  - The resulting adjusted load forecast would put the corporation on a precarious path
  - This path is based on the negative feedback loop created by falling demand, that necessitates higher rates, that further incentivize decreased demand

Load Forecast



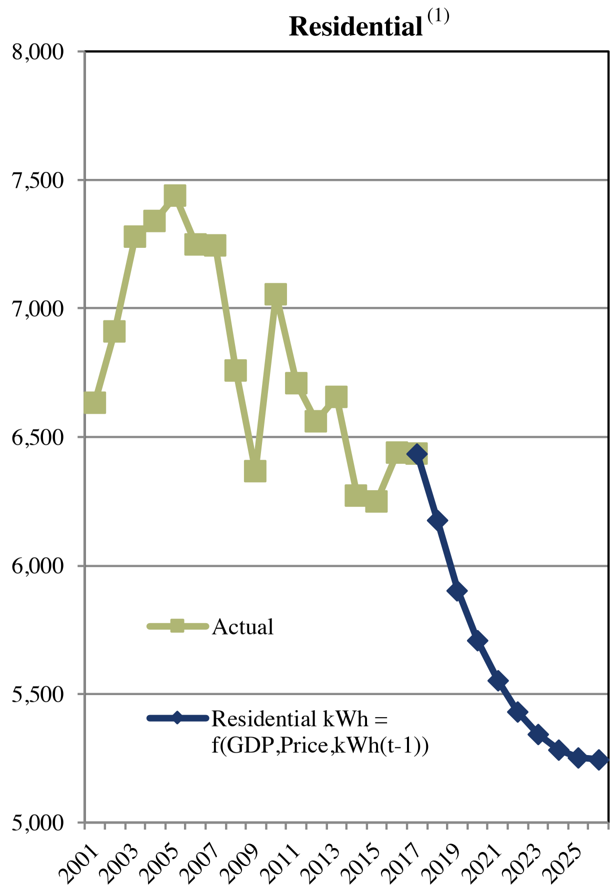
Overall Rate

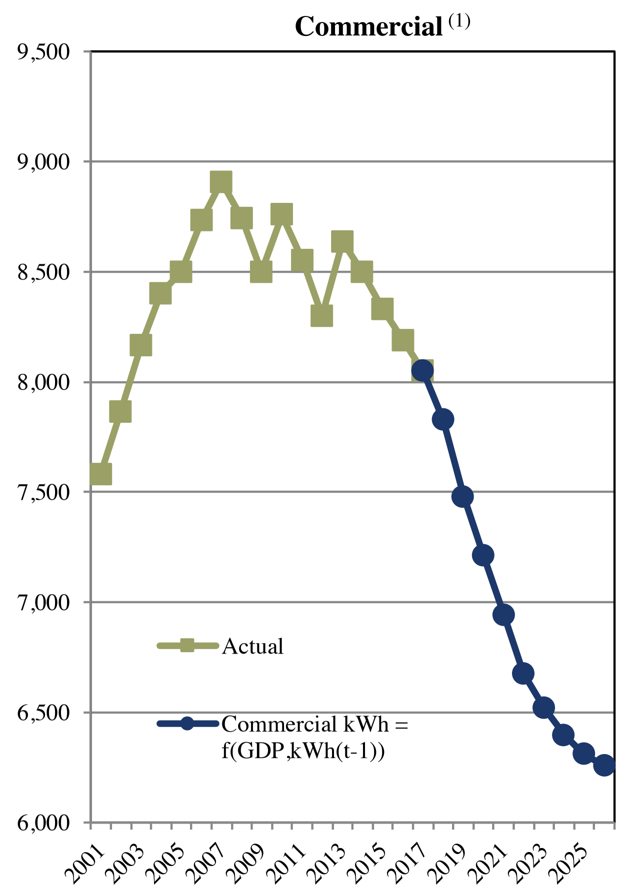


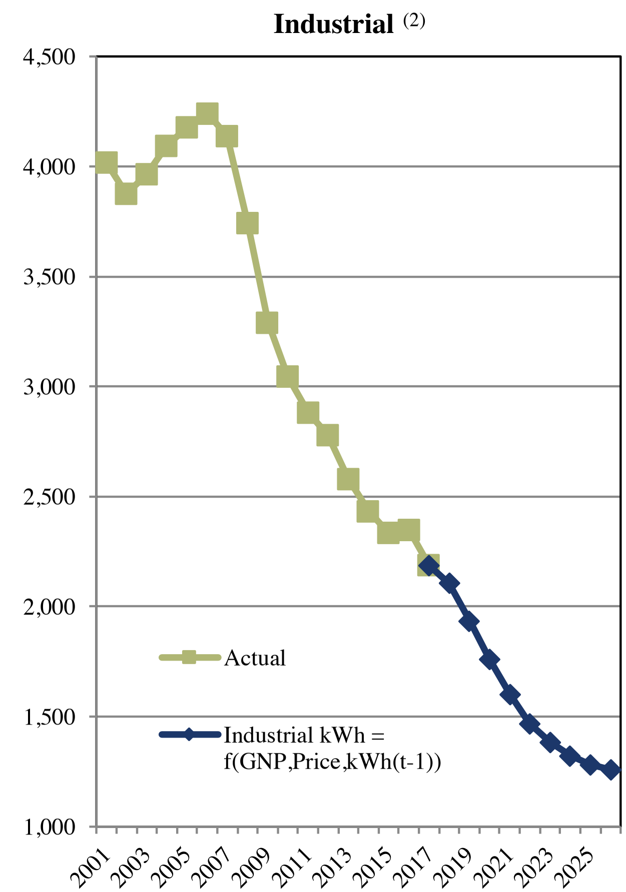
1) As per 2016 records

PREPA energy sales / load forecast

- PREPA's load forecast is developed by regression analysis for each major customer class, Residential, Commercial, and Industrial, using independent variables for economic activity (GDP;GNP), class specific price, and historic class specific load
- Graphs illustrating the customer class load history and projections are provided below:







1) Using PREPA's rates records from 1983-2016
2) Using PREPA's rates records from 2000-2016

Key assumptions

	Comments
Puerto Rico General Economic Outlook	▪ The economic assumptions driving the load forecast are consistent with the assumptions in the Government of Puerto Rico's certified fiscal plan. To the extent that the Government of Puerto Rico's assumptions change materially, PREPA may need to review or revise its own assumptions
Sales	▪ Projections are based on the load forecast developed using assumptions in the Government of Puerto Rico's certified fiscal plan ▪ Total sales (including CILT) are expected to decline at an average annual rate of approximately 2.9% between FY2017 and FY2026. FY2017 sales are forecast to be 17,050,700 MWh, and FY2026 sales are forecast to be 13,141,262 MWh
Fuel Prices	▪ Fuel price assumptions are assumed to increase from approximately \$10/MMBtu in FY2014 to \$17.6/MMBtu by FY2026 versus \$14/MMBtu in draft Fiscal Plan submitted on February 21, 2017 ▪ Fuel and purchase power costs are pass-through expenses, so to the extent fuel prices vary from these assumptions, actual costs and rates will vary
Capital Investments	▪ Capital investments projections assume accelerated generation project investment through Public-Private-Partnerships (P3) ▪ It does not consider the Energy Commission's modified IRP order issued in September 2016 as that order is currently being reconsidered at the request of PREPA
Securitization Timing	▪ Projections assume that PREPA executes its restructuring transaction in August 2017 and that PREPA will remain responsible for its legacy debt until that time ▪ See Section VI for more detail on the terms of the restructuring transaction
Aguirre Offshore Gas Project ("AOGP")	▪ **Financing for the 80% debt funded portion of the project has not been arranged** – <u>it is assumed to be obtained in FY2018</u> ▪ Assumes PREPA funds approximately \$56m of pre-construction costs with revenues in FY2017 ▪ Illustrative financing terms: 6.0% interest rate, 30-year, mortgage style loan
Formula Rate Mechanism ("FRM")	▪ Forecast bases its key rate assumptions on the January 10, 2017 ruling by the Energy Commission ▪ Key assumptions include: • The permanent rate adjustment to be decided by the Energy Commission in the previous fiscal year will remain in effect through the first six months of the next fiscal year and the new requirement will go into effect on January 1 • Base rate adjustments will be based on previous year budget to actual variances and known and measurable changes to the forward looking year forecast • Fuel pass-through costs will be revised on a quarterly basis beginning July 1, 2017 • CILT will become a pass-through cost beginning on July 1, 2017

Key assumptions

	Comments
FY2017 Rates / Revenues	▪ Assumes PREPA's rate structure is not materially changed in FY2017 per the Energy Commission ▪ PREPA implemented the provisional base rate increase of approximately 1.29 cents/kWh in August 2016 ▪ Revenues assumes that the final authorized rate (1.0 cent/kWh) has been in effect for full year ▪ Reconciliation of provisional and final authorized rates will be cash position neutral
Rate Structure	▪ Beginning in FY2018, it is assumed that PREPA adopts the changes to the rate structure prescribed in the January 10 PREC Order ▪ The fuel and purchased power expense will be passed through to customers at cost ▪ CILT and subsidies will also be recovered (passed through) at cost
Salaries	▪ Salaries are forecasted based on projected number of employees and annual wages ▪ Headcount is assumed to remain flat through the forecast period at 6,042 employees ▪ Assumes no growth in salaries
Pension & Benefits	▪ Pension & Benefits expenses have averaged approximately $150m/year for the past 3 years ▪ Going forward these costs are expected to fluctuate relative to headcount and revised actuarial numbers
Non-Labor O&M Costs	▪ Based on historical costs for non-labor/fuel O&M expenses in PREPA's accounting records and reports, which average $220m / year for FY 2012 to 2016
CILT and other appropriations	▪ The cost of CILT throughout the forecast period considers the CILT caps stipulated by Act 4-2016 and assumes municipalities will pay for usage above those caps ▪ Also assumes that municipalities will pay for electricity consumed by its for-profit entities
Working Capital	▪ A/R: Based on estimated revenues and historical days sales outstanding ▪ A/P: Based on current and anticipated contract terms ▪ Inventory: Fuel oil and materials inventory held flat for modelling purposes, additional analysis to be performed on cash impact of changes in non-cash working capital

Income statement assumptions

	Comments
Revenue	▪ Projection based on assumption that base rates are adjusted annually to reflect forecast test year revenue requirement and prior year revenue deficiency or surplus ▪ Pass-through riders are implemented and adjust to recover revenue for pass-through expenses ▪ Other income remains flat (comprised of interest on cash, disconnection fees, late fees, and income from subsidiaries) ▪ SPV income is net of bad debt expense and the true-up for collections lag[1]
Fuel & Purchased Power Expense	▪ Projected expenditures on fuel are consistent with PREPA's IRP, such that PREPA moves its generation mix to be less dependent on fuel oil and towards P3 generation ▪ Assumes certain investments are made, which enable a shift to greater natural gas generation: see section VII for Detailed Investment Program
Labor Expenses[2]	▪ Projected based on historical data by union/management group and directorate ▪ Includes retirement system (including annual additional employer contribution totaling \$60m), health plan, social security, Christmas bonus and worker's compensation insurance ▪ All overtime and overtime benefits are projected separately from full-time and temporary employees
Unclassified Division Expenses	▪ Comprised of materials, per diem, property & casualty insurance premiums, restructuring fees, retiree medical benefits, security expenses, banking services, maintenance, utilities, and miscellaneous expenses ▪ Restructuring fees are assumed to be \$28m in FY2017 and \$40m in FY2018
Bad Debt Expense	▪ Bad debt is assumed to be 2.4% of total revenue requirement net of projected collections improvements
Energy Administration Assessment	▪ Is legislatively mandated to be \$5.8m per year to cover PREC operating costs
CILT & Special Customer Subsidies	▪ Assumed to be collected through a rate rider pass-through mechanism similar to fuel and purchased power
Depreciation	▪ Depreciation is projected to be 2.6% of gross fixed assets for each fiscal year
Interest/Financing	▪ Projections were based on PREPA and PREPARC debt schedules and include illustration for potential AOGP financing
Cancellation of Debt Income	▪ Includes 15% principal haircut on exchange bonds in PREPA → PREPARC transaction

1) True-up collection lag has an average annual impact of \$26m/year
2) Subject to additional reductions to be achieved following the approval of HB938, which is currently pending approval by the Puerto Rico legislature

Balance sheet assumptions

	Comments
Cash and equivalents	▪ Starting FY2018, includes general fund, revenue funds and working funds; $146.7m of cash at GDB is not included, consistent with GDB's fiscal plan
Accounts receivable	▪ Accounts receivable follows working capital trends based on projected revenues ▪ Accrued CILT increases as expenses higher than revenues until permanent rate when revenues will match expenses
Inventories	▪ Fuel oil inventory decreases beginning in January 2018 with the conversion of Aguirre and San Juan in January 2021
Prepayments and non-current receivables	▪ Prepayments includes escrow, insurance and payroll related funds – accounts held constant due to minor variation ▪ Non-current receivables are held constant as PREPA does not make material adjustments to this account
Construction fund and other	▪ Includes construction fund, reserve maintenance fund, PREPA client fund and other restricted fund – held constant as fluctuations occur within cash and cash equivalents and transfers are made out of general fund
Utility plant, net	▪ Developed from investment & maintenance OPEX needed / depreciation schedule and additions and retirements included in IRP ▪ Projections to change in net plant are based on PREPA's expedited investment plan, retirements, and estimated depreciation
Deferred outflow of resources, debits, net	▪ Includes all PREPA deferred debits – held constant with little variation. One adjustment is removal of deferred financial restructuring expenses which occurs on SPV close date
Notes payable to banks	▪ Assumes a portion of fuel line debt remains the responsibility of PREPA, and a majority is tendered to the exchange transaction
Accounts payable and Accrued liabilities	▪ Accounts payable projection based on contract terms with fuel and purchased power suppliers and projected expenses for each fuel and purchased power type ▪ Accrued CILT liability increases with projected accrued CILT assets
Customer deposits	▪ Customer deposits vary throughout the year along with accrued interest so held constant
Other liabilities	▪ Includes other current liabilities, accrued sick leaved, accrued OPEB and noncurrent customer deposits – all held constant as accruals not increasing and current liabilities have no variation
Long-term debt	▪ Principal balances and adjustments in-line with deal scenario; assumes interest rate swaps and net unamortized debt discount are removed in SPV transaction, and refinancing of SPV principal from 2023 to 2027
Illustrative bank loan - AOGP	▪ Includes, for illustration purposes, principle balance for AOGP financing in FY2018 onwards; 30-year, mortgage style bank loan at 6% interest
Net pension liability	▪ Balance sheet does not reflect net pension liability

Restructuring transaction assumptions

		Comments [1]
Monolines	Exchange	▪ Legacy Bonds defeased by Mirror Bonds at same economic terms; $300m of principal deferral over years 1 – 6 years ▪ Syncora 2025 – 2027 Long Bonds to be defeased with mirror bonds, with $14m of debt forgivingness
Fuel Line Lenders / GDB LOC	Principal	▪ $496m DK / Marathon / Solus debt exchanged into SPV bonds at par ▪ $236m Scotia & GDB debt termed out with amortization over 8 years
	Interest	▪ DK / Marathon / Solus debt exchanged into SPV bonds with 4.75% rate. (DK / Marathon / Solus have the option to exchange into CCABs) ▪ Scotia & GDB debt remain obligations of PREPA with 5.25% rate
Ad Hoc Group (AHG) + Uninsured Bonds	Participation	▪ Implementation under PROMESA will provide PREPA with 100% participation from non-forbearing uninsured bondholders
	Principal & Interest	▪ Interest-only for 5 years and principal paid over subsequent term with final maturity in 2047 ▪ CIBs interest of 4.75% ▪ Convertible Capital Appreciation Bonds (CCABS) accrete interest at 5.5% for first 5 years then pay cash interest
	Backstop	▪ Projections assume Creditors to provide a backstop for the New Money component although no agreement is in place for them to provide the New Money
Relendings	2017 Relending	▪ AHG and Assured relending of July 2017 debt service into CIBs at par with 9.75% rate ▪ National and Syncora relending of debt service with no amortization years 1 – 5, straight line for next 5 years. National rate of 7.00%, Syncora rate of 6.75%
	Existing Relending	▪ Maturity extension of 5 years. Interest only for next 5 years. Remain at current rates
DSRF/Surety	DSRF/Surety	▪ 4% Surety to cover agreed to uninsured Securitization Bonds, 2.5% to cover Mirror Bond securitization ▪ PREPA/SPV 1% DSRF commitment unchanged ▪ PREPA pays fees only years 1-7; straight-line paydown years 8-14
Timing	Timing	▪ Projections assume that PREPA executes its restructuring transaction in Q3 2017 and that PREPA will remain responsible for its legacy debt until that time

1) All terms are subject to revision as the status of the RSA discussions are still on going

IV. Financial Projections

Income statement

Income Statement	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Revenue										
Fuel & Purchased Power	$ 2,053,396	$ 1,894,521	$ 1,992,914	$ 2,017,160	$ 2,097,517	$ 2,066,872	$ 1,988,613	$ 1,993,497	$ 1,975,989	$ 2,069,205
Base Rate (Non-CILT & Subsidy)	1,289,098	1,153,020	1,172,346	1,190,841	1,158,951	1,119,097	1,100,694	1,050,873	1,017,852	994,167
Other Income	38,925	38,925	38,925	38,925	38,925	38,925	38,925	38,925	38,925	38,925
Total Revenues	**3,381,419**	**3,086,465**	**3,204,184**	**3,246,925**	**3,295,394**	**3,224,894**	**3,128,232**	**3,083,295**	**3,032,765**	**3,102,297**
YoY Growth	*15%*	*-9%*	*4%*	*1%*	*1%*	*-2%*	*-3%*	*-1%*	*-2%*	*2%*
Operating Expenses										
Fuel	$ (1,225,002)	$ (1,074,197)	$ (1,082,634)	$ (1,081,328)	$ (1,170,317)	$ (1,128,817)	$ (994,547)	$ (984,479)	$ (640,293)	$ (269,074)
Purchased Power	(828,395)	(820,324)	(910,280)	(935,831)	(927,200)	(938,055)	(947,193)	(962,144)	(1,250,711)	(1,638,926)
P3 Fixed Cost Recovery	-	-	-	-	-	-	(46,874)	(46,874)	(84,984)	(161,206)
Total Fuel & Purchased Power Expense	**(2,053,396)**	**(1,894,521)**	**(1,992,914)**	**(2,017,160)**	**(2,097,517)**	**(2,066,872)**	**(1,988,613)**	**(1,993,497)**	**(1,975,989)**	**(2,069,205)**
Labor Operating Expense	(429,589)	(463,494)	(463,494)	(463,494)	(463,494)	(463,494)	(463,494)	(463,494)	(463,494)	(463,494)
Non-Labor / Other Operating Expense	(252,751)	(250,418)	(224,387)	(226,376)	(228,385)	(230,413)	(232,462)	(234,531)	(236,621)	(238,732)
Bad Debt Expense	(97,384)	(70,923)	(73,658)	(74,650)	(75,776)	(74,139)	(71,893)	(70,850)	(69,676)	(71,291)
Total Non-Fuel Operating Expense	**(779,724)**	**(784,835)**	**(761,539)**	**(764,521)**	**(767,655)**	**(768,046)**	**(767,849)**	**(768,875)**	**(769,791)**	**(773,517)**
Non-Fuel/PP/CILT&Subsidy Expenses	(779,724)	(784,835)	(761,539)	(764,521)	(767,655)	(768,046)	(767,849)	(768,875)	(769,791)	(773,517)
Total Flow Through Expenses (Fuel/PP/CILT&Subsidy)	(2,053,396)	(1,894,521)	(1,992,914)	(2,017,160)	(2,097,517)	(2,066,872)	(1,988,613)	(1,993,497)	(1,975,989)	(2,069,205)
Total Expenses	**(2,833,120)**	**(2,679,356)**	**(2,754,452)**	**(2,781,680)**	**(2,865,172)**	**(2,834,918)**	**(2,756,462)**	**(2,762,372)**	**(2,745,780)**	**(2,842,722)**
EBITDA	**548,299**	**407,109**	**449,732**	**465,245**	**430,221**	**389,976**	**371,769**	**320,923**	**286,985**	**259,574**
*DSCR ex-Securitization**	*1.3*	*6.8*	*7.3*	*7.6*	*7.1*	*6.5*	*3.5*	*3.1*	*2.9*	*6.8*
Depreciation Expense	(356,153)	(369,045)	(382,402)	(390,672)	(398,556)	(405,455)	(411,940)	(418,091)	(423,385)	(428,066)
Interest Expense	(350,245)	(40,129)	(41,072)	(39,920)	(38,736)	(37,518)	(35,335)	(31,565)	(27,755)	(25,064)
Net Income excluding Securitization	**(158,099)**	**(2,064)**	**26,259**	**34,653**	**(7,070)**	**(52,997)**	**(75,506)**	**(128,734)**	**(164,155)**	**(193,556)**
Consolidated Income including Securitization										
SPV Pass Through Income for Securitization	**-**	**346,874**	**452,333**	**441,750**	**451,963**	**447,764**	**428,676**	**511,804**	**510,462**	**557,682**
Securitized / Refinanced Debt Interest & Fees	-	(387,764)	(443,748)	(446,270)	(448,124)	(428,315)	(378,671)	(442,227)	(441,267)	(446,997)
Net Income including Securitization	**(158,099)**	**(42,954)**	**34,844**	**30,132**	**(3,231)**	**(33,548)**	**(25,501)**	**(59,157)**	**(94,959)**	**(82,872)**
DSCR	*1.3*	*1.9*	*1.8*	*1.8*	*1.7*	*1.7*	*1.5*	*1.4*	*1.3*	*1.4*

FY 2017 reflects PREC approved operating and capital expenditures, with updates to debt service
Source: PREPA Internal Estimates

Balance sheet

Balance Sheet (FY Ending)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Assets										
Cash and Equivalents [1]	216,015	307,685	380,764	453,843	526,921	600,000	600,000	600,000	600,000	600,000
Accounts receivable	1,871,365	1,871,365	1,871,365	1,871,365	1,871,365	1,871,365	1,871,365	1,871,365	1,871,365	1,871,365
Inventories and Other	270,210	270,210	270,210	270,210	270,210	270,210	270,210	270,210	270,210	270,210
Total Current Assets	**2,357,590**	**2,449,260**	**2,522,339**	**2,595,418**	**2,668,496**	**2,741,575**	**2,741,575**	**2,741,575**	**2,741,575**	**2,741,575**
Total Non-Current and Restricted Assets	**260,492**	**260,492**	**260,492**	**260,492**	**260,492**	**260,492**	**260,492**	**260,492**	**260,492**	**260,492**
Utility plant, net	6,365,098	6,705,948	6,638,453	6,578,821	6,476,900	6,328,454	6,182,744	5,983,134	5,747,390	5,540,490
Deferred debits, net	149,008	149,008	149,008	149,008	149,008	149,008	149,008	149,008	149,008	149,008
Total Assets	**9,132,188**	**9,564,709**	**9,570,293**	**9,583,738**	**9,554,896**	**9,479,529**	**9,333,819**	**9,134,209**	**8,898,465**	**8,691,565**
Liabilities										
Notes Payable to Banks	731,838	224,200	212,400	200,600	188,800	177,000	118,000	59,000	-	-
Accounts payable and accrued liabilities	1,747,918	1,747,918	1,747,918	1,747,918	1,747,918	1,747,918	1,747,918	1,747,918	1,747,918	1,747,918
Customer deposits, including accrued interest	34,371	34,371	34,371	34,371	34,371	34,371	34,371	34,371	34,371	34,371
Total Current Liabilities	**2,514,127**	**2,006,489**	**1,994,689**	**1,982,889**	**1,971,089**	**1,959,289**	**1,900,289**	**1,841,289**	**1,782,289**	**1,782,289**
Total Current Liabilities from Restricted Assets	**289,278**	**56,084**	**56,084**	**56,084**	**56,084**	**56,084**	**56,084**	**56,084**	**56,084**	**56,084**
Power revenue bonds, net of unamortized debt discount	7,952,264	-	-	-	-	-	-	-	-	-
New Issue Capex Financing	-	450,978	442,103	432,696	422,724	412,154	400,950	389,073	376,484	363,140
Securitized Debt (PREPARC)	-	8,388,900	8,380,315	8,384,836	8,380,997	8,361,548	8,311,543	8,241,966	8,172,771	8,062,087
Other Long Term Liabilities	582,806	467,094	467,094	467,094	467,094	467,094	467,094	467,094	467,094	467,094
Total Long-Term Liabilities	**8,535,069**	**9,306,972**	**9,289,512**	**9,284,625**	**9,270,814**	**9,240,796**	**9,179,587**	**9,098,133**	**9,016,349**	**8,892,320**
Total Liabilities	**11,338,474**	**11,369,545**	**11,340,285**	**11,323,598**	**11,297,987**	**11,256,168**	**11,135,959**	**10,995,506**	**10,854,722**	**10,730,693**
Total Equity	(2,206,286)	(1,804,836)	(1,769,992)	(1,739,860)	(1,743,091)	(1,776,639)	(1,802,140)	(1,861,297)	(1,956,257)	(2,039,128)
	-24%	-19%	-18%	-18%	-18%	-19%	-19%	-20%	-22%	-23%

Source: PREPA Internal Estimates

1) Cash and Equivalents does not include $148m of cash held at GDB

Statement of cash flows

Cash Flow	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Operating										
Net Income	(158,099)	(2,064)	26,259	34,653	(7,070)	(52,997)	(75,506)	(128,734)	(164,155)	(193,556)
SPV Net Income (Securitization Only)	-	(40,890)	8,585	(4,521)	3,839	19,449	50,005	69,577	69,195	110,684
Accrued Interest on Capital Appreciation Bonds	-	52,825	66,507	70,216	74,131	78,264	-	-	-	-
Depreciation and amortization	356,153	369,045	382,402	390,672	398,556	405,455	411,940	418,091	423,385	428,066
CFO	**198,054**	**378,916**	**483,753**	**491,020**	**469,455**	**450,170**	**386,439**	**358,934**	**328,425**	**345,195**
Investing										
Maintenance Capex	$ (216,066)	$ (176,248)	$ (190,903)	$ (190,161)	$ (201,744)	$ (180,100)	$ (158,780)	$ (135,205)	$ (137,851)	$ (127,722)
Investment Capex	$ (63,152)	$ (533,646)	$ (124,004)	$ (129,478)	$ (83,491)	$ (64,009)	$ (94,700)	$ (83,276)	$ (49,790)	$ (43,844)
Removal Costs	$ -	$ -	$ -	$ (11,400)	$ (11,400)	$ (12,900)	$ (12,750)	$ -	$ -	$ (49,600)
CFI	**$ (279,218)**	**$ (709,894)**	**$ (314,907)**	**$ (331,039)**	**$ (296,635)**	**$ (257,009)**	**$ (266,230)**	**$ (218,481)**	**$ (187,641)**	**$ (221,166)**
Financing										
Principal payments on Fuel and GDB Lines of Credit	-	(11,800)	(11,800)	(11,800)	(11,800)	(11,800)	(59,000)	(59,000)	(59,000)	-
Principal payments on legacy debt and capex financing	(8,372)	(8,875)	(9,407)	(9,972)	(10,570)	(11,204)	(11,876)	(12,589)	(13,344)	-
Capex Financing Costs	(4,594)	-	-	-	-	-	-	-	-	-
Debt restructuring, securitization / proceeds from new debt	(7,726,108)	-	-	-	-	-	-	-	-	-
Principal payments on securitized debt	(11,935)	(75,093)	(65,695)	(77,970)	(97,713)	(50,005)	(69,577)	(69,195)	(110,684)	-
Principal write-down on securitized debt exchange / Refunding	(162,552)	-	-	-	-	-	-	-	-	-
Proceeds from issuance of debt / securitization	8,348,011	-	-	-	-	-	-	-	-	-
CFF	**422,649**	**(95,767)**	**(86,902)**	**(99,742)**	**(120,083)**	**(120,209)**	**(140,453)**	**(140,784)**	**(124,029)**	**-**
Net change in Cash before Short Term Loan	$ 91,671	$ 73,079	$ 73,079	$ 73,079	$ 73,079	$ (0)	$ (0)	$ -	$ 0	$ -
Cash Requirement (ST Loan Trigger)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Short Term Loan / Revolver Drawdown	-	-	-	-	-	-	-	-	-	-
Short Term Loan Repayment	-	-	-	-	-	-	-	-	-	-
Short Term Loan Balance	-	-	-	-	-	-	-	-	-	-
Net change in Cash	**$ 91,671**	**$ 73,079**	**$ 73,079**	**$ 73,079**	**$ 73,079**	**$ (0)**	**$ (0)**	**$ -**	**$ 0**	**$ -**
Cash and Equivalents (Closing)[1]	307,685	380,764	453,843	526,921	600,000	600,000	600,000	600,000	600,000	-

Source: PREPA Internal Estimates

1) Cash and Equivalents does not include $148m of cash held at GDB

Debt Sustainability Analysis

The Fiscal Plan, post measures, indicate that the Status Quo debt structure is not sustainable:

Cash flow available for debt service – Status Quo ($ in millions)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2018 - 2022	Total
Gross revenues	$3,433.3	$3,656.5	$3,688.7	$3,747.4	$3,672.7	$3,556.9	$3,595.1	$3,543.2	$3,660.0	$18,198.5	$32,553.8
Less: expenses	(2,679.4)	(2,754.5)	(2,781.7)	(2,865.2)	(2,834.9)	(2,756.5)	(2,762.4)	(2,745.8)	(2,842.7)	(13,915.6)	(25,022.9)
EBITDA	**$754.0**	**$902.1**	**$907.0**	**$882.2**	**$837.7**	**$800.4**	**$832.7**	**$797.4**	**$817.3**	**$4,283.0**	**$7,530.8**
Less: capital expenditure	(709.9)	(314.9)	(331.0)	(296.6)	(257.0)	(266.2)	(218.5)	(187.6)	(221.2)	(1,909.5)	(2,803.0)
Cash flow avaiable before debt service	**$44.1**	**$587.2**	**$576.0**	**$585.5**	**$580.7**	**$534.2**	**$614.2**	**$609.8**	**$596.1**	**$2,373.5**	**$4,727.8**
Plus: capex financing [1]	$418.8	($35.9)	($35.9)	($35.9)	($35.9)	($35.9)	($35.9)	($35.9)	($35.9)	$275.1	$131.4
Less: status quo debt service [2]	(952.2)	(950.6)	(886.8)	(864.5)	(796.7)	(640.4)	(640.5)	(640.6)	(640.7)	(4,450.7)	(7,012.9)
Surplus / (shortfall)	**($489.3)**	**($399.3)**	**($346.7)**	**($314.9)**	**($251.9)**	**($142.1)**	**($62.2)**	**($66.7)**	**($80.5)**	**($1,802.2)**	**($2,153.7)**

PREPA has reached a consensual agreement (the "RSA") with its creditors that addresses the impending shortfall, reducing the debt service cost meaningfully over the Fiscal Plan Period

Cash flow available for debt service – under proposed RSA and assuming access to capital markets ($ in millions)[3]

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2018 - 2022	Total
Gross revenues	$3,433.3	$3,656.5	$3,688.7	$3,747.4	$3,672.7	$3,556.9	$3,595.1	$3,543.2	$3,660.0	$18,198.5	$32,553.8
Less: transition charge	(346.9)	(452.3)	(441.7)	(452.0)	(447.8)	(428.7)	(511.8)	(510.5)	(557.7)	(2,140.7)	(4,149.3)
Less: expenses	(2,679.4)	(2,754.5)	(2,781.7)	(2,865.2)	(2,834.9)	(2,756.5)	(2,762.4)	(2,745.8)	(2,842.7)	(13,915.6)	(25,022.9)
Less: capital expenditure	(709.9)	(314.9)	(331.0)	(296.6)	(257.0)	(266.2)	(218.5)	(187.6)	(221.2)	(1,909.5)	(2,803.0)
Cash flow avaiable before debt service	**($302.8)**	**$134.8**	**$134.2**	**$133.6**	**$133.0**	**$105.5**	**$102.4**	**$99.3**	**$38.4**	**$232.8**	**$578.5**
Plus: capex financing [1]	$418.8	($35.9)	($35.9)	($35.9)	($35.9)	($35.9)	($35.9)	($35.9)	($35.9)	$275.1	$131.4
Less: debt service remaining at PREPA	(24.4)	(25.8)	(25.2)	(24.6)	(24.0)	(69.6)	(66.5)	(63.4)	(2.5)	(123.9)	(325.9)
Surplus / (shortfall)	**$91.7**	**$73.1**	**$73.1**	**$73.1**	**$73.1**	**($0.0)**	**–**	**–**	**–**	**$384.0**	**$384.0**

1) Illustrative capital expenditure financing assumption based on AOGP
2) Status Quo includes prior relendings, assumes seven-year-term-out of Fuel Lines at 12%
3) Assumes PREPA's access to the capital markets in years 2023 and thereafter. Provides ~$1.0bn benefit. Assuming no access to capital markets, transition charge will be higher to offset additional funding need

V. Restructuring Support Agreement (“RSA”)

New administration achieved substantial 5-year liquidity relief over original RSA

- AAFAF and PREPA have recently engaged in negotiations with the Supporting Creditors to the RSA regarding modifications to the RSA that would benefit PREPA, as well as its client base and the economy:
  - $2.2bn in debt service savings from 2018 to 2022 as compared to contractual terms of debt
  - Individual rate payer debt service charge savings of 36% for five years over the original RSA
  - Allows PREPA to take steps to upgrade base maintenance, modernize the utility, and attract capital
- Agreement in principle reached regarding modifications to the RSA
  - Restructuring of the debt through Title VI of PROMESA
  - RSA is intended to accommodate a potential restructuring under Title III of PROMESA for the non-financial obligations
- Revisions to the RSA are currently being negotiated with the goal of being in a position to complete solicitation of Title VI process by July 1, 2017

Anticipated Process

- ✓ Complete the revisions to the RSA
- ✓ Execute 19th Amendment to Trust Agreement to raise threshold for remedies exercise to assure no receivership action is viable during the RSA Support Period
- ✓ Present the RSA as modified to the FOMB
- ✓ Prepare for Title VI process
- ✓ Agree on form of documentation for all of the underlying modifications to the RSA
- ✓ Commence solicitation of Qualifying Modifications

Savings from modified RSA

Bondholders

- ~$1.4bn debt service relief in **first five years**
- ~$837m debt reduction
- ~$90m Relending Commitment

National / Assured

- ~$240m debt service relief in **first five years**
- $145m Relending Commitment
- Surety policy to establish Securitization Debt Service Reserve Fund (DSRF)

Fuel Lines Lenders

- ~$600m debt service relief in **first five years**

Syncora

- ~$50m debt service relief in **first five years**
- ~$14m debt reduction
- $42m Relending Commitment

Debt service relief

+$2,200m

Debt reduction

+~$850m

Relending

+~$280m

After closing of the RSA transaction, PREPA's current debt balance is reduced by ~$850m[1]

The ending balances below show changes that occur prior to and at the exchange date of the SPV transaction. The PREPARC debt balances are projected to transfer from PREPA to PREPARC on closing date[2]

	12/31/2016 Balance at PREPA	Pre transaction	Pro forma
Assured	$840	$837	$837
National	1,246	1,151	1,151
Syncora	164	126	112
Insured Bonds	**$2,250**	**$2,115**	**$2,101**
AHG and other	$5,634	$5,582	4,745
Relending bonds	375	657	657
New money SPV capital	–	–	350
Total Bonds	**$6,009**	**$6,239**	**$5,751**
DK / Solus / Marathon	$496	$496	496
Scotia	200	200	200
GDB	36	36	36
Total Fuel Lines + GDB	**$732**	**$732**	**$732**
Total outstanding	**$8,991**	**$9,085**	**$8,584**
Bridge			
Assured		($3)	–
National		(95)	–
Syncora		(38)	(14)
AHG and other		(52)	(837)
Relending bonds		282	–
New money SPV capital		–	350
DK / Solus / Marathon		–	–
PREPARC ending balance		**$95**	**($501)**
Scotia		–	–
GDB		–	–
PREPA balance		**–**	**–**

DESCRIPTION OF PRINCIPAL CHANGES

Insured Bonds: Pre-transaction balance includes July 2017 maturities. Syncora pro forma balance reflects discount on exchange on 2025 – 2027 bonds

AHG and other Bonds: Pre-transaction balance reflects July 2017 maturities and accrued interest through closing date.[2] Pro forma balance reflects 15% haircut on exchange bonds

Relending Bonds: Pre-transaction balance includes assumed July relending from forbearing lenders and accrued interest through closing date[2]

1) Excluding the impact of new SPV capital
2) Q3 calendar year 2017 closing date

RSA scenario assumes PREPA regains access to the capital markets

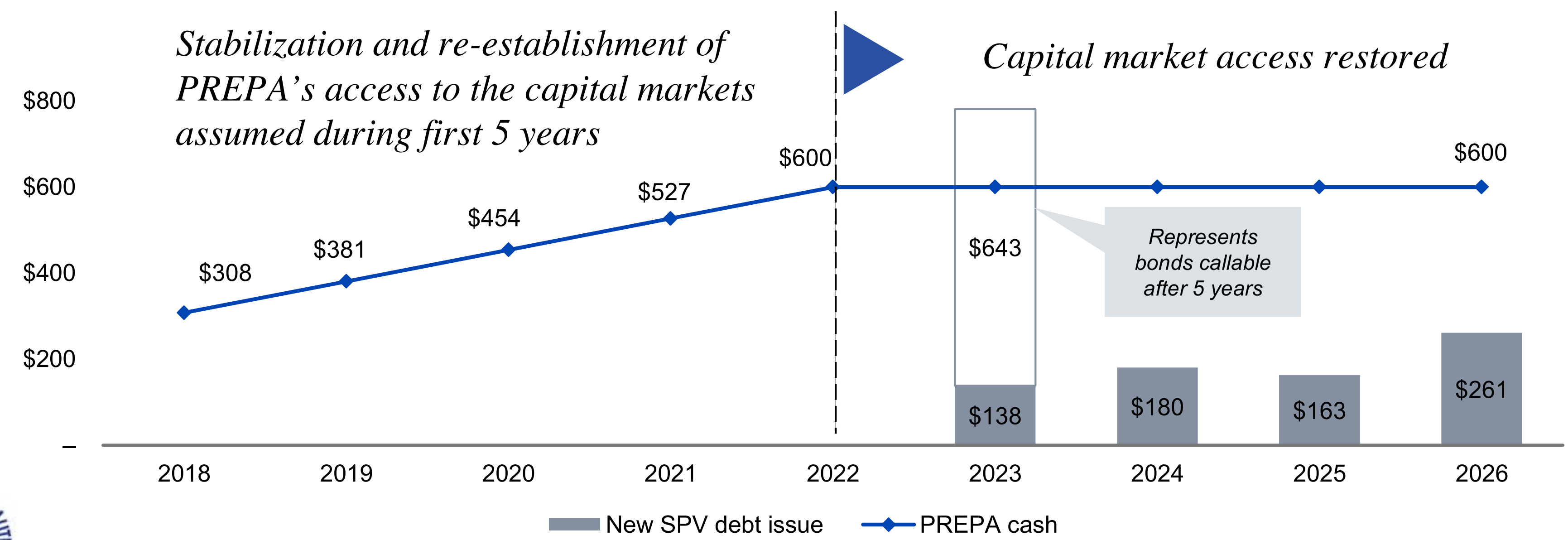
The Fiscal Plan assumes that after a period of stabilization post the RSA, PREPA reestablishes its access to the capital markets by the end of 2022 by achieving investment grade status on bonds within the SPV

- Increased cash reserves
- Allows for the refinancing of existing SPV bonds subject to a 5-year no call period in year 6 with investment grade equivalent interest rates
- Allows for additional debt issuances to offset some of scheduled amortization in years 6 through 10 into similar investment grade rated securities

Capital market access is dependent on PREPA and PREPARC achieving an investment grade rating, which in turn is dependent on a series of factors that include, but are not limited to, the following:

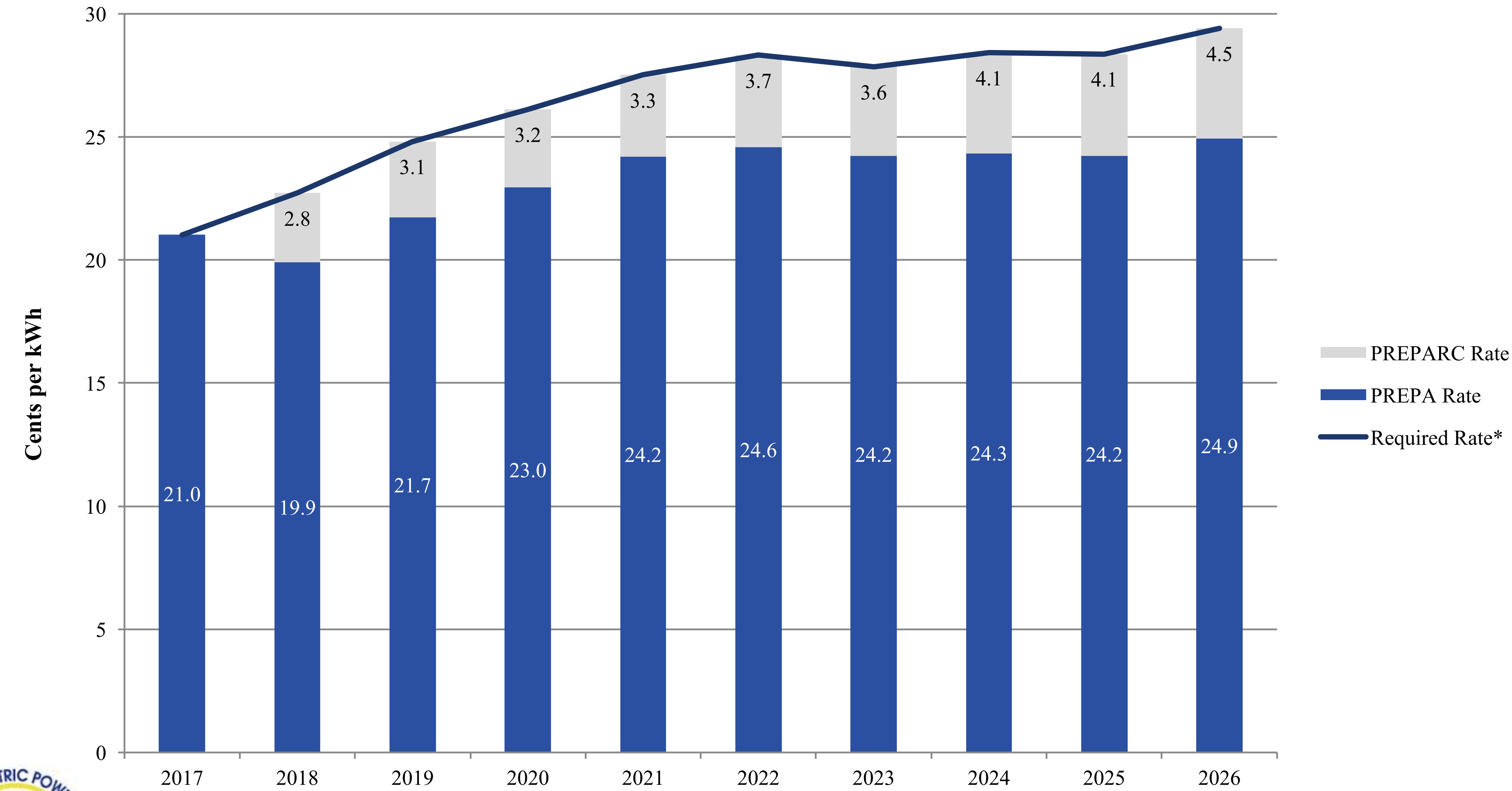
- Successful implementation of the operational enhancements included in Fiscal Plan over the next five years
- Stabilization of Puerto Rico's economy
- Execution of the RSA and additional restructuring
- Establish market confidence in the securitization vehicle
- Allow for cash reserves to build to $600m

Projected cash balance ($ in millions)



RSA-implied rate projections

Rates fluctuate over time primarily due to variations in the assumed levels of investment and debt service as well as the assumed price of fuel. Variations in non-fuel O&M also have a minor impact in the rate fluctuations over time



Source: PREPA Internal Estimates

Notes:
1) Rates assume an August 2017 transaction
2) FY 2017 rate assumes PREC approved revenue requirement excluding PREPARC revenue, and including corrections and updates discussed with EC Staff
3) Assumes the bond exchange is executed in August 2017, PREPARC is established and begins billing the Transition Charge on September 1, 2017, the Transition Charge includes both a fixed and volumetric component

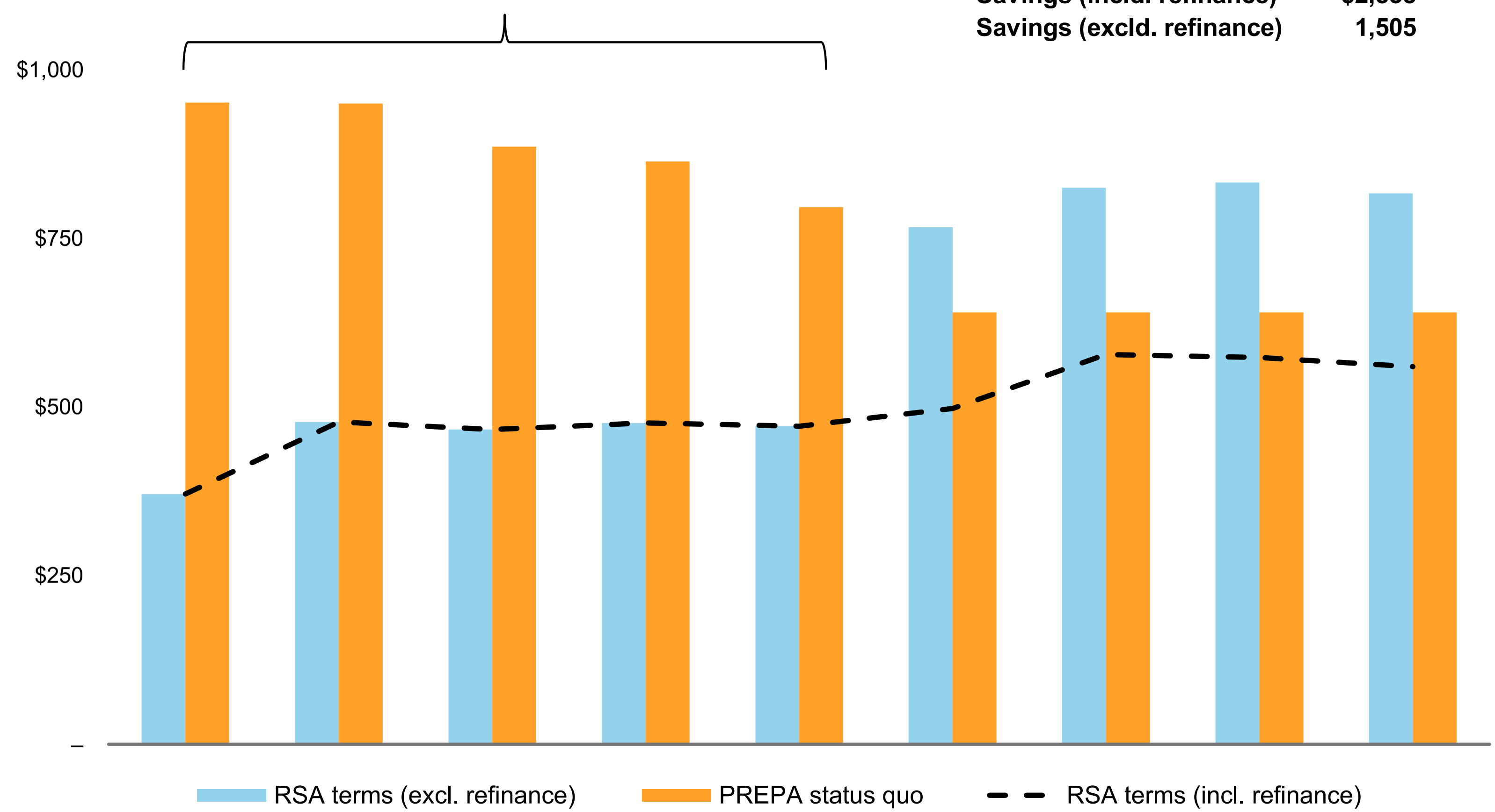
Pro forma capital structure per modified RSA

This chart shows original PREPA debt service versus RSA terms and return to capital market access in 2023

($ in millions)

5 Year Cumulative (2018 – 2022)	
PREPA status quo	$4,451
RSA terms	2,265
Savings	**$2,186**

Cumulative debt service (2018 – 2026)	
PREPA status quo	$7,013
RSA terms (incl. refinance)	4,475
RSA terms (excl. refinance)	5,508
Savings (incld. refinance)	**$2,538**
Savings (excld. refinance)	**1,505**

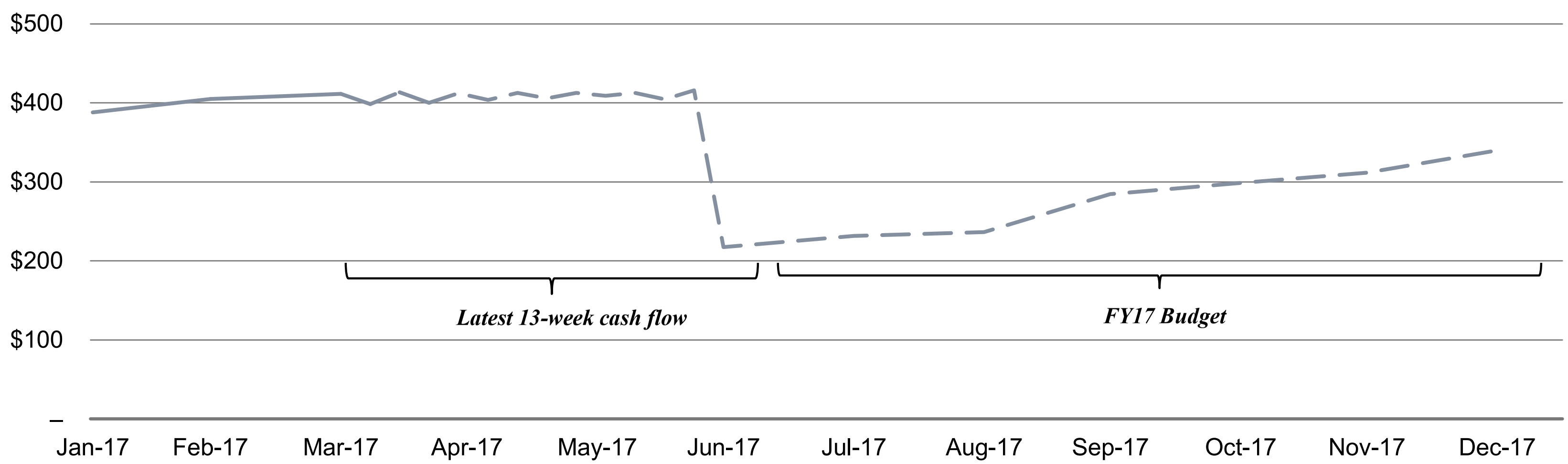


VI. Adequate Liquidity

Operating cash projections

Based on current projections the Creditors to the RSA will provide new capital in an amount based on the adequate liquidity as projected by the fiscal plan

Operating cash by period



Operating cash flow forecast assuming July relendings by Forbearing Lenders

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
PREPA cash flow (before Debt Service & restructuring)	$23	$8	($14)	$22	$13	$49	$15	$14	$29
Professional fees	(7)	(4)	(4)	(4)	(4)	(1)	(1)	(1)	(1)
Fuel line interest	(4)	(4)	(4)	(4)	(4)	–	–	–	–
Bond interest	(11)	–	(88)	–	–	–	–	–	–
Bond maturities	–	–	(86)	–	–	–	–	–	–
Net cash flow	**$1**	**$1**	**($195)**	**$14**	**$5**	**$48**	**$14**	**$13**	**$28**
Beginning operating cash balance	$412	$412	$413	$217	$232	$236	$285	$299	$312
Change in cash	1	1	(195)	14	5	48	14	13	28
Ending operating cash balance	**$412**	**$413**	**$217**	**$232**	**$236**	**$285**	**$299**	**$312**	**$340**

Source: 13-week cash flow as of 4/18/17 and 2017 projections

RSA cash sources and uses – Adequate Liquidity

The table to the right presents the illustrative cash sources and uses as of a calendar year Q3 2017 transaction date

- Estimated operating cash at transaction date of $285m (excludes ~$147m in GDB deposits)
- Assumes minimum cash on the balance sheet of ~$400m which represents ~15% of average operating expenses for 2018 and 2019
- Assumed infrastructure and operational need funding of ~$170m
- Excludes any amounts relating to pension catch up payments / under funding

Illustrative cash sources and uses (1)	
Sources	
Balance sheet cash at transaction (2)	$285
New Money SPV capital	350
New Undrawn revolver	165
AOGP project financing	500
Total sources	**$1,300**
Uses	
AOGP project financing	500
Cash on balance sheet	$235
Undrawn revolver	165
Minimum liquidity (3)	**$400**
SIF top up (4)	100
Securitization DSRF deposit	83
Transaction costs	47
Infras. & operational funding need	170
Total uses	**$1,300**

Notes:
1) New Money SPV capital, Revolver and AOGP funding is not committed and thus must be available for PREPA to have Adequate Liquidity
2) Projected as of September 2017
3) Minimum liquidity represents ~15% of 2018 and 2019 opex spending
4) SIF top-up to $100m limited to $50m from New Money SPV capital

13-week cash flow as of 4/18/2017

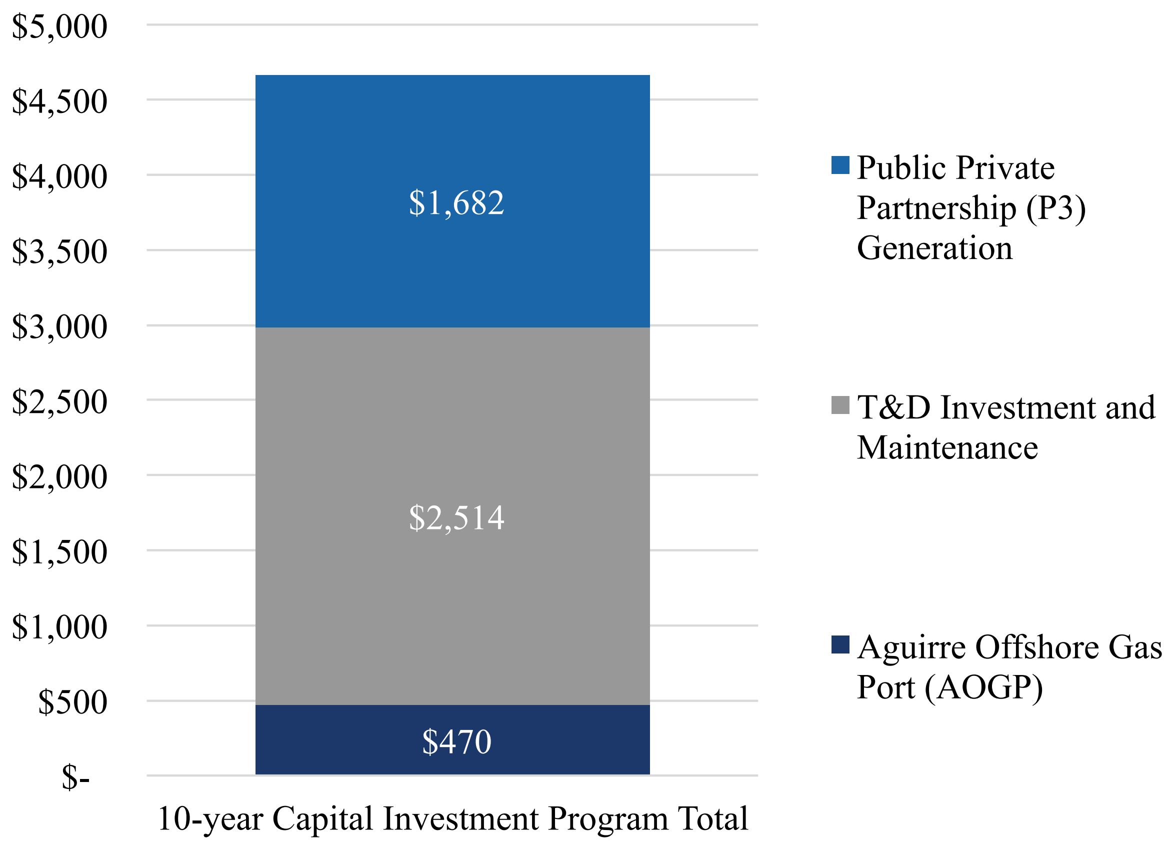
	($ in millions) Week ending	03/31	04/07	1 04/14	2 04/21	3 04/28	4 05/05	5 05/12	6 05/19	7 05/26	8 06/02	9 06/09	10 06/16	11 06/23	12 06/30	13 07/07	Cumulative 13 Weeks
1	**Receipts**																
2	Customer collections	$ 50.6	$ 60.4	$ 64.1	$ 76.8	$ 76.8	$ 65.4	$ 59.9	$ 59.9	$ 59.9	$ 50.2	$ 63.3	$ 60.0	$ 60.0	$ 60.0	$ 70.1	$ 826.1
3	Receipts from Bond Issuance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Reimbursement from construction fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Other income	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	**Total Receipts**	**$ 50.6**	**$ 60.4**	**$ 64.1**	**$ 76.8**	**$ 76.8**	**$ 65.4**	**$ 59.9**	**$ 59.9**	**$ 59.9**	**$ 50.2**	**$ 63.3**	**$ 60.0**	**$ 60.0**	**$ 60.0**	**$ 70.1**	**$ 826.1**
7	**Disbursements**																
8	**Employee Disbursements**																
9	Payroll	$ -	$ 8.2	$ -	$ 9.0	$ -	$ 9.0	$ -	$ 9.0	$ -	$ 9.0	$ -	$ 9.0	$ -	$ 9.0	$ -	$ 54.0
10	Social security	-	1.9	-	2.2	-	2.2	-	2.2	-	2.2	-	2.2	-	2.2	-	13.2
11	Payroll taxes	-	0.9	-	1.2	-	1.2	-	1.2	-	1.2	-	1.2	-	1.2	-	7.2
12	Contributions to employee benefit programs	6.8	2.3	-	-	9.2	-	2.5	-	2.5	6.6	2.5	-	2.5	7.0	2.5	35.5
13	Medical benefit costs	-	1.8	-	-	-	7.5	-	-	-	-	7.5	-	-	-	7.5	22.5
14	Workers compensation / disability funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	**Subtotal Employee Disbursements**	**$ 6.8**	**$ 15.0**	**$ -**	**$ 12.4**	**$ 9.2**	**$ 19.9**	**$ 2.5**	**$ 12.4**	**$ 2.5**	**$ 19.0**	**$ 10.0**	**$ 12.4**	**$ 2.5**	**$ 19.4**	**$ 10.0**	**$ 132.4**
16	**Energy Purchases**																
17	Purchases of power from AES	$ -	$ 8.6	$ 8.6	$ 8.6	$ -	$ 8.5	$ 6.4	$ 6.4	$ -	$ -	$ 11.8	$ 8.8	$ 8.8	$ 10.8	$ -	$ 78.6
18	Purchases of power from ECO	-	7.2	7.5	7.5	7.5	7.1	7.1	7.1	7.1	-	7.5	7.5	7.5	7.5	8.6	89.6
19	Purchase of power from renewable sources	0.1	-	-	10.1	-	-	-	9.8	-	-	-	9.4	-	-	-	29.3
20	Fuel purchases - fleet and storage	-	0.4	-	1.5	-	-	-	1.5	-	-	-	1.5	-	-	-	4.5
21	Fuel purchases - Petrobras / Freepoint	19.2	8.4	15.3	23.0	8.0	15.0	15.8	7.4	19.0	11.1	8.0	4.2	8.3	19.4	6.1	160.8
22	Fuel purchases - Puma	4.7	7.0	1.1	4.8	9.2	3.5	3.5	5.4	3.9	4.2	7.0	4.8	7.1	9.2	3.5	67.0
23	LNG purchases	6.0	6.0	6.0	4.7	4.7	4.7	4.7	5.8	5.8	5.8	5.8	4.7	4.7	4.7	4.7	66.7
24	**Subtotal Energy Purchases**	**$ 30.0**	**$ 37.7**	**$ 38.4**	**$ 60.1**	**$ 29.4**	**$ 38.8**	**$ 37.4**	**$ 43.3**	**$ 35.8**	**$ 21.1**	**$ 40.1**	**$ 41.0**	**$ 36.5**	**$ 51.7**	**$ 22.9**	**$ 496.4**
25	**Other Disbursements**																
26	Interest on bonds	$ -	$ 11.1	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2.2	$ 2.2
27	Interest payments on lines of credit	-	4.3	-	-	-	4.2	-	-	-	4.2	-	-	-	-	4.2	12.6
28	Insurance premiums	-	-	-	-	-	-	-	-	-	-	-	5.0	-	-	-	5.0
29	Internally Generated Funds Contributed to CIP	-	-	-	35.0	25.0	-	-	-	-	-	-	-	-	-	-	60.0
30	Employee expense reimbursements (per diem)	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	10.4
31	Additional accounts payable	4.2	2.1	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	45.5
32	Funds transferred for debt payments	-	-	-	-	-	-	-	-	-	-	-	-	-	174.0	-	174.0
33	**Subtotal Other Disbursements**	**$ 5.1**	**$ 18.2**	**$ 4.3**	**$ 39.3**	**$ 29.3**	**$ 8.5**	**$ 4.3**	**$ 4.3**	**$ 4.3**	**$ 8.5**	**$ 4.3**	**$ 9.3**	**$ 4.3**	**$ 178.3**	**$ 10.7**	**$ 309.7**
34	**Restructuring Expenses**																
35	Professional Fees	$ 0.0	$ 0.2	$ -	$ 6.6	$ 0.1	$ -	$ -	$ -	$ 3.7	$ -	$ -	$ -	$ -	$ 3.7	$ -	$ 14.1
36	**Subtotal Restructuring Expenses**	**$ 0.0**	**$ 0.2**	**$ -**	**$ 6.6**	**$ 0.1**	**$ -**	**$ -**	**$ -**	**$ 3.7**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 3.7**	**$ -**	**$ 14.1**
37	**Total Disbursements**	**$ 42.0**	**$ 71.1**	**$ 42.7**	**$ 118.4**	**$ 68.0**	**$ 67.2**	**$ 44.3**	**$ 60.0**	**$ 46.4**	**$ 48.6**	**$ 54.4**	**$ 62.7**	**$ 43.3**	**$ 253.1**	**$ 43.6**	**$ 952.6**
38	**Net Cash Flow**	**$ 8.6**	**$ (10.7)**	**$ 21.4**	**$ (41.6)**	**$ 8.8**	**$ (1.8)**	**$ 15.6**	**$ (0.2)**	**$ 13.5**	**$ 1.5**	**$ 8.9**	**$ (2.7)**	**$ 16.6**	**$ (193.1)**	**$ 26.5**	**$ (126.5)**
39	**Opening Balance**	**$ 494.6**	**$ 503.2**	**$ 492.5**	**$ 513.9**	**$ 472.3**	**$ 481.1**	**$ 479.3**	**$ 494.9**	**$ 494.7**	**$ 508.2**	**$ 509.7**	**$ 518.6**	**$ 515.9**	**$ 532.6**	**$ 339.5**	**$ 492.5**
40	Net Cash Flows	8.6	(10.7)	21.4	(41.6)	8.8	(1.8)	15.6	(0.2)	13.5	1.5	8.9	(2.7)	16.6	(193.1)	26.5	(126.5)
41	Construction Fund Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
42	Construction Fund Repayments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
43	**Ending Balance**	**$ 503.2**	**$ 492.5**	**$ 513.9**	**$ 472.3**	**$ 481.1**	**$ 479.3**	**$ 494.9**	**$ 494.7**	**$ 508.2**	**$ 509.7**	**$ 518.6**	**$ 515.9**	**$ 532.6**	**$ 339.5**	**$ 366.0**	**$ 366.0**
44	**CIP Balances**																
45	**Beginning Balance**	**$ 62.0**	**$ 56.7**	**$ 54.3**	**$ 47.6**	**$ 76.0**	**$ 79.3**	**$ 72.7**	**$ 66.1**	**$ 59.4**	**$ 52.8**	**$ 47.5**	**$ 42.1**	**$ 36.8**	**$ 31.5**	**$ 26.2**	**$ 54.3**
46	Funds Received from General Fund	-	-	-	35.0	25.0	-	-	-	-	-	-	-	-	-	-	60.0
47	Transfers to General Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
48	Receipts from Bond Issuance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
49	CIP Disbursements	(5.4)	(2.4)	(6.6)	(6.6)	(21.6)	(6.6)	(6.6)	(6.6)	(6.6)	(5.3)	(5.3)	(5.3)	(5.3)	(5.3)	(6.6)	(94.7)
50	**Ending CIP Balance**	**$ 56.7**	**$ 54.3**	**$ 47.6**	**$ 76.0**	**$ 79.3**	**$ 72.7**	**$ 66.1**	**$ 59.4**	**$ 52.8**	**$ 47.5**	**$ 42.1**	**$ 36.8**	**$ 31.5**	**$ 26.2**	**$ 19.6**	**$ 19.6**
51	**Construction and General Fund Cash Balance**	**$ 559.9**	**$ 546.8**	**$ 561.5**	**$ 548.3**	**$ 560.5**	**$ 552.0**	**$ 561.0**	**$ 554.1**	**$ 561.0**	**$ 557.2**	**$ 560.7**	**$ 552.7**	**$ 564.1**	**$ 365.7**	**$ 385.5**	
52	**Amounts Borrowed from CIP for General Fund**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Memo:																
	Construction and General Fund Cash Balance	$ 559.9	$ 546.8	$ 561.5	$ 548.3	$ 560.5	$ 552.0	$ 561.0	$ 554.1	$ 561.0	$ 557.2	$ 560.7	$ 552.7	$ 564.1	$ 365.7	$ 385.5	
	Less: deposits at GDB	(148.3)	(148.3)	(148.3)	(148.3)	(148.3)	(148.3)	(148.3)	(148.3)	(148.3)	(148.3)	(148.3)	(148.3)	(148.3)	(148.3)	(148.3)	
	Ending balance excl deposits at GDB	$ 411.6	$ 398.5	$ 413.3	$ 400.0	$ 412.2	$ 403.8	$ 412.7	$ 405.9	$ 412.7	$ 408.9	$ 412.5	$ 404.5	$ 415.8	$ 217.4	$ 237.3	

Source: PREPA Internal Estimates

VII. Detailed Investment Program

10-year capital investment program totaling $4.66 billion

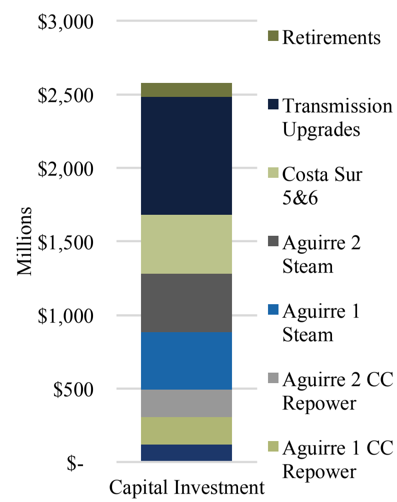
- PREPA's 10-year capital investment program currently has planned for $2.5bn of PREPA capital outlays (pay-go) for T&D complimented with public-private partnerships investing $1.68bn in new generation, and ~$400m in external financing for AOGP (TBD)
- The T&D maintenance and investment program is intended to transform Puerto Rico's system into a modern grid capable of handling variable load and generation from renewables and DG while maintaining high level of safety and reliability

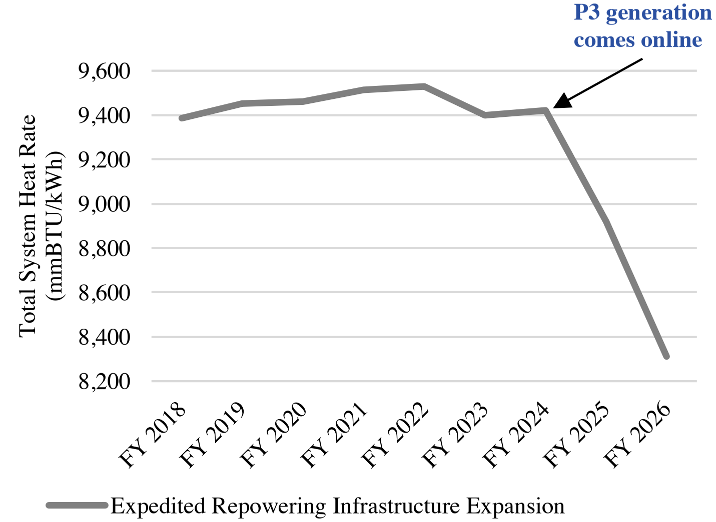


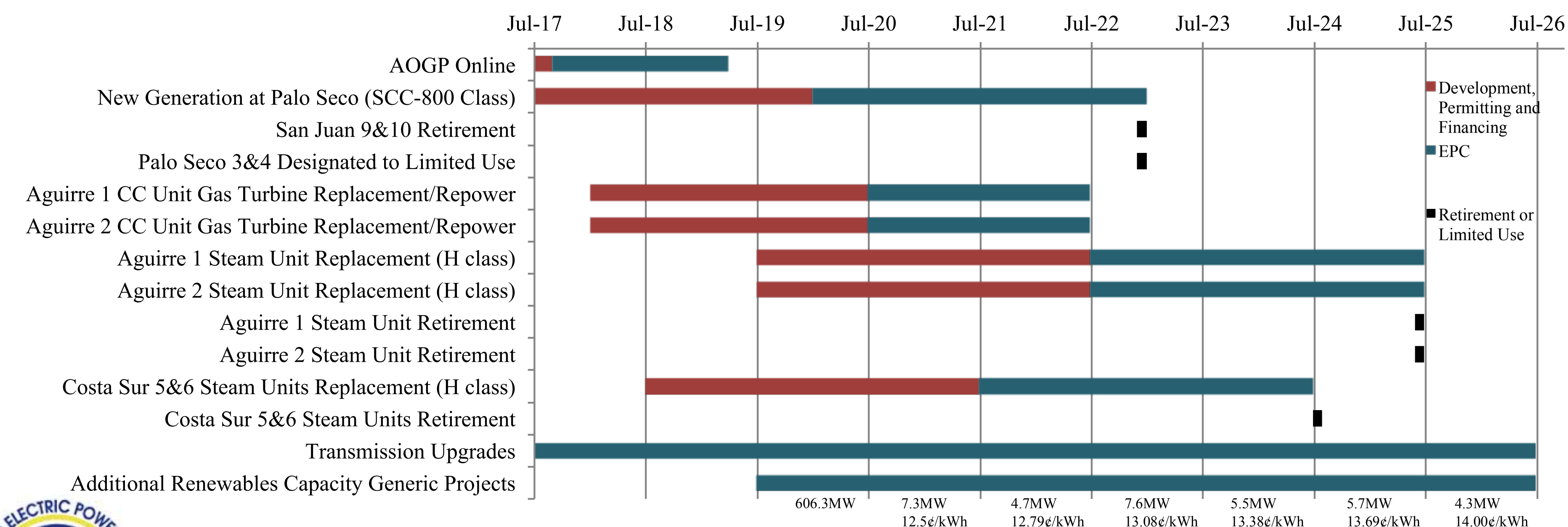
- AOGP remains a key milestone investment in Puerto Rico's shift to clean, low-cost, and rapid response natural gas generation, and is a key component of PREPA's MATS compliance strategy
- The P3 Generation investment initiative is designed to create competitive bidding opportunities for private developers with deep experience in owning and operating power generation facilities

Public-Private Partnerships enabling a utility of the future

- As part of its transition to a sustainable utility of the future, the revised investment schedule envisioned in the long term financial projections begins PREPA's pivot from a generation owner and operator to a Distribution System Operator (DSO) model
- The primary driver is enabling private investment in generation through competitive procurement
- Retirement of less efficient units, repowering of existing assets, and Public-Private Partnership investment will reduce PREPA's overall fuel expense, system heat rate, exposure to volatile fuel prices and provide system flexibility to better integrate renewables, in compliance with health and environmental requirements







Source: PREPA Planning Department. April 8, 2017.

Energy infrastructure upgrade – highest priority under Title V

- PREPA's needed infrastructure upgrades and new projects generally qualify as "Critical Projects" under PROMESA's Title V, Section 501(2) – as **projects intimately related to addressing an emergency** whose approvals, considerations, permitting and implementation must be expedited and streamlined
- They also meet the statutory definition of "Emergency", Section 501(5) – which includes any event or **grave problem of deterioration in the physical infrastructure for the rendering of essential services to the people**, or that endangers the life, public health or safety of the population or of a sensitive ecosystem – under Act 76-2000 – **including problems in the physical infrastructure for energy**, water, sewer and solid waste infrastructure
- Projects anticipated by PREPA comply soundly with Section 503's required criteria for "Critical Projects", including:
  - The impact of the infrastructure project on an emergency condition
  - The resulting environmental and economic benefits
  - Reduction in reliance on oil for electric generation in Puerto Rico
  - Improvements in performance of energy infrastructure and overall energy efficiency
  - Expediting diversification and conversion of fuel sources for electric generation from oil to natural gas and renewables in Puerto Rico
  - Promoting the development and use of energy sources found in Puerto Rico
  - Contributing to transitioning to privatized generation capacities

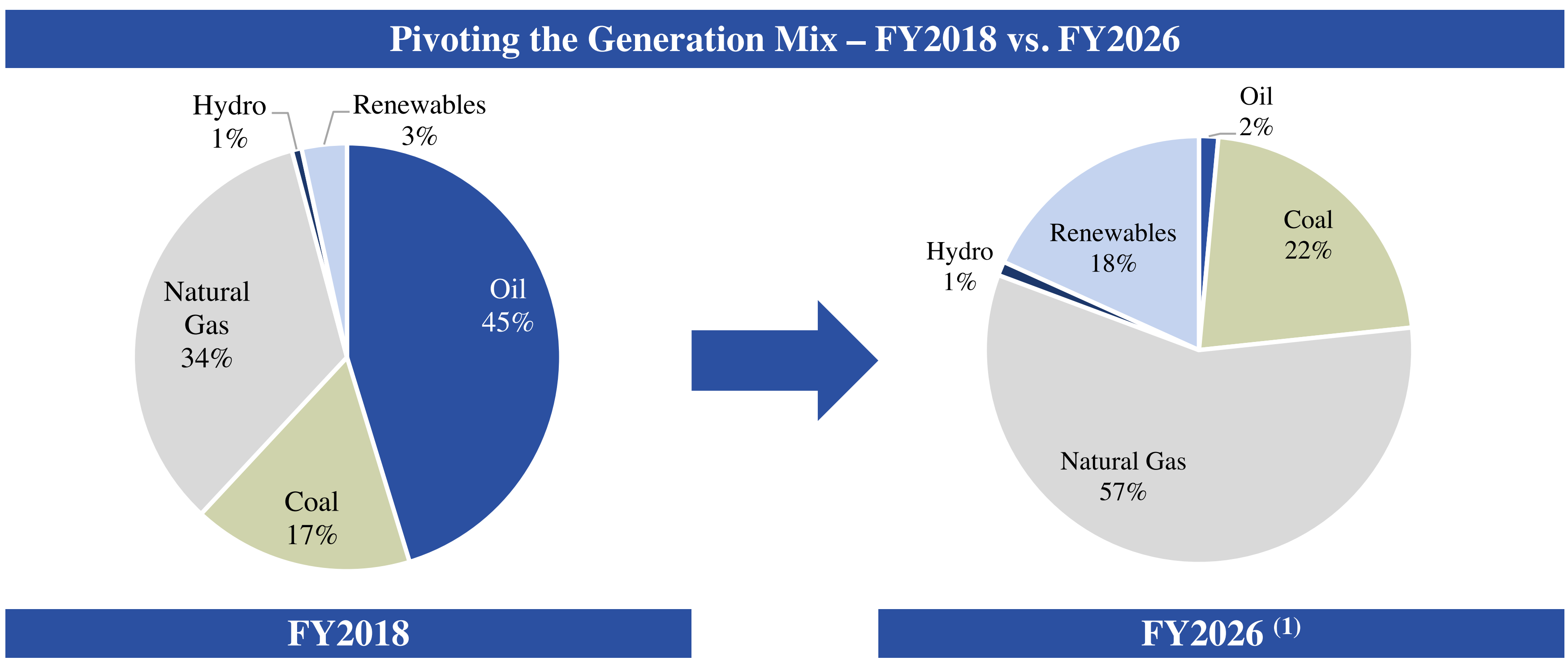
Energy infrastructure upgrade – priority criteria / delivery model

- PREPA's priority for identified infrastructure projects include analysis of:
  - How the project addresses the infrastructure gap/emergency need
  - Cost-benefit ratio
  - Long term economic growth
  - Time to realization / Shovel ready
  - Public/private funds requirements
  - Alignment with Government's policy goals, FOMB certified Fiscal Plan and Budgets
- PREPA's proposed fiscal plan anticipates a PMO structure to improve delivery efficiency by:
  - Improving investment delivery efficiency through centralization of delivery and expedited permitting
  - Applying alternative delivery models (e.g., DBF, DBFOM)
  - Coordinating PROMESA and central government support – Revitalization Coordinator, Fortaleza, AAFAF and the Puerto Rico P3 Authority

PREPA's energy infrastructure projects are of the highest priority to ensure updated, safe, compliant, reliable and efficient energy services to the people of Puerto Rico and its business community

Pivoting Puerto Rico's generation mix

- PREPA's long-term investment program requires upgrades for plant efficiencies, pivoting the generation mix to natural gas and renewables, and full MATS compliance. PREPA will seek to implement this program by leveraging P3s
- In accordance with the current consent decree with the EPA, PREPA is to bring its power plants into compliance with environmental requirements
- The generation portfolio cost requirements are $1.68bn during 2018-2026 timeframe
- Total new P3 generation in 2026 will be approximately 30% of total system generation



1) Load Forecast assumption consistent with revised economic projections from FOMB and updated investment plan

Source: PREPA Internal Estimates

VIII. New Rate Structure

PREPA's new rate structure: Seeking FRM

PREPA's RSA contemplates a Formula Rate Mechanism ("FRM") to annually update and reconcile PREPA's rates

Costs	Liquidity	Sales
▪ This mechanism would allow PREPA to recover from customers only its real and necessary costs	▪ It helps PREPA address current challenges resulting from having no access to capital markets, limited reserves, essential investment needs, needed environmental compliance investments and avoid/minimize historic undue political influences	▪ Annual reconciliations address changes in sales/demand, protects customers from forecast errors and remove disincentives from reaching efficiency gains and renewable energy deployment

Annual Rate Update Process and Challenges with the PREC: PREC rejected the PREPA proposal, adopting instead a proposal that effectively puts PREC in the position of controlling PREPA's budgets and priorities, in addition to reviewing its rates

Key Challenges

- PREC has allegedly assumed extensive operating control over PREPA, including areas where PREPA is implementing government policy or the approved government Fiscal Plan
- There is no robust reconciliation process to address ongoing changes; rather, adjustments for changes require extraordinary action or PREC permission prolonging processes and timelines
- The PREC exercises jurisdiction over PREPA budgets even when approved by the FOMB and unduly impacts relevant timelines
- PREC has denied PREPA's requests to reconsider its Order regarding some aspects of the annual rate update mechanism, including budgeting and rate adjustment timelines
- PREPA has appealed such denial to the P.R. Appeals Court and is in the process of developing a further regulatory strategy to address certain of these challenges

PREPA rate design challenges & opportunities: Embracing new technology

Revitalizing PREPA requires addressing challenges related to providing safe and reliable service, at the least cost possible and through the most efficient and environmentally sound approach available:

	Proposed Initiatives
Embrace new technologies	▪ Distributed generation, cogeneration, and renewable generation are rapidly expanding ▪ PREPA must plan for and accommodate that expansion and also prepare for other advanced technologies such as storage and microgrids
Transform and revitalize PREPA's systems and structure	▪ Remaking PREPA requires forward-looking investment ▪ Private and third-party capital is key, but PREPA also needs adequate revenues and liquidity in order to support a reliable, resilient, and capable grid which is the foundation of a world-class utility ▪ All these new technologies have significant costs, and may not provide direct revenue back to PREPA to pay for these costs
Manage declining load and potential revenue loss	▪ PREPA has lost load and faces further loss of significant load due to economic conditions and, in some cases, new technologies. For example, customer generation can significantly reduce PREPA's revenues and cost base and threaten to "strand" investments and costs ▪ Without adequate revenues and liquidity, PREPA's ability to invest in its transformation will be limited

In addition to continuing to lower cost and improved reliability and efficiency, utilities facing such circumstances can use established regulatory tools to:

- Support and promote new technologies, and protect essential revenues
- Provide customers with rational, economic price signals that discourage uneconomic bypass and avoid cost shifts and subsidies that harm customers and the economy as a whole

Rate design challenges and opportunities: Stranded costs recovery

There are well-understood ratemaking and regulatory responses used by utilities faced with serious threats of uneconomic bypass and stranded costs:

- **Adopt economically efficient rate designs**. Uneconomic incentives to bypass utility supply or delivery can be avoided:
  - Properly reflect fixed and volumetric costs in rates, and properly assign costs to classes.
  - Move more costs to fixed values, than to volumetric costs to reduce volatility and discourage inefficient bypass.
  - Consider unbundling delivery and supply rates and costs. This can help protect essential grid cost recovery and preserve funding for gird improvement and "future utility" goals.
  - Rates that discount delivery prices without reducing grid costs must be carefully designed to promote the desired social goal (e.g., promoting renewable energy) without stranding grid costs or creating cross subsidies that hurt customers least able to respond, who are often low income or low use.

- **Use targeted rate tools**. Customer or group-specific rate tools such as economic development rates, load retention rates, and special customer class (e.g., very high voltage, interruptible) rates can reduce the risk of uneconomic load loss and attract new load to areas where capacity (T&D or generation) is available at little marginal cost. This helps the utility and the economy.

- **Explicit stranded cost charges**. Impose non-bypassable charges on customers designed to recover identified categories of stranded costs. The Transition Charge can be thought of as such a charge, and PREC was sympathetic to that rationale since otherwise remaining customers pay. In extreme cases, stranded cost can even be recovered from customers who go entirely off grid or who depart. In some cases, a non-bypassable charge can reduce the incentive to depart as a means of avoiding responsibility for stranded costs.

CILT reform

As established in Act 57-2014 and Act 4-2016, there are significant changes in the treatment of the Municipal Contribution in Lieu of Taxes (CILT)

These changes involve…

- Moving of all the municipal public lighting to the subsidies rider in the customer bill
- Removal of all municipal for profit entities from receiving an electric service credit from the CILT
- Establishing a total consumption (kWh) cap on the municipal CILT, which will be reduced by 15% (in three fiscal years, 5% each)
- The municipality will pay for any excess, plus the for profit ventures
- The CILT adjustment process itself has not begun in full due to PREC regulations and implementation obstacles, in addition to issues presented by municipalities disputing the validity of the for profit claim

Beyond this, PREPA has no authority to further reduce the CILT values. PREPA, under the new rate structure, will recover the cost of CILT via the CILT rider in customer bills. Any additional reductions or amendments would require legislation

IX. Operational Performance Improvements

Management is committed to continuing on the operational restructuring path

- PREPA management is committed to continuing the path towards operating efficiently and implementing "best in class" operational and organizational measures, while leveraging the private sector and available technological solutions
- In the past years, PREPA has implemented initiatives and internal controls that have generated both one-time and projected recurring improvements
  - PREPA has taken action in areas such as fuel procurement & controls, reduction of non-technical losses, improved collections, procurement and inventory control, potentially generating projected annual savings of approximately $254m[(1)]
  - One-time incremental cash generation initiatives implemented to date of approximately $271m

	Situation Encountered	Actions Taken
Fuel and Generation	Limited forecasting, inventory controls and dispatch coordination, unsuitable terms related to fuel sourcing and unusually high spinning reserve levels	Fuel savings driven by renegotiation of natural gas contract for Costa Sur (~$33m), reduction of forced outages (~$29m), normalizing spinning reserves (~$25m), roll-out of S&OP process (~$23m), and enhanced forecast tool and inventory reduction (~$4m)
Customer Service	Deficient government and general customer collection practices, losses related to theft and non-technical issues, and a disappointing customer experience	Run-rate annual customer service savings of ~$77m driven by roll-out of strict collections program, improved training of employees and use of external call center for additional support
Indirect Procurement	Absence of efficient procurement processes and inventory management, and underutilized fleet and lack of real estate strategy	Run-rate annual procurement savings of ~$23m driven by improved inventory management and control process, fleet upgrade program and development of real estate strategy with aid from external experts
Employee Related	Loss of productivity regimented by strict work rules, unenforced safety protocols and costly medical benefits for employees	Annual employee related savings driven by flexible work shifts, assessment by 3rd party expert on improvement opportunities and improvements to health plan utilization controls and service metrics
Organization Related	Unsustainable employee management practices driven by faulty succession planning and failure to reshape the employee hierarchy and alleviate understaffed teams	Reduction of succession risk by establishing alternative strategies for critical role replacement and new governance related to operational and staffing priorities
Information Technology	Inadequate information security controls, outdated technical infrastructure and an unreliable reporting process	Implementation of increased security measures to protect network and critical applications, development of new documentation standards and automated KPI reporting dashboard

1) New management is in the process of validating the annual projected savings identified by its prior restructuring advisor

Operational improvements will drive projected annual savings[1]

PREPA management is in the process of identifying and implementing additional savings and efficiencies

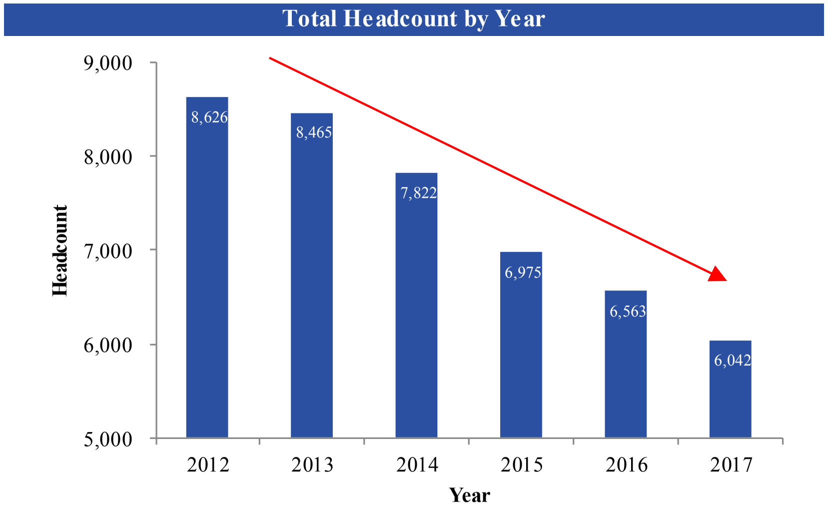
Activity	Rationale	Initial Investment	Annual Savings
Utility of the future – smart grid (IOT)	Increased productivity, lower time to restore service, efficient management of demand, better theft management	TBD	TBD
Reduction in technical regions from 7 to 5	Optimize number of customers considering topography and revenues configuring for future end state	TBD	TBD
Business processes reengineering	Capitalize on lower cost and efficiency; better service	TBD	TBD
Mobile work force management	Reduce maintenance backlog; improve technical productivity, standardize workflow access districts	$3.75m	$9m

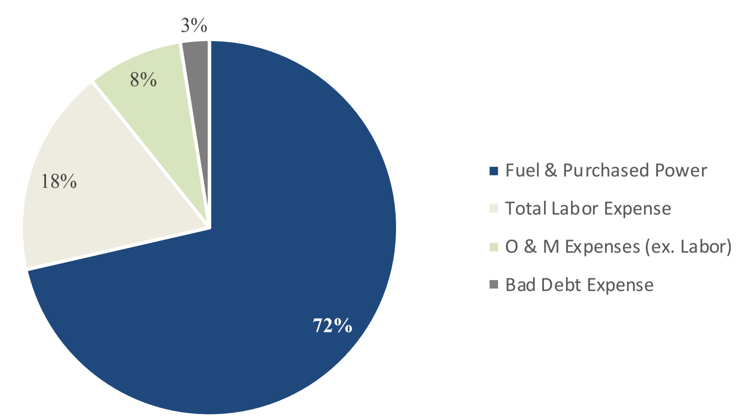
1) New management is in the process of validating the annual projected savings identified by its prior restructuring advisor

PREPA's operating expense profile and recent attrition constrains savings opportunities

Approximately 28% of PREPA's total operating expenses are actionable

- Headcount has been reduced by 30%, or 2,584 employees since 2012
- However, there still exists room for operational savings as highlighted by the actionable $729m total annual expenses across labor, O&M and bad debt
- Business process reengineering will help PREPA achieve savings in non-productional areas; such as administration and customer service





10 Year Average		
Annual Expense	**$ (in millions)**	**%**
Fuel & Purchased Power	1,854	71.7
Total Labor Expense	450	17.9
O&M Expenses (ex. Labor)	214	8.3
Bad Debt Expense	65	2.5
Total Operating Expense	2,583	100.0

Source: Headcount and other figures provided by PREPA Human Resources Department

X. Governance

Management mission statement

Management is committed to executing the transformation of PREPA into a utility of the future, enabled by a rigorous corporate governance framework including a PMO implementation structure with ambitious and measurable transformational objectives

- Regional transmission and distribution companies with full accountability and enclosed by technology platform (smartgrid)
- Leverage innovative technology to drive efficiencies and improve customer service
- Puerto Rico's generation needs provided via public-private partnerships and renewable energy
- Preserve Board of Directors independence and professionalism and implement KPI program
- Infrastructure investments that lead to full compliance with environmental law (e.g. MATS)
- Rate Design that adequately distributes costs based on cost of service
- Business process reengineering

Governance & Accountability

Cultural change to drive increased transparency and accountability

In consultation with its external advisors, PREPA has developed KPI's to ensure measurement of meaningful performance metrics to reinforce accountability across the organization

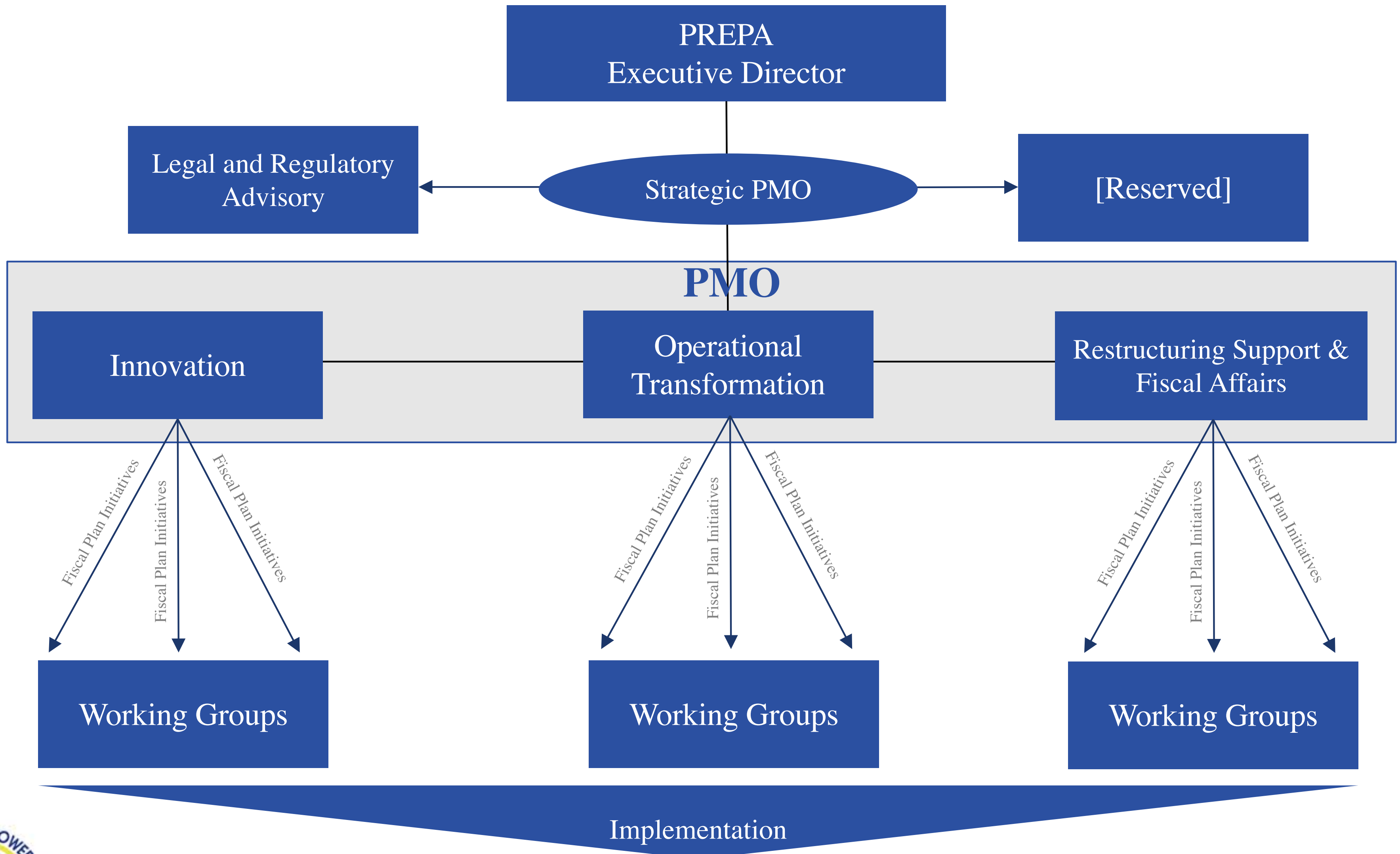
Further modifications to the KPI program will be made as initiatives included in the Fiscal Plan are finalized

Key Performance Indicator	Unit	Three Month Prior KPI	Two Month Prior KPI	One Month Prior KPI	Target	Variance	Trend
		Aug-16	Sep-16	Oct-16			
Overall							
Safety - recordables (% incidents per 100 employees)	(%)	13.1	12.8	14.4	11.0	3.45	
Abseentism (%)	(%)	14.0%	23.0%	0.0%	2.0%	-2.0%	
CAIDI (Min)	(Min)	185.3	179.4	206.1	146.0	60.1	
Operational Expenses vs. Budget (excluding fuel) (%)	(%)	105.1%	105.4%	0.0%	2.5%	-2.5%	
Capital Expenses vs. Budget (%)	(%)	33.5%	28.2%	0.0%	7.0%	-7.0%	
T&D							
SAIDI - Average interruption duration	(Mins)	79.9	78.4	81.4	48.0	33.42	
SAIFI - Average interuption frequency	(%)	0.431%	0.437%	0.395%	0.328%	0.067%	
Monthly Net Work Order Balance	(+, -)	-6,314.0	-720.0	0.0	1,500.0	1,500.0	
IT							
On time project delivery	(%)	0.0%	50.0%	75.0%	75.0%	0.0%	
System up -time (Zabbix)	(%)	99.0%	97.0%	97.4%	98.0%	-0.6%	
Incident mgmt - problem resolution	Days	1.78	1.72	1.56	7.00	5.44	
% unresolved tickets after 30 days	(%)	5.4%	6.0%	3.8%	20.0%	-16.2%	
HR							
% of jobs with current job description (%)	(%)	5.0%	13.5%	0.0%	70.0%	-70.0%	
Average time to fill vacancies	(Days)	17.6	15.7	0.0	45.0	-45.0	
Customer Service							
Increase Cash Collection							
DSO (Days sales outstanding) Gov Customers (ratio)	Days	0.0	0.0	0.0	60.0	-60.0	
DSO General Customers (ratio)	Days	0.0	0.0	0.0	45.0	-45.0	
Cash recovered on theft ($millions)	($ mm)	$1.9	$2.0	$0.0	$2.0	($2.0)	
NTL reduction as % of net generation (12 month rolling avg)	(%)	5.7%	4.9%	0.0%	4.5%	-4.5%	
Average speed to answer	(Hr:Min:Sec)	0:17:44	0:13:20	0:00:00	0:05:00	0:05:00	
Wait time in commercial offices	(Hr:Min:Sec)	0:18:18	0:16:40	0:00:00	0:15:00	0:15:00	
Planning, Environmental							
Timeliness of response to regulatory requests (% on time)	(%)	100%	100%	100%	95%	5%	
Timliness of permit renewals (% on time)	(%)	100%	100%	100%	95%	5%	

Source: PREPA Internal Planning Department

Proposed PREPA PMO structure

A PMO structure will be set up as a support system to manage execution of critical initiatives



XI. Key Risks & Mitigation Strategies

Key risks with details on mitigation

Potential Risks	Mitigation Strategies
▪ Impaired ability to adjust rates as forecasted and recover planned and approved costs	▪ Seek and obtain approval for FRM
▪ Under-delivery of investment program	▪ Organizational structure with rigorous PMO approach and ongoing reporting and KPI's, as well as support from the Puerto Rico Fiscal Agency and Financial Advisory Authority and the P3 Authority
▪ Under-delivery of OPEX, fuel cost savings	▪ Organizational structure with rigorous PMO approach and ongoing reporting and KPI's
▪ Limited ability to renegotiate labor agreements or achieve payroll savings	▪ PREPA is still evaluating whether additional payroll savings are possible
▪ Under-staffing in key operational roles due to potential labor shortage, concerns over pensions	▪ Contract specialized labor directly or via 3rd parties
▪ Limited ability to access capital markets and liquidity	▪ Fiscal Plan assumes PAYGO for T&D maintenance and currently uncommitted financing or investment for AOGP and execution of public-private partnerships for development of new generation
▪ Lack of political will to drive changes	▪ Independence component in the Board of Directors ▪ PREC as regulator provides a forum fact driven rate design, cost recovery and long term capital planning and execution ▪ Implementation of PMO ▪ FOMB oversight

Certain key risk factors on remaining transformation

PREPA's transformation, as included within this Fiscal Plan, is still contingent on a number of assumptions, risks and uncertainties, some of which are and will be beyond the unilateral control of PREPA including, but not limited to:

- Implementation of new rate structure program, including collections from governmental and non-governmental customers
- Successful completion of all Validation Proceedings (see Appendix) related to the securitization authorized by the PREPA Revitalization Act (Act 4-2016)
- Potential for additional deterioration in macroeconomic conditions which may materially impact revenues and collections as a result of decreased economic activity, increased migration, and/or affordability constraints
- Ability to execute capital improvement program via public-private partnership delivery and financing model
- Ability to fund or obtain financing for the construction of AOGP
- Inability to obtain financing for the construction of AOGP. Options available to finance AOGP are limited given RSA's restrictions regarding new SPV bond issuances (e.g. clear market period)
- Divergence from short and long term financial projection assumptions as detailed in the 'Financial Projections' section of this plan
- Achieving operational results and/or executing operational / capital improvements, given permitting and financial constraints
- Resolution of environmental issues and achieving MATS compliance
- Ability to obtain adequate liquidity available to close RSA transaction and implement business plan
- Achieving budget targets/revenue requirements and targets to fund necessary operating costs
- Potential for significant additional loss of load than projected in the Fiscal Plan due to potential acceleration in the installation of distributed generation, and/or development of co-generation capacity (above the projected 42.6MW assumed in the projections)
- Consummation of debt restructuring consistent with RSA through Title VI of PROMESA or other mutually agreeable mechanism

XII. Appendix

Generation sites

Cambalache

Capacity	(MW) 248
Location	Arecibo
Construction Year	2007
Fuel Type	Fuel Oil #2

Palo Seco

Capacity	(MW) 602
Location	Cataño
Construction Year	1960-1970
Fuel Type	Fuel Oil #6

San Juan Combined Cycle

Capacity	(MW) 440
Location	San Juan
Construction Year	2008-2009
Fuel Type	Fuel Oil #2

Costa Sur

Capacity	(MW) 990
Location	Guayanilla
Construction Year	1962-1973
Fuel Type	Fuel Oil #6

Aguirre Combined Cycle Plant

Capacity	(MW) 592
Location	Salinas
Construction Year	1977
Fuel Type	Fuel Oil #2

Eco Eléctrica

Capacity	(MW) 540
Location	Peñuelas
Construction Year	2000
Fuel Type	Fuel LNG

Aguirre Thermo Electric

Capacity	(MW) 900
Location	Salina
Construction Year	1975
Fuel Type	Fuel Oil #6

AES

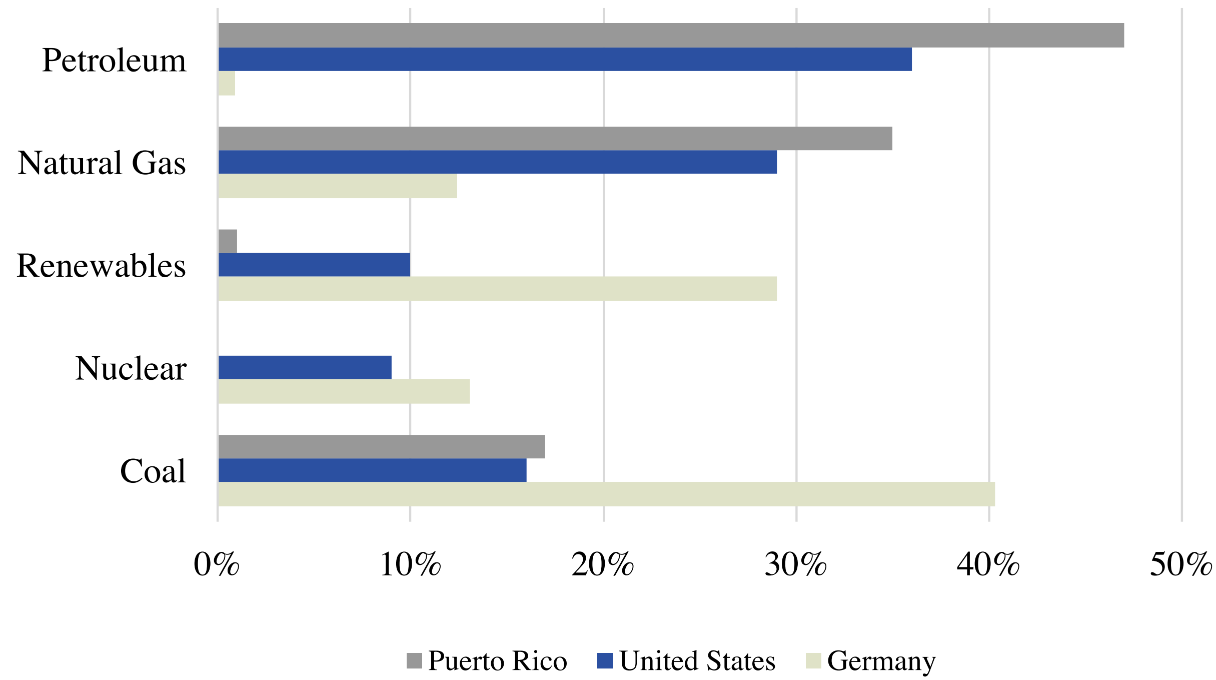
Capacity	(MW) 454
Location	Salinas
Construction Year	1994
Fuel Type	Fuel Coal

Energy Sources: How does Puerto Rico compare?

- Puerto Rico fully depends on imported petroleum in order to satisfy its energy needs

- The cost of imported petroleum has driven Puerto Rican power prices to more than twice the average power price in the states

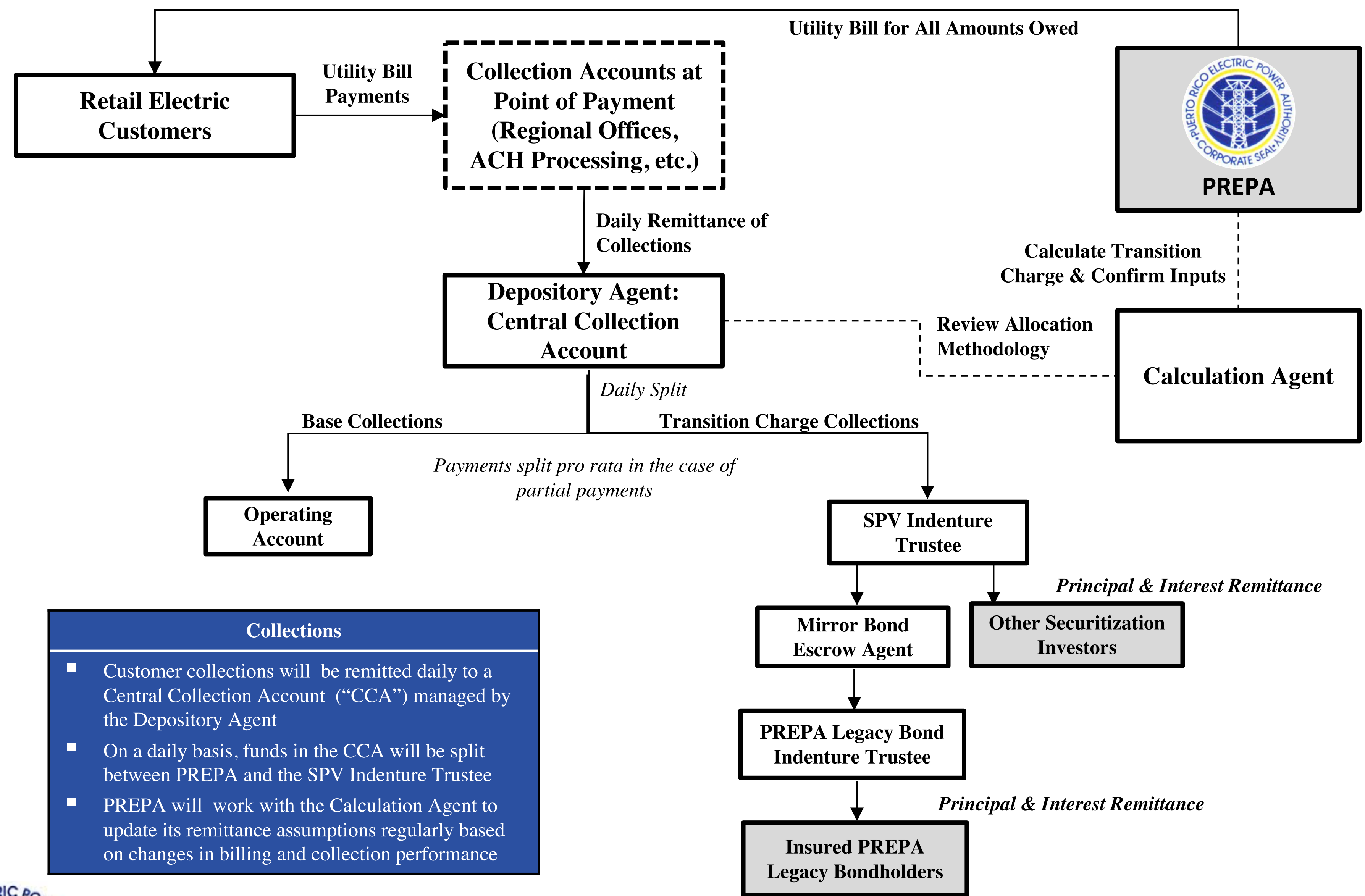
Energy Source Mix



Source: P3 Summit Puerto Rico. "Energy Projects"

Restructuring Support Agreement ("RSA")

Securitization structure: True up mechanism designed to adjust quarterly to cover debt service by operation of law (Act 4 – 2016)



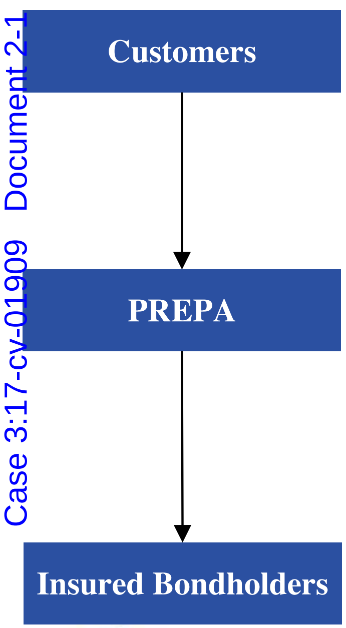
Collections

- Customer collections will be remitted daily to a Central Collection Account ("CCA") managed by the Depository Agent
- On a daily basis, funds in the CCA will be split between PREPA and the SPV Indenture Trustee
- PREPA will work with the Calculation Agent to update its remittance assumptions regularly based on changes in billing and collection performance

Monolines will retain legacy bonds while obtaining securitization mirror bonds

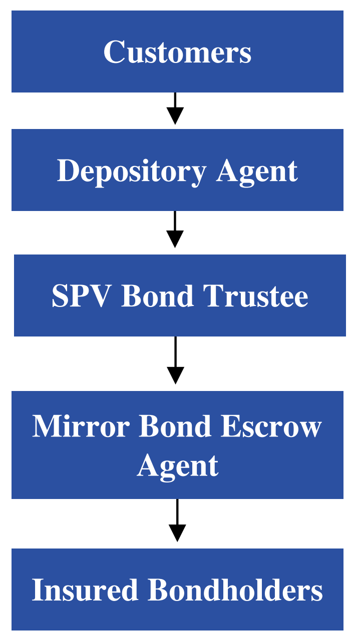
- Mirror Bonds are securitization bonds that provide credit support for the Insured PREPA Legacy Bonds, enabling the Insured PREPA Legacy Bonds to receive the benefits of the securitization structure
  - Mirror Bonds would have the same economic terms (i.e., principal, interest and maturity date[(1)]) as the Insured PREPA Legacy Bonds, but would not be insured
  - Mirror bonds would be held by an escrow agent and would not be tradeable instruments; in contrast, Insured PREPA Legacy Bonds would remain insured and tradable
  - **Exit consents will modify the Legacy Bonds to remove obligations from PREPA that could interfere with operations or otherwise negatively impact PREPA (ex. asset sales, privatization)**
  - Transition Charge and the automatic quarterly adjustment mechanism would provide cash for payment of debt service on the Mirror Bonds (and ultimately the Insured PREPA Legacy Bonds, thereby discharging, dollar-for-dollar, PREPA's payment obligation on the corresponding Insured PREPA Legacy Bonds)

Current Structure



- Customers pay fixed and pass through rates to PREPA to cover costs, including debt service
- As part of its collections, each month, PREPA collects 1/6 of next interest and 1/12 of next principal payment from customers
- Bondholders receive principal & interest payments from PREPA

Mirror Bond Structure



- Customers pay Transition Charge in amounts sufficient to pay debt service on securitization bonds, including Mirror Bonds
- PREPA, in its capacity as servicer and on behalf of the SPV, collects Transition Charges from customers each month and delivers the funds to the SPV Bond Trustee
- The SPV Bond Trustee pays, semi-annually, Mirror Bond debt service to the Mirror Bond Escrow Agent
- Mirror Bond Escrow Agent sends Mirror Bond debt service to PREPA Legacy Bond Indenture Trustee for payment of Insured PREPA Legacy Bonds
- Holders of Insured PREPA Legacy Bonds receive principal & interest payments

1) Under current RSA, scheduled maturity date with respect to a Mirror Bond would be same as maturity date on the corresponding Insured PREPA Legacy Bond; but, the final (contractual) maturity date of a Mirror Bond will be up to 2 years later to permit any delay in receipt of Transition Charges to be made up without resulting in a default on said Mirror Bond

PREPA and SPV debt service schedules

The debt service schedule below presents all interest expense and principal payments for the power revenue bonds (SPV Debt Service) and bank debt (PREPA Debt Service) included in the fiscal plan. This excludes any AOGP funding

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
PREPA debt service										
Principal	$85.5	$11.8	$11.8	$11.8	$11.8	$11.8	$59.0	$59.0	$59.0	–
Interest	369.5	12.6	14.0	13.4	12.8	12.2	10.6	7.5	4.4	2.5
Total	**$455.0**	**$24.4**	**$25.8**	**$25.2**	**$24.6**	**$24.0**	**$69.6**	**$66.5**	**$63.4**	**$2.5**
SPV debt service (assuming refinancing)										
Principal		$11.9	$75.1	$65.7	$78.0	$97.7	$50.2	$69.8	$69.4	$111.0
Interest		319.0	364.5	363.2	361.4	358.7	365.9	412.9	408.7	405.7
Surety fees & replacement		16.0	12.7	12.9	12.6	11.9	5.5	28.9	39.7	42.1
Total	**–**	**$346.9**	**$452.3**	**$441.7**	**$452.0**	**$468.3**	**$421.6**	**$511.7**	**$517.8**	**$558.7**
Memo:										
Debt service assuming no access to capital markets	–	*$346.9*	*$452.3*	*$441.7*	*$452.0*	*$468.3*	*$697.6*	*$759.1*	*$770.2*	*$814.8*
Benefit from access to capital markets	–	–	–	–	–	–	*276.0*	*247.5*	*252.4*	*256.0*
CCAB accretion	–	*52.8*	*66.5*	*70.2*	*74.1*	*78.3*	–	–	–	–

Notes:
1) Excludes AOGP debt service
2) CCAB accretion refers to accrued interest on capital appreciation bonds
3) Q3 calendar year 2017 closing date

Key Risk Factors on Remaining Transformation

Certain key risk factors on remaining transformation

- To obtain the legal rulings required for bond counsel's opinion for the issuance of securitization bonds, the Revitalization Act established a "validation process" for parties to challenge the Revitalization Act and the SPV Bond Resolution (the "Validation Proceedings")
- Seven lawsuits were filed before seven separate judges at Court of First Instance in San Juan; Two lawsuits remaining (One Phase One Challenge, *UTIER*, and one consolidated Phase 2 Challenge)

Revitalization Act Challenges	Bond Resolution Challenges
▪ UTIER. A favorable decision regarding the validity of the Revitalization Act and the Restructuring Order is currently under appeal at the Puerto Rico Supreme Court; has been briefed and is pending before Supreme Court for a ruling; UTIER filed a motion seeking further briefing, which PREPA opposed ▪ Jubilados I. Dismissed by the plaintiffs with prejudice ▪ Jubilados II. Dismissed with prejudice ▪ Cuadrado. Dismissed without prejudice	▪ All three Phase Two Challenges were consolidated into the PV Properties case; administrative law standard of review determined to apply ▪ Petitioner briefs due by April 21, and PREPA, SPV and PREC response due May 12

- Issues raised in the Validation Proceedings need to be resolved favorably in order to consummate the RSA transaction, though the risk of delay has been mitigated by the favorable *UTIER* decision and other case dismissals
- Given these recent developments, PREPA is no longer seeking the FOMB's intervention in the Validation Proceedings, which was previously suggested as a vehicle to consolidate and expedite the pace of the Validation Proceedings

Certain key risk factors on remaining transformation

Revitalization Act Challenges

- *Validity*. Validity of Revitalization Act
- *No Impairment*. No provision of the Act breaches or impairs any contract or constitutes a taking
- *Revenue Attribution*. Transition Charges are revenues and income solely of the SPV and are not revenues or resources of PREPA, the Government of Puerto Rico or any other Person
- *Not a Tax*. Transition Charges are not a tax and the SPV's right to collect them is irrevocable
- *No Encumbrance*. Transition Charges are not subject to any other lien or levy
- *Constitutional Matters*. Any matters relating to the foregoing, under Puerto Rico or US constitution

Restructuring Bond Challenges

- *Validity*. Validity of: (i) Energy Commission's Restructuring Order; (ii) issuance of Restructuring Bonds by the Corporation; (iii) PREPA's outstanding debt (iv) SPV's property rights with respect to the Transition Charges; and (v) Transition Charge formulae
- *Applicability*. Validity and applicability of: (i) Transition Charges; (ii) Adjustment Mechanism; and (iii) revocability of right of the Corporation to impose and collect Transition Charges
- *No Breach or Taking*. Neither the issuance of the Restructuring Bonds nor the amount of the Transition Charge results in: (i) the breach of any contract or agreement between the Government of Puerto Rico or PREPA and its creditors; (ii) any fraudulent conveyance; or (ii) any taking of property without just compensation
- *Constitutional Matters*. Any or all other matters relating to the foregoing, under Puerto Rico or US constitution

To date, plaintiffs have filed complaints including all of the above allegations, except for challenges regarding (i) validity of PREPA's legacy bonds, and (ii) fraudulent conveyance issues

Operational Savings

Operational improvements – Fuel & generation

Fuel related improvements have generated annual run-rate savings of ~$144m as well as one time liquidity improvements of ~$101m to date

	Situation Encountered	Actions Taken
Forecasting and Inventory Controls	▪ Limited information sharing led to unnecessary build-up of fuel inventory ▪ Fuel Inventory controls not in line with industry standards	▪ Implementation of fuel forecast tool and closer coordination have reduced inventory levels by ~$36m and generated ongoing annual savings of $3-4m ▪ Implemented industry standard fuel inventory controls
Generation Dispatch	▪ Limited coordination prevented PREPA from capitalizing on opportunities to optimize dispatch	▪ Roll-out of revised S&OP process is generating annual dispatch savings of ~$23m
Fuel Sourcing & Supply Chain	▪ PREPA's fuel procurement processes did not provide sufficient opportunity to secure best terms	▪ Competitive RFP processes have generated annual reduction in fuel oil adders of ~$31m and a one time $65m cash flow saving ▪ Renegotiation of natural gas contract for Costa Sur have generated annual fuel savings of ~$33m
Spinning Reserve	▪ Spinning reserve levels maintained at higher than required levels ▪ High frequency and duration of forced outage events	▪ Implementing action plans and business case to reduce the number and severity of forced outages will result in an estimated saving of ~$29m ▪ With the stabilization generation units, optimize the spinning reserves to deliver fuel savings estimated at ~$25m

Operational improvements – Customer service

Customer service improvements have generated annual run rate savings of ~$77m as well as one-time liquidity improvements of ~$135m to date

	Situation Encountered	Actions Taken
Government Collections	▪ Ineffective collections practices and acceptance of non-payment resulting in Gov. past dues in excess of $255m ▪ Deficient billing practices and customer communication leading to high balances in dispute spanning multiple years	▪ Implemented rigorous collections program with Public Corporations and Agencies, using service suspensions to drive collections and sign payment plans ▪ Collected 120% of amounts invoiced to Gov. customers over the last 12 months, Past due balances have improved by $70m
General Customer Collections	▪ Delays in execution of service suspensions with residential and wholesale customers ▪ Deficient billing practices leading to high number of estimated (and disputed) invoices ▪ Accumulation of Act 33-driven balances ▪ No collections effort on severely past due accounts	▪ Streamlined and enforced service suspension program, rolled-out performance KPI's, organized Act 33 work, special programs (i.e. residential housing, Top-20 by Region), increasing cash collections by ~$65m ▪ Engaged 3rd party collections firm to focus on severely past due accounts. $3.5m net collected ▪ Developing new processes for centralized collections, deposit and bond management, Act 57 objections
Theft / Non-Technical loss	▪ Pervasive culture of accepting higher than industry standard non-technical loss rates ▪ Disorganized theft reduction effort and lack of meaningful deterrents leading to low probability reducing theft rates ▪ Deficient meter maintenance practices, increasing numbers of meters with reading issues (end-of -life)	▪ Reorganization of ICEE, new leader engaged, streamlined administrative process, implemented and rolled-out new Theft Analytics system and training ▪ $60m annual reduction in non-technical loss ▪ Meter renovation and verification projects launched for secondary and primary customers (smart meters, meter recycling, meter equipment field verification)
Customer Experience	▪ Long wait times in the Call Center, in excess of 20 min. ▪ Long lead time to address customer service issues, 8+ weeks on average ▪ Long wait times in commercial offices above 30 min. ▪ Customers visiting offices for routine transactions that can be done electronically (payments)	▪ Improved training and use of 3rd party call center ▪ Reduced backlog of open orders by 40% through combination of office and field work ▪ Centralizing all billing back-office functions to focus commercial offices on customer care ▪ Launching program to increase use of electronic transactions

Operational improvements – Indirect procurement

Addressing inadequate processes has generated annual savings of ~$23m as well as one-time improvements of ~$32m to date

	Situation Encountered	Actions Taken
Procurement	▪ Overly complex procurement processes and lack of specialized expertise leading to lead times of 3-5 months ▪ Limited use of contracts is preventing PREPA from leveraging scale with suppliers	▪ Legislate change allows PREPA to use RFPs to reduce prices and obtain optimal terms ▪ Organizational structure changes improved efficiency and enabled strategic planning ▪ Launched EDE/MRO RFP which will lead to significant procurement cost savings in FY2017
Inventory	▪ Lack of coordination and a culture of 'more is better' have led to ~$70m of obsolete inventory and another $50-100m of off-book inventory	▪ Restructured inventory management and control process, trained personnel, developed and tracked KPIs resulting in savings of $32m to date (additional ~$15m expected in FY2017)
Fleet	▪ Large and under utilized fleet with 3,500 vehicles/equipment ▪ Underinvestment in fleet and maintenance has created an unsafe fleet	▪ Have implemented a fleet rejuvenation program with the goal of eliminating 1,000 vehicles/equipment ▪ In the process of negotiating contract terms with a fleet maintenance outsourcing provider. Implementation expected in early FY2017
Real estate	▪ No cohesive real estate strategy in place to manage large portfolio in excess of 1,000 properties	▪ Conducted RFP to hire 3rd party professional real estate firm to develop strategy and dispose of excess properties

Operational improvements – Employee related

	Situation Encountered	Actions Taken
Productivity	▪ Inflexible work rules and high absenteeism ▪ Paid leave of 80 days (twice industry norm) ▪ Act 66 has generated improvements of $40m, but strong resistance is limiting its full potential	▪ PREPA is implementing changes to work rules and benefits required to improve costs and productivity: • Changes to work shifts in Call Center, along with use of 3rd party services • Changes to "cartas de deberes" for ICEE field investigators (energy theft) • Centralization of account maintenance activities (moving employee locations)
Safety	▪ Unacceptable safety record, in excess of 14,000 accidents and 15 fatalities over 10-year period ▪ Culture of focusing on legislative compliance instead of promoting active safety culture	▪ Hired industry leading firm to assess current situation and develop program to improve ▪ Development of standard HSE dashboard to track implementation of improvement program
Medical Benefits	▪ Medical benefits costs set to increase for both active and retired employees ▪ PREPA's medical benefits design way above comparable Public Corporations ▪ Retirement system projected to be insolvent by 2024	▪ Transitioned to new supplier (MMM) for Retired Employees Health Plan for $4m annual savings. MMM is exceeding service level expectations after 12 months ▪ Concluded FY 2013-2014 audit of active employees health plan for ~$3m cash reimbursement ▪ Implemented changes to Active Employees Health Plan for $6m annual savings and improved utilization controls. Introduced service level metrics and performance reporting ▪ No significant union issues relative to the Health Benefits changes ▪ On-going analysis of Pension Plan options

Operational improvements – organization Related

	Situation Encountered	Actions Taken
Succession Planning	▪ No succession plans ▪ Over 1000 currently staff eligible for retirement; many in critical positions ▪ 350 retirements per year; 1000 in 2014 associated with changes to the retirement plan ▪ Retirement system vulnerable and retirement levels sensitive to any changes	▪ Identified most critical retention risks in T&D, Generation and CS (covers approx 80% of the workforce) ▪ Developed risk reduction plan via identified successors for 50% of the critical roles and alternative strategies for 40% of the critical roles (these are yet to be implemented)
KPI - Meritocracy & Performance Mgmt	▪ Large Confianza job class drives significant instability, low accountability and lack of leadership from top management ▪ Leaders and managers are placed in positions based on political affiliation vs. job qualifications ▪ Outdated job descriptions and limited use of performance KPI's ▪ No formal performance management process	▪ Identified KPIs (PREPA-wide and individual Directorates) ▪ Commenced KPI data gathering and built report template ▪ Piloted performance management with Senior Staff Defined PREPA-wide competencies and collected senior staff self-evaluations ▪ Built online performance evaluation tool to capture evaluations and support a broader roll-out (scope includes competency evaluations only at this stage)
Organization Blueprint	▪ Highly silo'd, highly traditional bureaucracy ▪ Overly staffed with non-value added administrative personnel ▪ Over sized executive directorate and executive team ▪ Shortages in a limited number of specific technical skill areas	▪ Defined key organizational/operational roles; Redesigned current directorate structure ▪ Establish staffing levels to support operational priorities ▪ Design new/streamlined governance and decision processes

Operational improvements – Information technology

	Situation Encountered	Actions Taken
Information Security	▪ Lack of adequate protections for PREPA's mission critical data network ▪ PREPA's customer data (personal identifiable data, i.e. SSN, credit card numbers) not safe ▪ Lack of IT security basic policies, processes and specialist resources	▪ Implemented critical network protection components: firewall, proxy servers, network monitoring ▪ Developed plan to address every instance where customer data are not hidden, encrypted or protected ▪ Implemented strong password policy across entire company and started training program ▪ Currently conducting penetration test with specialist firm to define IT Security Phase II action plan
Technical Infrastructure	▪ Santurce main data center at high risk of outages, due to deterioration of physical facilities and environmentals (HVAC, power supply, cabling) ▪ Non-operational disaster recovery plan ▪ Lack of effective monitoring of infrastructure problems and service levels	▪ Implementing plan to migrate critical applications to a co-location facility (PREPA.Net) and 3rd party cloud (Microsoft) ▪ Cloud migration already 70% complete. Target to migrate applications to PREPA.Net by end of Q4 2017 ▪ Disaster Recovery site in Aguirre is operational ▪ Implemented new Network Operations Center, monitoring software and IT help desk
Customer Care & Billing System	▪ Lack of adequate testing and software release process , resulting in poor software quality ▪ Deficient reporting environment, data unreliable, reports take long time to produce ▪ Functional gaps, leading to manual processes (i.e. field operations) ▪ Application running an obsolete version, has not been updated since implementation in 2013 ▪ Application outages and slow response time to users, exacerbated at month end	▪ Implemented new provisional rate in 30 days from notification date to live release, worth $18m in additional cash. Currently implementing permanent rate ▪ Implemented new documentation standards for design, configuration of software changes ▪ Completing implementation of new testing environment (hardware and software), process and testing tool ▪ Implemented automated KPI reporting dashboard, updated weekly, using existing tools ▪ Developed software upgrade plan, to be executed after rate implementation

Energy Infrastructure/P3

Revitalization Act and upcoming RFPs

- PREPA Revitalization Act authorizes PREPA to create and foster investment in **public-private partnerships (P3)** related to needs of generation, transmission and distribution of energy
- P3 Law available to pursue P3 projects; evaluating committee to be composed of 5 members, including 2 PREPA representatives, and representatives from GDB, Public Energy Policy Office, and PPP Authority
- In the event PREPA does not complete competitive processes by dates established in Energy RELIEF Action Plan or IRP, the Energy Commission may begin and carry out these competitive processes
- PREPA and the Energy Commission developed a joint regulation for an RFP process, that was approved by the Governor during September of 2016
- PREPA will determine its new generation modernization priorities, taking into account operational performance of existing units, IRP outcome, market appetite (referencing REOI and other proposals received) and planned renewable additions as well as other relevant considerations.
- As part of its Modified Integrated Resource Plan, PREPA is expanding its use of renewable energy and is scheduled to begin a competitive bidding process for a **public-private partnership** for new generation capacity in the north of the island by **June 2017**

Energy infrastructure/P3 – critical projects

- Project sequencing will be designed to effectively progress the advancement of all needed energy Critical Projects and avoid major obstacles in the shortest timeline possible
- Will promote and improve funding models to leverage the use of private funds, where/as relevant and maximize access to, or use of, unused federal funds available
- PREPA is in dire need of an ambitious Infrastructure / P3 program for generation and T&D assets by the end of 2019, as well as other critical infrastructure projects beyond 2019
- Attracting external capital in PREPA's current fiscal situation must address investors concerns regarding governance, financing and execution of proposed infrastructure/Fiscal Plan program:
- PREPA will incorporate global best practices and industry standards in:
  - **Governance**: political independence, trusted board, and professional management of P3 delivery entity; and
  - **Financing and execution**: market terms on exclusivity and re-negotiation provisions of commercial agreement, subordination of any government-provided capital, clarity on ultimate counter-party and credit enhancement support
- A comprehensive and self-reinforcing P3 program will be designed to include:

✓ Seeding and ring-fencing a P3 delivery entity with unencumbered assets and potential revenue flows

✓ Leveraging asset base to enhance counter-party surety, improve project financing terms, and potentially raise third party financing for the P3 program or delivery entity

✓ Establishing an independently-governed (or specifically dedicated PREPA PMO office), professionally managed P3 structure (e.g., via the P.R. P3 Authority) to select the right projects using objective criteria, deliver using optimal procurement strategy and commercial terms

PREPA's structure should be responsible for end-to-end delivery of P3 projects, protection of core energy infrastructure assets, and re-investment into well-defined critical energy infrastructure needs

Implementation: comprehensive P3 program design, delivery resources & approach to attract capital – in tandem with support from the P3 Authority and applicable regulators

	Description	Current State & Need
Create the Project Concept	▪ Develop energy project concepts alongside public and private partners ▪ Establish priorities, timelines and align key policy objectives (e.g., environmental and health compliance) ▪ Build basic profile of various critical projects	▪ Concerns regarding PREC role in infrastructure procurement ▪ PREPA will lead effort under certified fiscal plan and budget – and FOMB ▪ Gain support of Governor's Infrastructure Taskforce/P3 Authority
Prepare the P3 Project For Tender	▪ Prepare cost estimates and project feasibility ▪ Design P3 procurement model ▪ Issue P3 RFPs ▪ Facilitate legal due diligence to identify potential risks or legislative requirements	▪ PREPA implemented market sounding effort (REOI in 2016) ▪ There are numerous interested private sector parties for energy infrastructure projects ▪ Expedited permitting under Title V, Act 76-2000, are key
Tender & Deliver the P3 Project	▪ Attract private investors to provide debt and equity providers for construction and permanent financing ▪ Ensure the financing terms and commensurate service levels meet PREPA requirements	▪ PREPA will design a comprehensive P3 energy infrastructure program ▪ Government procurement process viewed as inefficient and uncertain ▪ PREPA has limited capital budget to provide cash equity ▪ Government, PREPA going through restructuring – attracting long-term debt remains a challenge

PREPA's infrastructure program success will hinge on addressing fundamental governance, execution, and financing questions

Governance

- PREPA will create a PMO for centralized project consideration, including efforts between Taskforce and P3 Authority & coordination with relevant agencies
- PREPA is enhancing governance provisions under the supplement to the RSA

Execution & Financing

- PREPA's Fiscal Plan contemplates ensuring necessary capital to launch infrastructure/P3 critical projects as necessary operating expenses to ensure environmental, health and safety compliance, among others
- PREPA, through its Fiscal Plan, will ensure having sufficient internal and external resources to execute
- Environmental review, siting, permitting (including federal) for critical energy projects will be managed via Title V (Revitalization Coordinator), Act 76-2000, Executive Order No. 3-2017 and related regulations
- Supplemental RSA terms and conditions will be leveraged
- PREPA is reviewing how to best leverage existing assets to maximize P3 critical project opportunities
- Will there be regulation/ legislation that will protect private capital? (e.g. exclusivity, limited protection from competition)

Governance enablers for P3 program success include political independence, trusted board, and professional management of P3 delivery entity & implementation

Success factor	Rationale	Key implementation concerns addressed
Political Independence	▪ Political independence of decisions to determine optimal delivery and procurement models, to assure long-term investors and developers that: • Critical projects have merit and address clear needs – under PREPA certified fiscal plan • Procurement is to be completed without political veto or interference per fiscal plan	▪ Priority critical projects are identified as is criteria to support projects ▪ Permitting form local agencies as well as federal must be efficient and supportive – under PROMESA
Trusted Board of Directors	▪ High-level representation across key public sector stakeholders and functional areas of expertise drawn from prominent private and public sector individuals – to provide credibility and assure broad buy-in to overall energy P3 projects	▪ PREPA BoD will remain professional and highly supportive of the certified Fiscal Plan
Professional Management - Implementation	▪ Sufficient coverage from in-house PREPA professionals and external experts across key functional areas (technical, commercial, legal, etc.) will be organized to assure appropriate diligence, procurement approach, commercial structure and implementation for each critical project	▪ PREPA is designing, as part of its new organizational structure, PMO offices to manage and implement operational, financial and infrastructure projects under the Fiscal Plan

Legislation has been enacted to address the challenges faced by Puerto Rico's energy sector

Legislation	
Puerto Rico Energy Transformation and RELIEF Act (Act No. 57-2014)	▪ Creation of Energy Commission • Regulatory oversight for PREPA, including assessment of service quality and review of proposed rates • Ongoing rate case with respect to proposed 1.025 cent/kWh provisional rate increase • New transparent rate structure • Provides for better monitoring of PREPA's efficiency • Covers PREPA's costs and eliminates structural deficits
PREPA Revitalization Act	▪ Enhanced Accountability • Consumer Advocacy position: the Independent Consumer Protection Office (ICPO) • Limits on electricity provided to municipal entities as Contributions in Lieu of Taxes (CILT)
The Puerto Rico Oversight, Management and Economic Stability Act (PROMESA)	▪ Creates a federal restructuring regime for the Government of Puerto Rico and its instrumentalities ▪ Establishes the FOMB to oversee the development of budgets and fiscal plans for Puerto Rico's instrumentalities and government