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Puerto Rico Electric Power Authority (“PREPA”)

Juan F. Alicea Flores, PE
Executive Director

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Concluding Remarks

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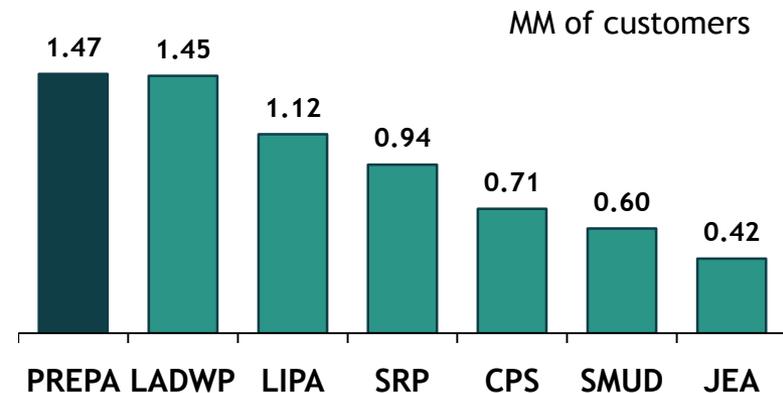
Overview of PREPA

- Independent island utility
- Sole provider selling an essential service
- PREPA has full rate setting authority
- No customer concentration risk
- Fuel and purchased power costs passed through to PREPA's customers on a monthly basis
- PREPA is one of the largest public utilities

Public Power Issuers by Revenues (\$Bn)



Public Power Issuers by # of Customers

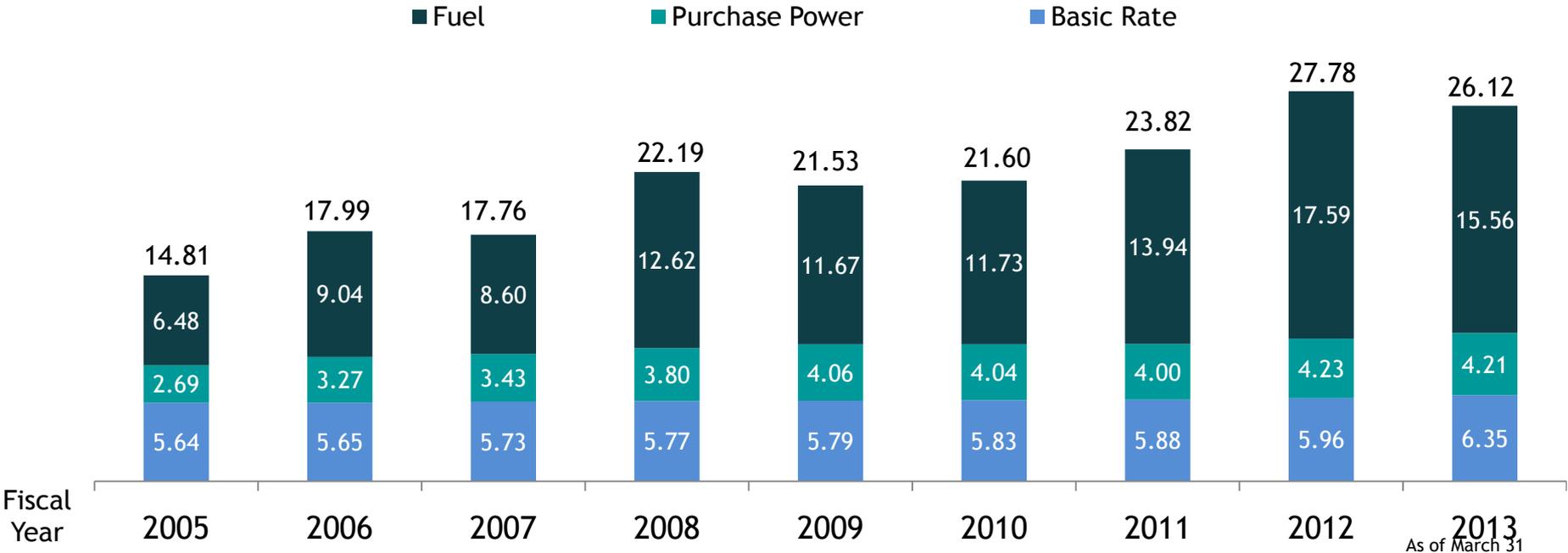


Source: American Public Power Association 2012-13 Annual Directory & Statistical Report

Pass Through of Volatile Fuel Costs in Customer Rates

- Fuel and purchased power represent approximately 75% of PREPA’s costs
- Rates are adjusted monthly to pass these costs through to customers
- Increases or decreases in PREPA’s fuel and purchased power cost are recovered through rates two months after such costs are incurred (billing cycle)

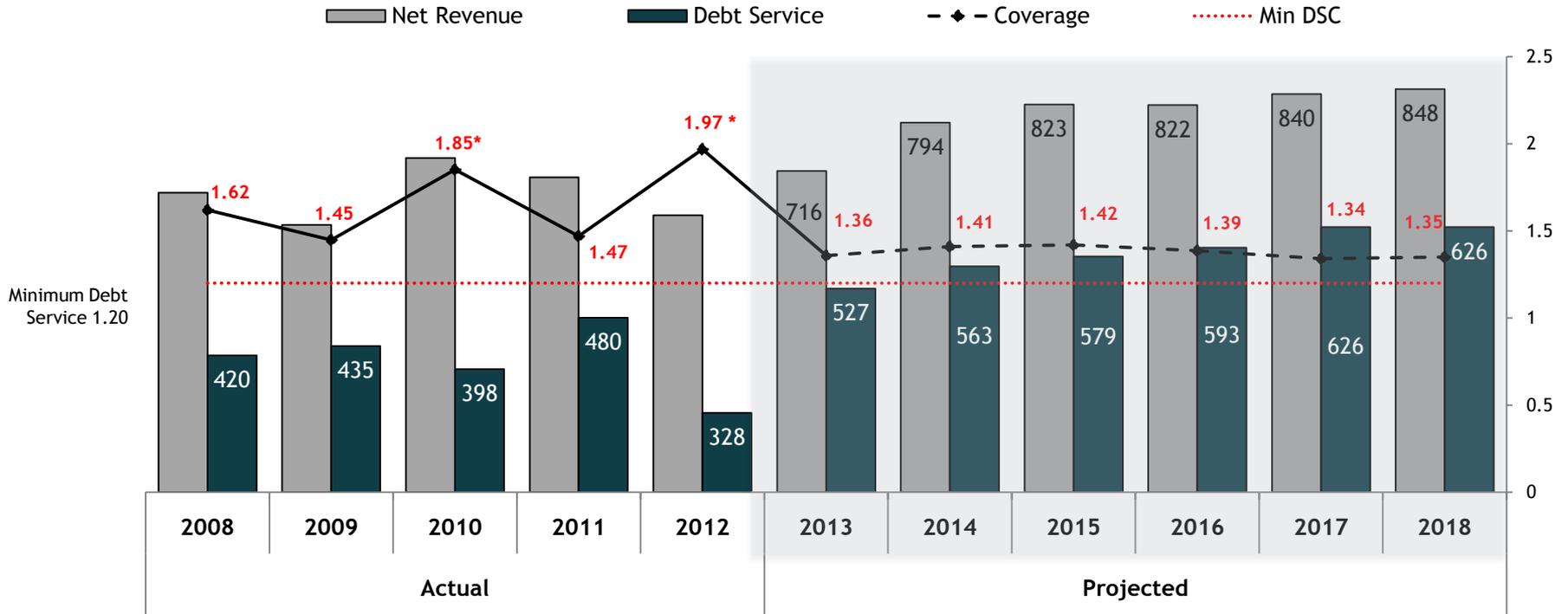
Average Rate per kWh (cents per kWh)



Source: PREPA’s Planning and Studies Division, Comptroller Division

Adequate Debt Service Coverage

Net Revenues and Debt Service Coverage (\$ in millions)

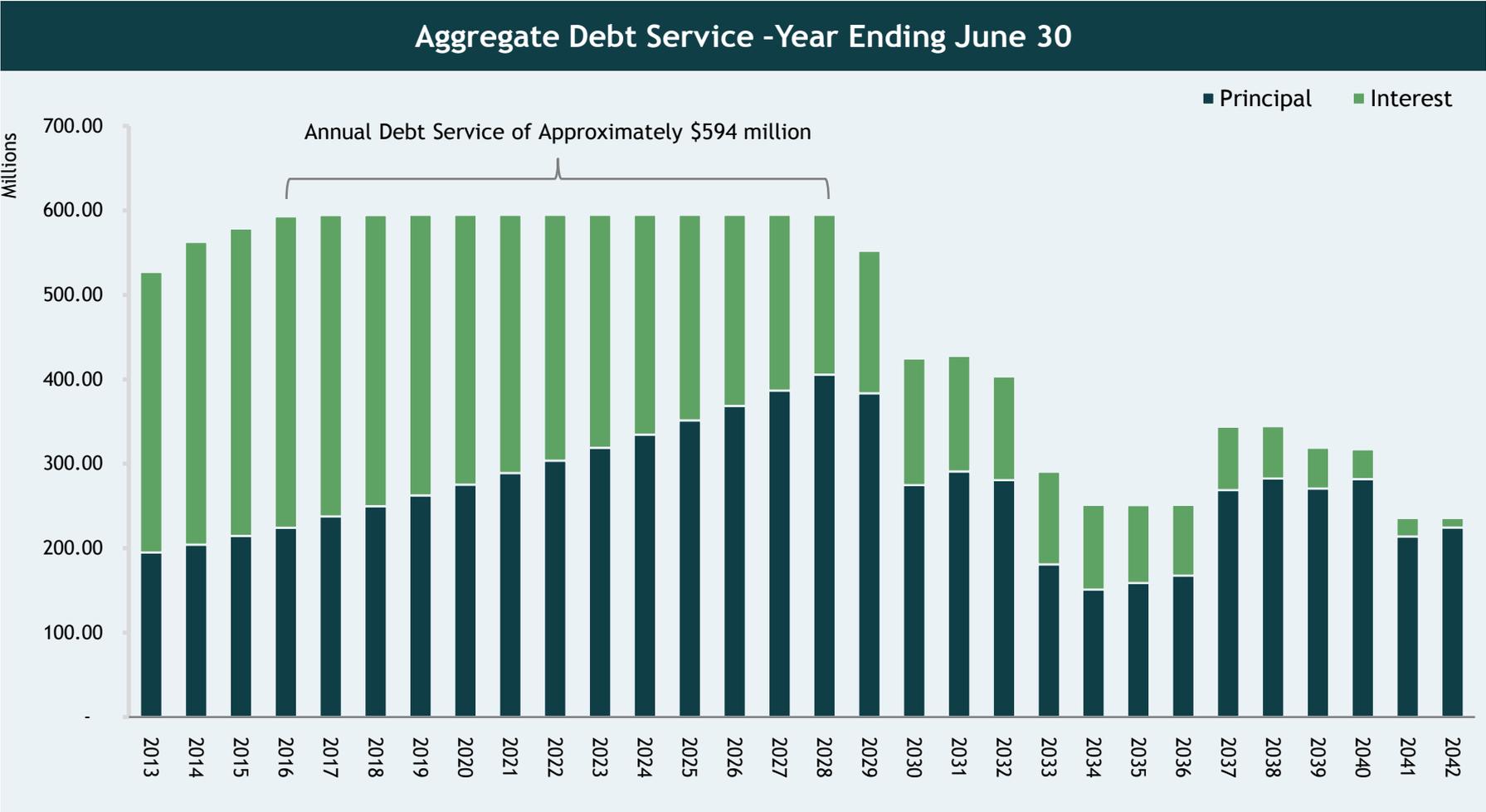


*Increase in DSC due to debt restructuring

Debt Service and Net Revenue Projections as of March 2013 were developed by PREPA and its consulting engineers

Debt Service Profile

- PREPA has no variable rate risk or put risk on its senior lien



Source: PREPA Official Statements. BAB subsidy payments and capitalized interest are not included in debt service

Overview of PREPA

PREPA's Cash Reserves Strengthen Bondholder Security

Available Funds (\$000) as of March 31, 2013

<u>Type</u>	<u>Amount</u>
Unrestricted cash and cash equivalents	\$ 47,717
Construction Fund Balance	78,801
Restricted cash and cash equivalents	
Sinking Fund (P+I)	300,394
Reserve Account	403,498
Self Insurance Fund	94,070
Reserve Maintenance Fund	15,849
Subtotal	813,811
Total	\$940,329

PREPA is committed to achieving fiscal stability in the near term, continuing its capital plan while improving its liquidity position

Recent Developments

1

Expiration of the Rate Stabilization Account will improve PREPA's collections and lead to higher Net Revenues and debt service coverage

2

After adding back foregone revenues from the rate stabilization account, PREPA's bonding capacity is sufficient to continue funding its ongoing CIP

3

Rates have already decreased as a result of the conversion of Costa Sur Unit 6 to Natural Gas and are expected to improve further when Unit 5 is converted this summer

4

As of the end of March, PREPA had \$78.8 million remaining in its Construction Fund, which could fund expected construction expenses into July

Elimination of the rate stabilization account should enhance PREPA's bonding capacity

ABT Calculations - As defined in the 1974 Trust Agreement (\$ in millions)

	12 months to Mar-2013	Rate Stabilization Account	Adjusted 12 months to Mar-2013
Gross Revenues	4,958.6	99.6	5,058.2
Expenses	<u>4,299.5</u>	<u>-</u>	<u>4,299.5</u>
Net Revenues	659.1	99.6	758.7
Current year debt service	527.1		527.1
Debt Service Coverage	1.25x		1.44x
Maximum annual debt service	594.8		594.8
ABT coverage calculation	1.11x		1.28x

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Strategic Plan

Key Challenges

1. Fiscal Stability
2. Natural Gas Conversion & Cost Reductions
3. Operational Stability & Efficiency
4. Environmental Compliance
5. Safe Integration of Renewable Energy Projects

PREPA continues to implement its multi-year strategy to diversify energy and improve operational efficiencies, leading to long-term financial and fiscal stability and renewed credibility for PREPA

Achieving Fiscal Stability

Conversion of Plants to Natural Gas



More Efficient Operations

Accounts Receivable Reduction



Improved Cash Flow

Energy Theft Reduction



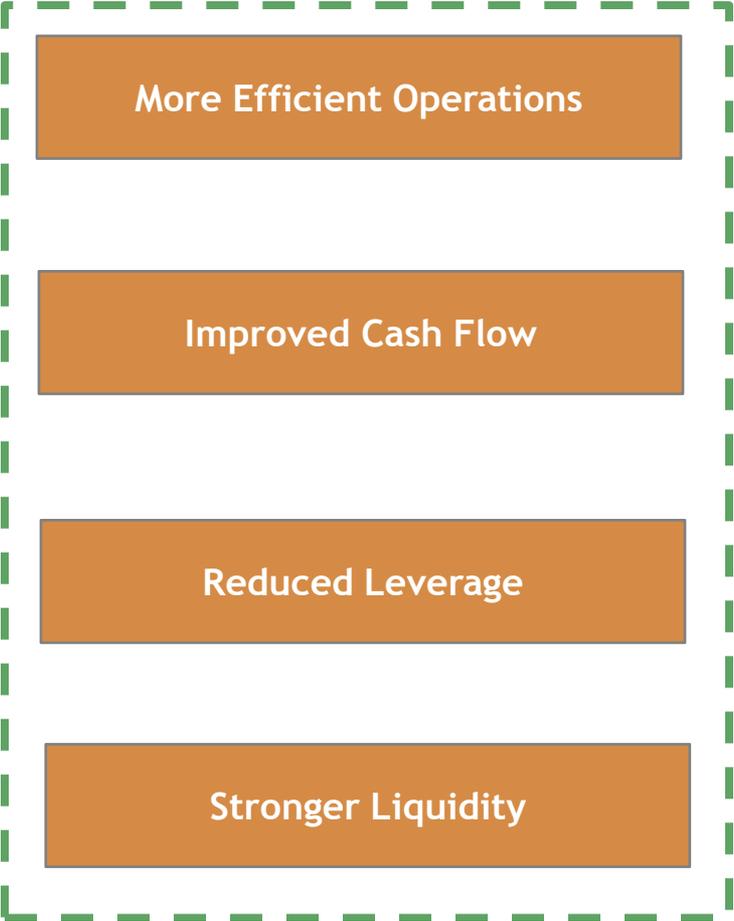
Reduced Leverage

Controlled CILT Expenses



Stronger Liquidity

Comprehensive Cost Reduction Plan



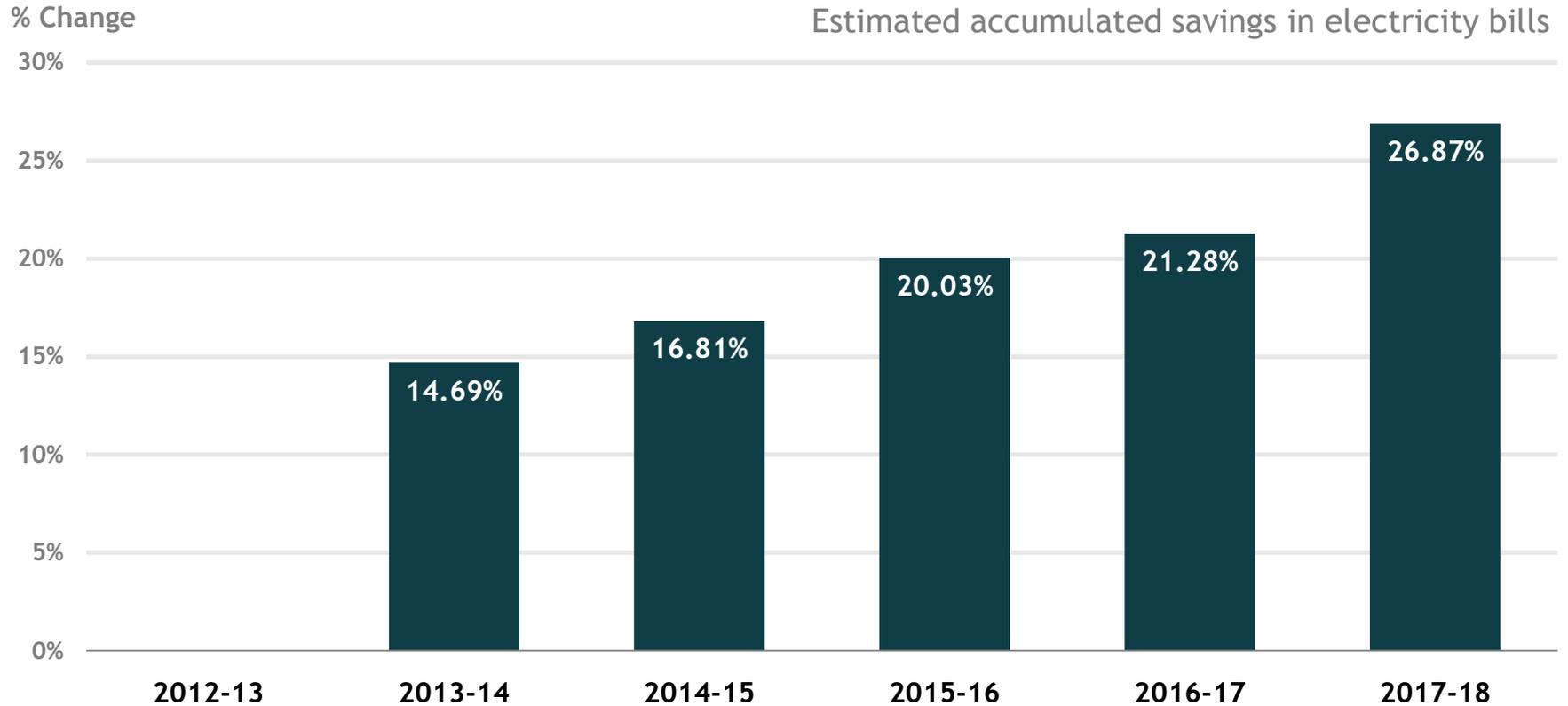
The Authority and Government Development Bank, as fiscal agent for the Authority, entered into a Fiscal Oversight Agreement in July 2009

Fiscal Oversight Agreement (FOA)

- Formalizes controls and oversight by GDB
- Pursuant to the Agreement, the Authority agreed to implement a comprehensive expense reduction program
- The Authority must provide GDB with certain reasonably requested financial information and operating data

Goal of the Agreement is to ensure PREPA's self-sufficiency and improve the credit to ensure reliable access to the capital markets to finance its long-term capital plan

Conversion to Natural Gas is expected to provide a positive impact on electricity costs



Conversion to natural gas will reduce and stabilize PREPA's fuel cost

Management is implementing corrective measures to improve accounts receivables and liquidity

Accounts Receivables (\$ in 000)

	Balance as of 03/31/2012	Balance as of 03/31/2013
General Clients	772,924	943,334
Government Accounts	233,568	276,630
Loss Reserves	(201,477)	(246,211)
Total	805,015	973,753

Issues

Corrective Measures

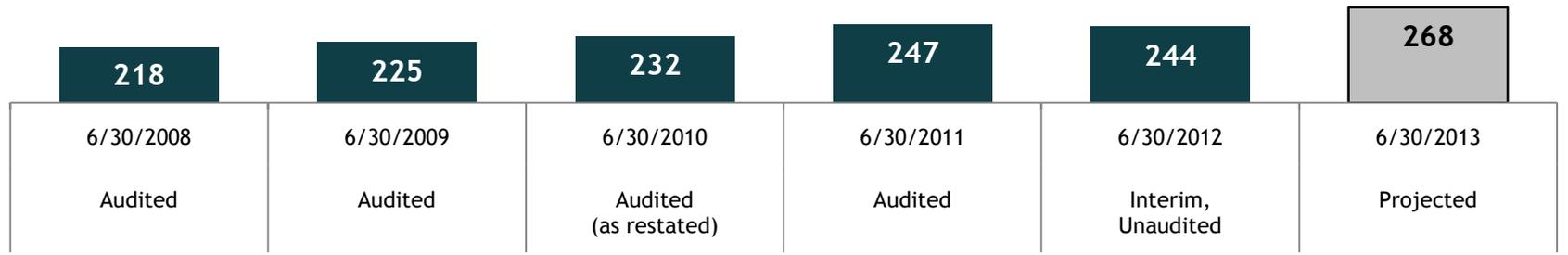
Conversion to new customer service system implementation in May 2012 resulted in rejection and estimation of invoices	Government and large account invoices have been corrected. Personnel is being trained to prevent billing rejections. System is being reconfigured to address this issue
Minimum collection efforts during the last six months of 2012	Enhancements to CC&B will allow automatic disconnections of smart meters
Labor conflict during October and November 2012	Contract negotiations advanced
Management Changes and Transition Period	New management team in place, with in- depth knowledge of PREPA

The Authority is pursuing its energy theft reduction program through the use of “smart grid” technologies that reduce the need for door-to-door inspections

- Acts 237-2011 and 238-2011 adopted on December 11, 2011, increase the criminal and administrative penalties for tampering with the electric energy system
- An Energy Theft Committee has been established to implement initiatives to reduce energy theft

What is PREPA doing with CILT

PREPA's CILT has increased over the past six years (\$ in millions)

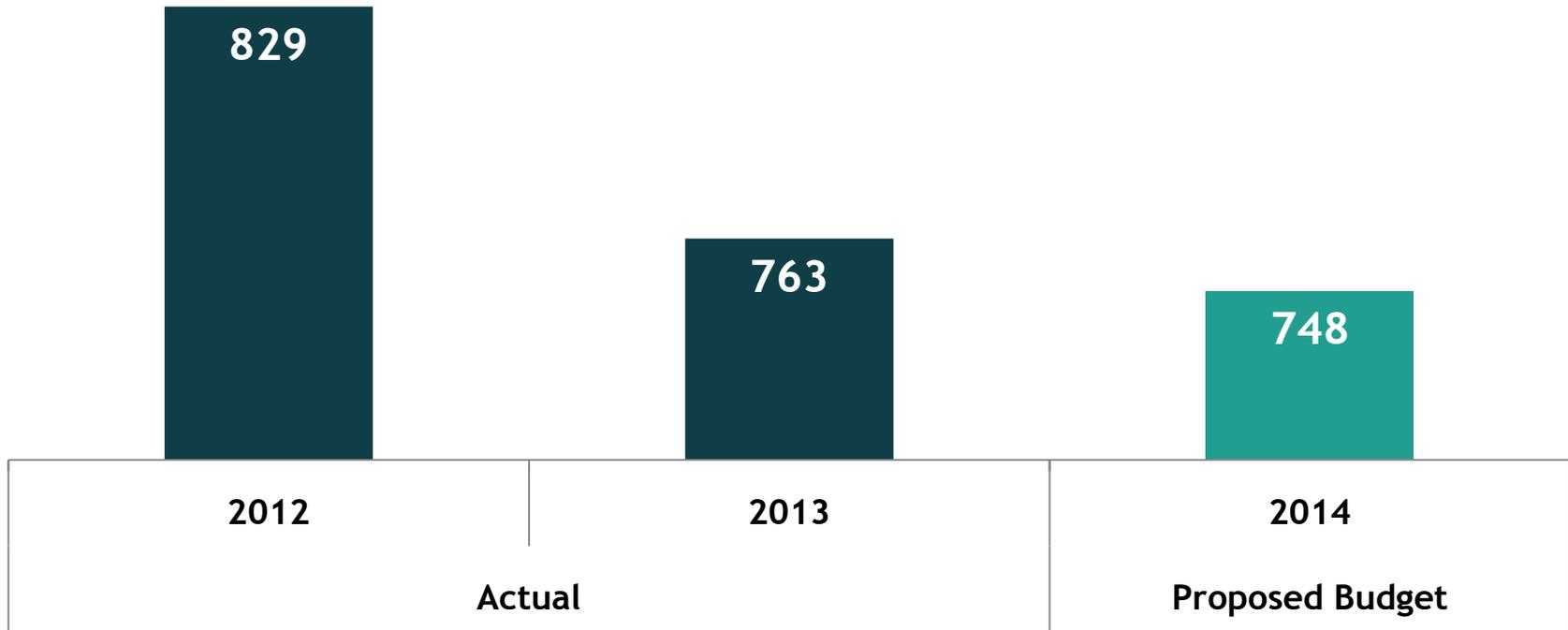


- In order to address this financial concern PREPA will implement Law 233 of 2011, which excludes electric energy consumption by revenue producing properties from CILT
- PREPA estimates that enforcement of this law could result in an estimated \$28 million in annual savings

Regions	# Customers	Estimates, \$ in millions
Arecibo	11	2.85
Mayagüez	40	7.73
Bayamón	55	9.59
Caguas	37	1.12
Ponce	75	3.94
San Juan	81	1.80
Carolina	62	0.87
	361	\$27.9

PREPA is continuing to improve internal processes to reduce O&M Expenses

Operating & Maintenance Expenses (\$ in millions)

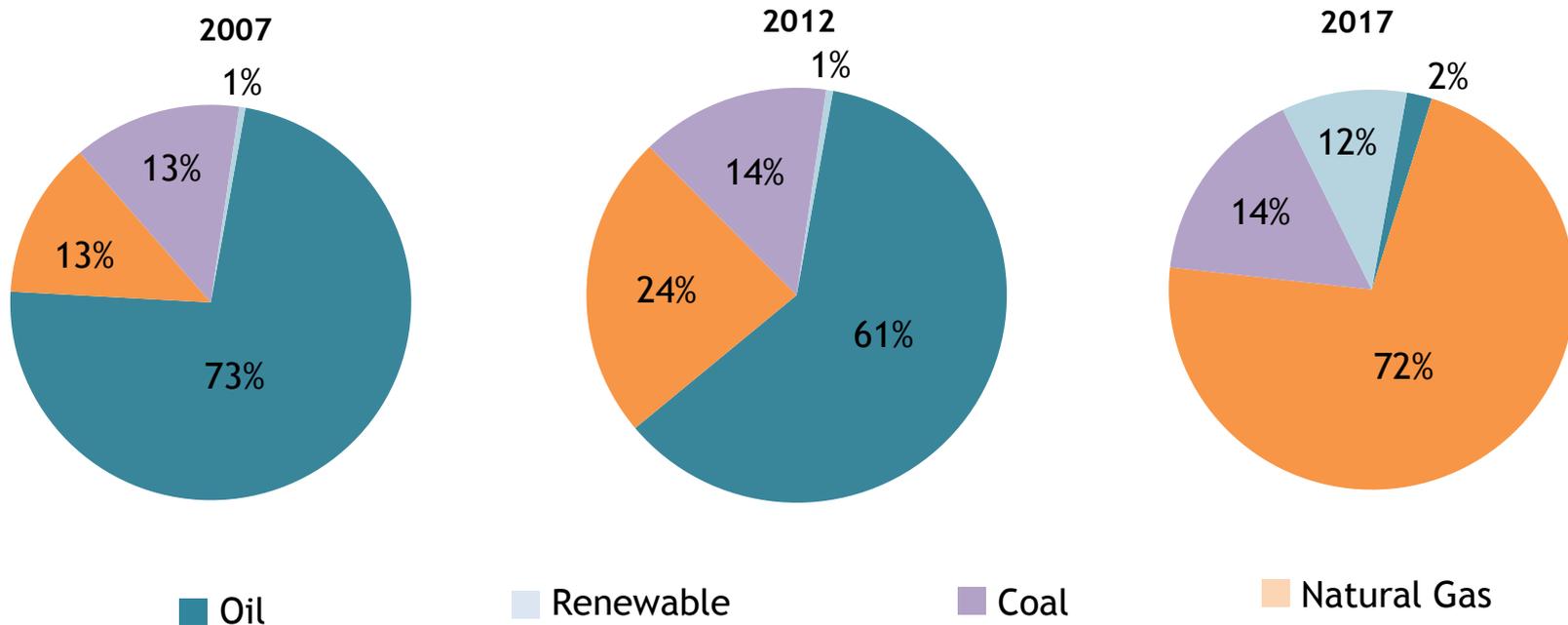


PREPA is considering several strategies that will result in \$120 million in annual savings, already incorporated in FY 2014 Proposed Budget

Natural gas conversion continues to be PREPA's main priority to reduce dependence on oil by 2017

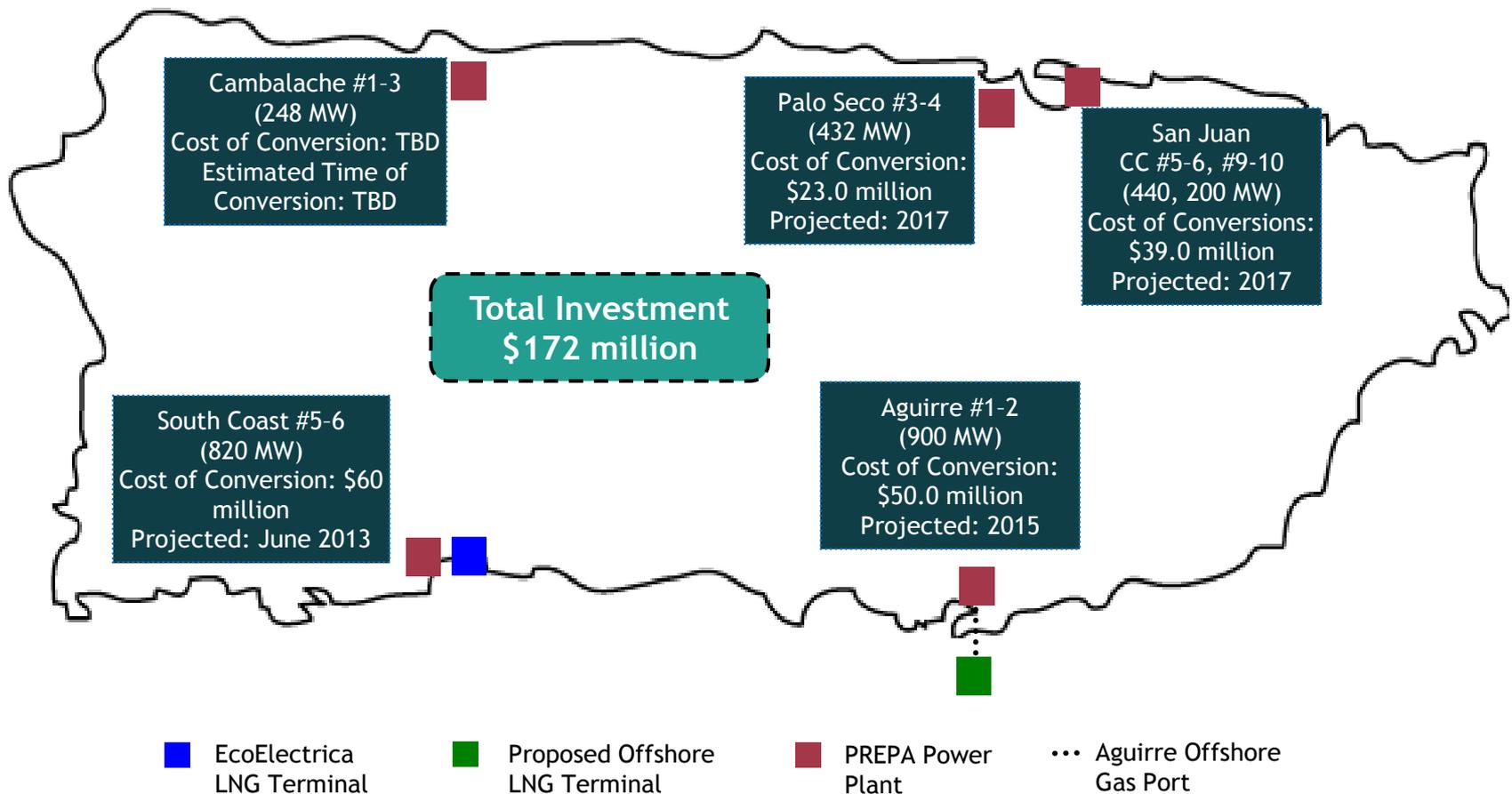
Planned Reduction in Dependence on Oil Based Production

Targeted reduction in fuel oil of 60% by 2017 will replace fuel oil with natural gas and renewable resources and comply with new EPA requirements (MATS Rule).



PREPA's plan to convert to natural gas is being financed with the current CIP

Major Components of PREPA's NG Plan



Natural gas conversion is being spearheaded by Aguirre's Offshore Gasport Project

Off Shore LNG Terminal for Aguirre

- Floating LNG Terminal
- FERC Permit Formal Application Filed
- Capacity - 500 MMscf/d (sustained)
600 MMscf/d (peak)
- Projected completion by 2015
- Investment - \$253 million
- Financing: off-balance sheet project finance structure



Since the cancellation of Via Verde in October 2012, PREPA has been conducting an evaluation process in order to identify other feasible infrastructure to supply natural gas to the units along the North coast of the Island

On April 16, PREPA introduced a plan to the EPA that detailed both its plans for conversions and for natural gas delivery

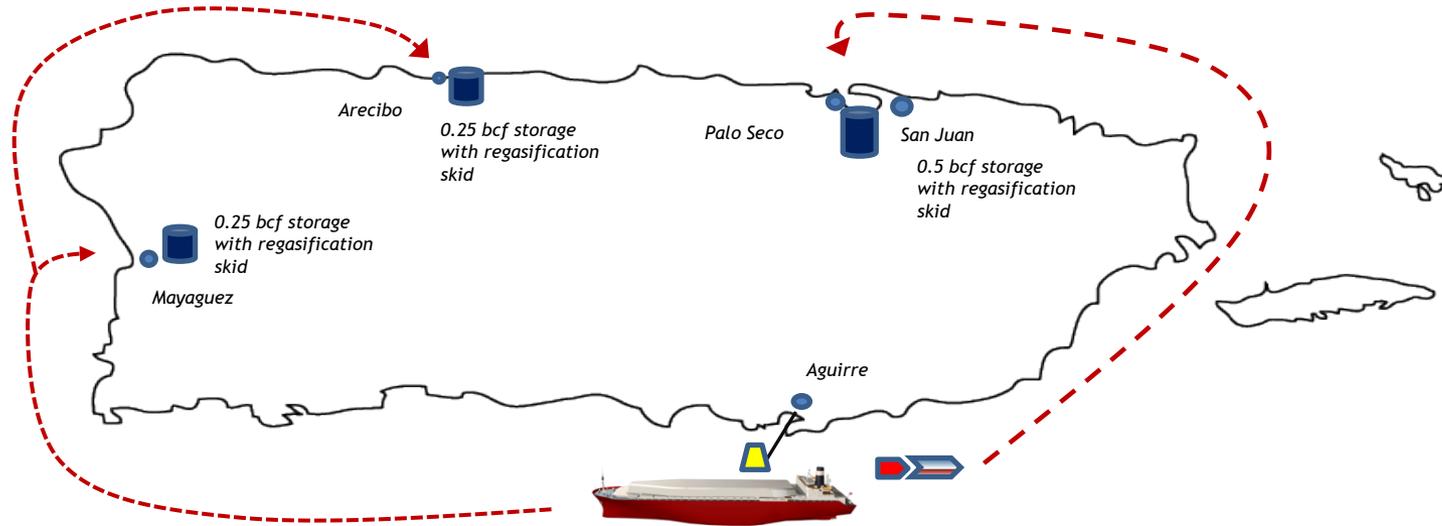
PREPA issued a Request for Information (“RFI”) asking 25 companies active in the LNG sector for recommendations on LNG delivery methods; PREPA will evaluate the responses to this RFI over the next 2 months

PREPA expects to issue a formal Request for Proposals in order to evaluate the different approaches and choose the best alternative based on cost, expected completion, and feasibility

PREPA’s goal is to have the LNG infrastructure in place and ready for commercial service by 2017

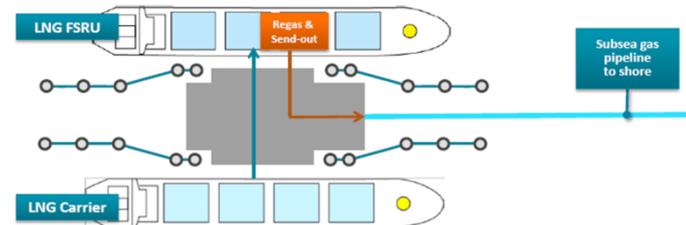
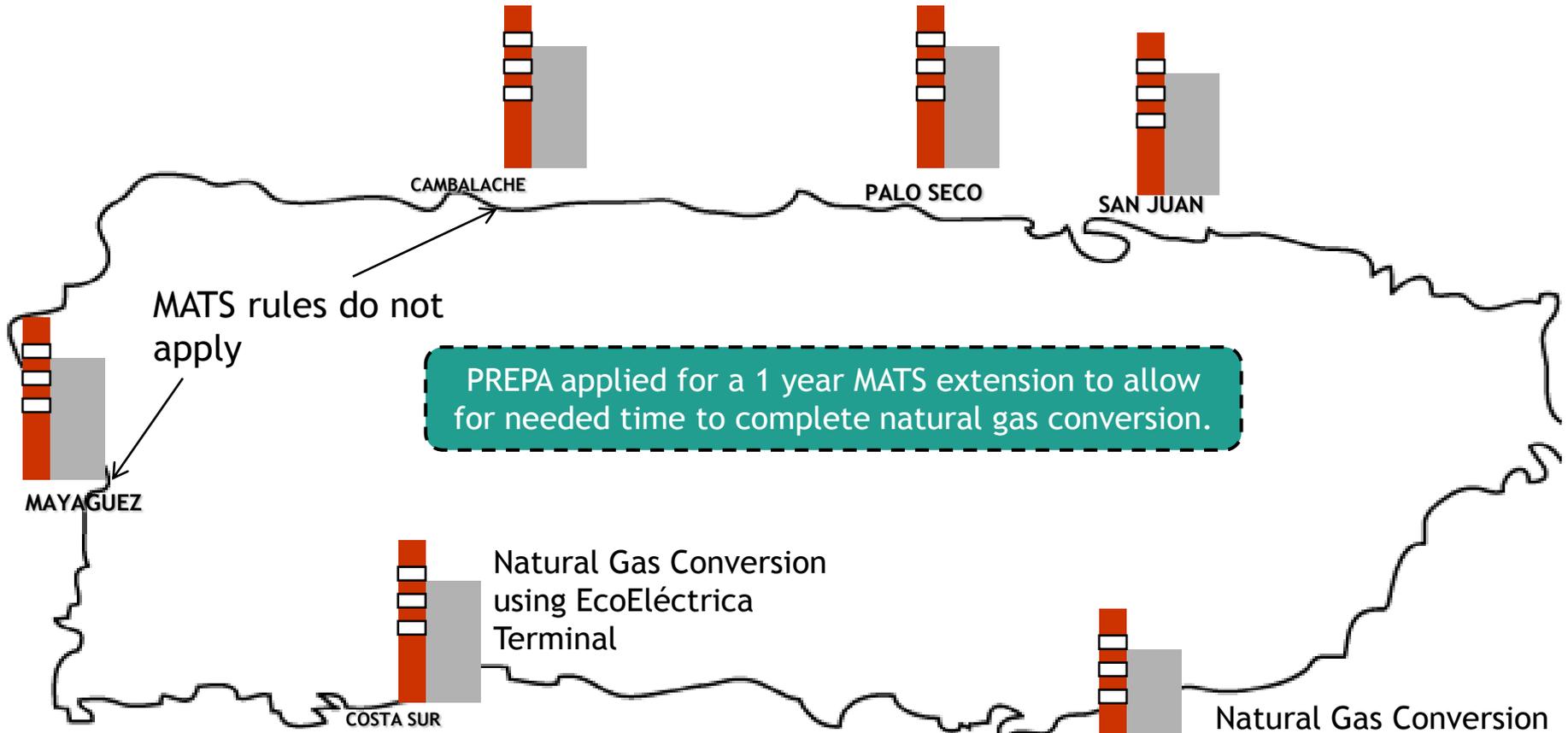
Aguirre offshore terminal allows for supply alternatives for northern plants

A small scale LNG Barges



Strategic Plan

MATS Rule Compliance



PREPA is responsibly reassessing all renewable energy projects to ensure safe integration into its system

Situation

- Law 82 of 2010:
 - 12% by 2015
 - 15% by 2020
 - 20% by 2035
- 64 PPOAs in place, totaling 1,645.8 MWs
- Additional 700 MWs in Master Agreements

Challenges

- Interconnection Points
- Minimum Technical Requirements (MTR)
- Stability of the System

Strategies

- Complete due diligence for each of the signed PPOAs
- Process initiated for a Technical Study to determine a safe penetration capacity to the grid

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Concluding Remarks

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- Over the course of this presentation, we gave a snapshot of our comprehensive strategic plan that we have developed to address the challenges the Authority faces during coming years
- PREPA is making consistent progress in implementing its diversification plan, continuing to increase the amount of LNG-derived generation with a goal of continuously lower customer rates
- PREPA is exploring many initiatives to lower operating expenses and improve operations
- PREPA is spending capital funds prudently and is prioritizing funds on strategic projects; it is also exploring alternative financing structures for these strategic projects
- While these initiatives are pursued, PREPA should maintain sufficient revenues and cash in the near-term to ensure that debt service is paid and bonding capacity is maintained so that strategic capital projects will proceed on Schedule
- But perhaps the principal component of that strategic plan is the management team we have put together to implement it

Together, these plans will lead to improved credibility for PREPA both with its customers and with market participants

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