PREPA's Transformation

A Path to Sustainability

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New Vision for PREPA

A Path To Transformation

PREPA Presents Recovery Plan

Proposed Recovery Plan	PREPA presented its proposed Recovery Plan to creditors on June 1, 2015 that requires a shared burden among key stakeholders
Negotiations With Creditors	Negotiations with creditors have secured a consensual term sheet with ad-hoc group and fuel line lenders. Discussions with monolines continue.
Forbearance Agreement	Forbearance Agreements have facilitated negotiations on a consensual plan
Plan Agreement	Goal is to achieve Restructuring Support Agreement (RSA) with creditors

Forbearance Agreements with Creditors

Forbearance Agreements allowed short, mid, and long term plans for PREPA to continue operations, while implementing operational transformation to become a self-sustaining power utility.

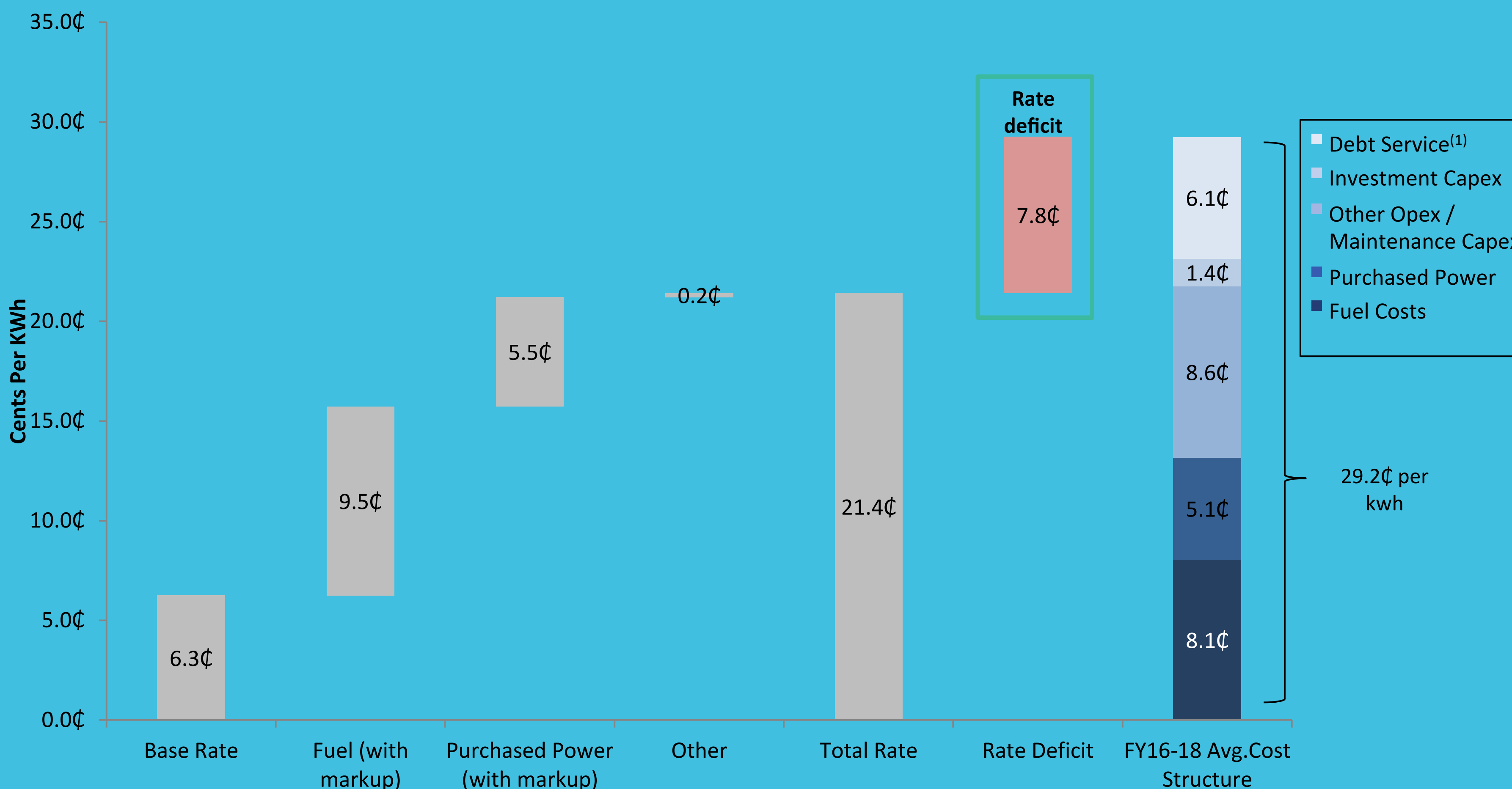
Stabilization	*Operational Rehabilitation*	*Value Enhancement*
Short term (18 months) Pause sinking fund payments to provide liquidity to continue operation's.	Mid Term (5 years) Restructure financial debt to provide adequate capital to invest on infrastructure to provide efficiency and compliance with MATS.	Long Term (over 5 years) Modern and self-sustaining Power Utility for the benefit of customers and economic development of Puerto Rico.

Transformation towards a self-sustaining Power Utility

Current Rate Structure vs. Cost Base

The graph is for illustrative purposes only and assumes no operational changes. The existing rate structure is not sufficient to cover costs and current debt service requirements, but the rate deficit cannot be borne by the ratepayers alone. Closing the rate deficit will require equitable burden sharing across all stakeholders.

Summary of Rate Deficit



At current demand level each one cent reduction in rate will require cost improvements of ~$165 million

FY16-18 average rate and cost are illustrative and on pro-forma basis using Preliminary Stage 2 IRP and the Stage 2 Business Plan

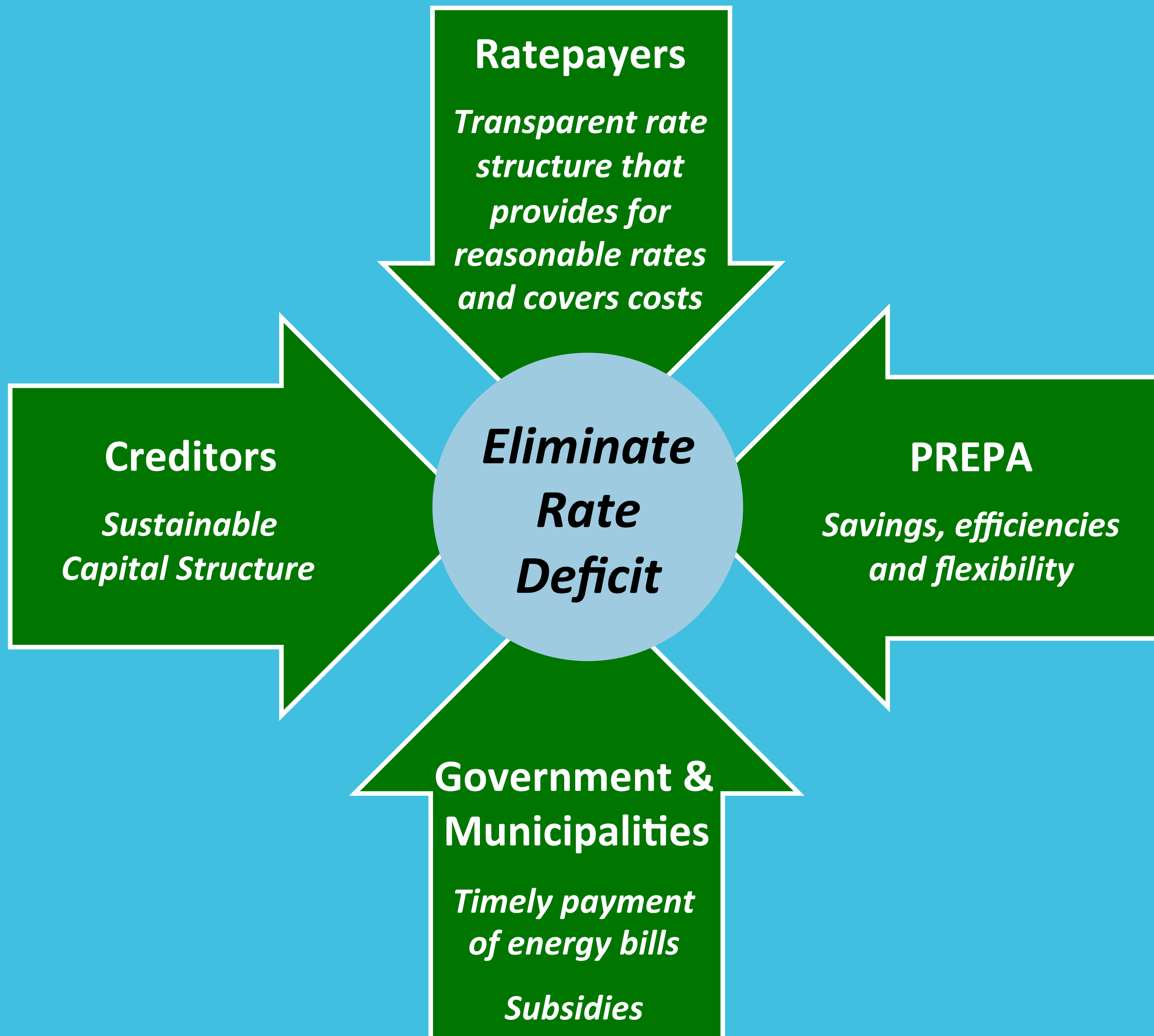
Note: Numbers may not add due to rounding.

(1) Debt service reflects PREPA's status quo debt service obligations for FY2016-FY2018 assuming swaps are terminated and all BAB subsidies remain in place. Also assumes that fuel lines are repaid in full on July 1, 2015 and that all debt service (excluding the fuel line repayments) must have a 1.25x debt service coverage ratio.

Eliminating the Rate Deficit – Shared Burden

The Recovery Plan requires all of PREPA's stakeholders to contribute to creating a sustainable entity for the long-term and bridging the significant rate deficit

Ad-Hoc
Fuel Line Lenders



Operational Improvements

Models for Third Party Involvement in Infrastructure

PREPA and its advisors considered several models for third party involvement in PREPA's infrastructure

Private Sector ⟷ Government

	Privatization	Purchased Power Agreement/ Long-Term Concession	Qualified Management Contract	Government Management
Description	Sale of assets to a private entity	Long-term agreement with independent power producer or owner/manager; usually for 30-99 years	Contract with a third party that provides management services; up to 20 years with limitations	Public board or city council hires management team and appoints board
Owner	Private Sector	Government/Private	Government	Government
Selected Considerations	▪ Private control, subject to regulation ▪ Taxable financing ▪ Requirement to repay tax-exempt bonds	▪ Ability to get private funding/expertise to develop new generation ▪ Private control, subject to regulation and contract ▪ Ability to terminate the concession based on certain parameters ▪ Taxable financing	▪ Third party management, subject to regulation and government oversight ▪ Ability to terminate the contract or deduct payments ▪ Transfer of know-how and expertise ▪ Tax-exempt financing	▪ Limited ability to adopt private sector expertise and best practices ▪ Tax-exempt financing
Examples	▪ Investor Owned Utilities (IOUs), such as ConEd, PSEG	▪ PR-22/Luis Munoz Marin Airport ▪ AES PR/Eco Electrica	▪ Long Island Power Authority (LIPA)	▪ PREPA ▪ San Antonio CPS ▪ Orlando, Jacksonville

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Debt and Financial Restructuring

PREPA Reaches Agreement with Ad Hoc Bondholder Group

Debt and Financial Restructuring

PREPA reached an agreement with the Ad Hoc Group of PREPA bondholders on the economic terms of a restructuring of their PREPA power revenue bonds. The Ad Hoc Group – comprised of traditional municipal bond investors and hedge funds – holds approximately 35% of PREPA's outstanding bonds.

The agreement with the Ad Hoc Group contains the following material terms:

• The Ad Hoc Group will exchange all of their outstanding power revenue bonds for **new securitization notes and receive 85% of their existing bond claims in new securitization bonds**, which must receive an investment grade rating

• Bondholders will have the option to receive **securitization bonds that will pay cash interest at a rate of 4.0% - 4.75% (depending on the rating obtained)** ("Option A Bonds") **or convertible capital appreciation securitization bonds that will accrete interest at a rate of 4.5% - 5.5% for the first five years** and pay current interest in cash thereafter ("Option B Bonds")

• **Option A Bonds will pay interest only for the first five years, and Option B Bonds will accrete interest but not receive any cash interest during the first five years**

• All uninsured bondholders will have an opportunity to participate in the exchange

• Ad Hoc Group will negotiate with PREPA in good faith to backstop a financing that will allow PREPA to conduct a cash tender for bonds held by non-forbearing creditors.

PREPA Reaches Agreement with Fuel Line Lenders

Debt and Financial Restructuring

- The agreement in principle with the fuel line lenders, will have the following two options:
    - Convert existing credit agreements into term loans, with a fixed interest rate of 5.75% per annum, to be repaid over 6 years in accordance with an agreed upon schedule; or
    - Exchange all or part of principal due under existing credit agreements for new securitization bonds to be issued on the same terms as PREPA's agreement with the Ad Hoc Bondholder Group announced on September 1, 2015 (including a 15% principal reduction and 5-year principal holiday)
- The agreement when implemented will allow PREPA to decrease the interest rate PREPA is paying on its fuel line debts from 7.25% to 5.75%.
- It will provide liquidity and financial flexibility by extending by at least 6 years the maturity dates for nearly $700 million that originally came due during the summer of 2014.

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Operational Transformation

Summary of Operational Improvements

Operational improvements are projected to generate annual savings of $245-390 million in addition to one time savings

Operational Improvements

Fuel	Customer Service	Indirect Procurement	Labor (Both Union and Non -Union)
$70 - $150 million savings per year, plus sourcing savings	$40 - $65 million savings per year	$35 - $75 million savings per year	$100 million savings per year

Fuel Action Items

- Reduce inventory levels
- Optimize generation dispatch
- Implement fuel inventory controls
- Improve sourcing and supply chain

Customer Service Action Items

- Bill for electricity used by "for profit" corporations and businesses housed in municipal facilities
- Prioritize suspension and collection efforts for general customers with overdue bills
- Reduce theft by installing more meters and commencing a campaign to recover past losses

Indirect Procurement Action Items

- Review footprint and optimize assets for warehouse, shops and fleet
- Reduce inventory levels
- Reduce spend through improved procurement
- Increase fleet utilization and develop fleet renewal program

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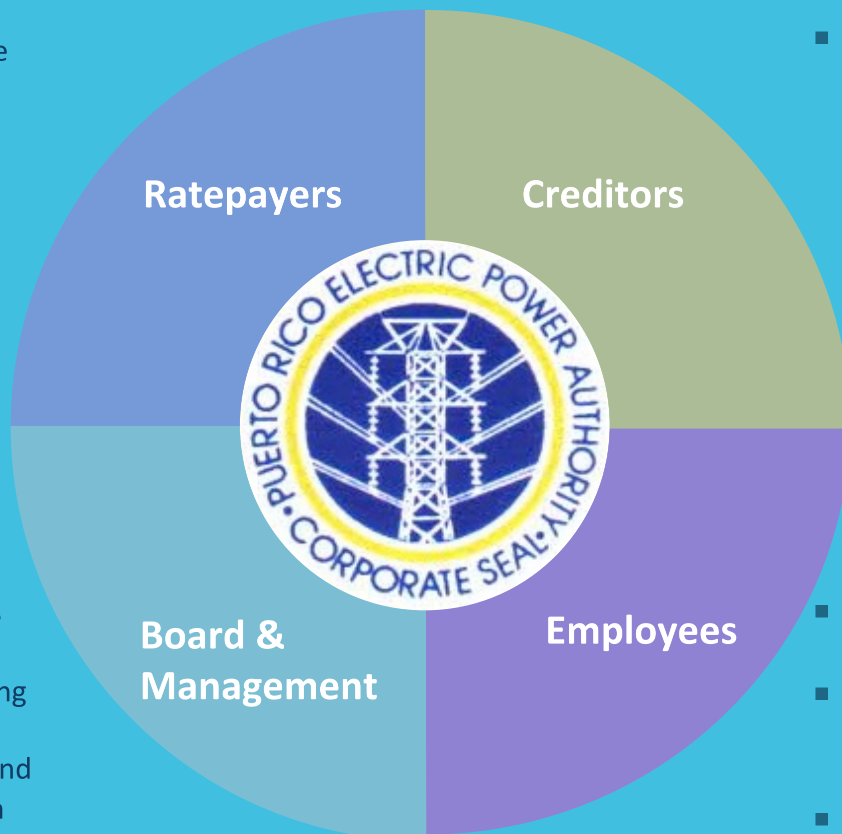
Sharing the Burden

Sharing the Burden

The Recovery Plan requires burden sharing among all of PREPA's stakeholders and aligns their collective interests to ensure the financial sustainability of the New PREPA



- PREPA's ratepayers historically have borne a higher cost relative to the mainland, negatively affecting local industry and growth
- PREPA's current rate structure doesn't cover existing costs
- For-profit municipal entities and government entities will be required to pay for their consumption
- New, transparent rate structure that ensures future changes in operating costs will be appropriately captured

- PREPA's current debt service cannot be supported by its existing cash flows
- The Recovery Plan provides for a sustainable capital structure to enable PREPA to modernize its infrastructure and become compliant with environmental laws

- New governance will increase PREPA's independence from political interference, enhancing long-term planning, ability to attract third-party operators and financing and implementation of industry best practices
- PREPA will evaluate potential third-party operators to manage the system, develop new plants and support the execution of the Recovery Plan

- PREPA's employees are critical to PREPA's turnaround
- The Recovery Plan includes safety upgrades to reduce PREPA employee accidents
- The Recovery Plan also includes savings on labor costs and improvements to the efficiency of PREPA's workforce

Website Links for PREPA Restructuring Process

www.aeepr.com

PREPA Restructuring

http://www.aeepr.com/Aeees/restructuracion.asp

PREPA Recovery Plan

http://www.aeepr.com/Docs/RecoveryPlan.pdf

Lisa Donahue testimony before the PR Senate (04/15/2015)

http://www.aeepr.com/Docs/Lisa%20Donahue%20PR%20Senate%20Statement%204-14-15.pdf

Compliance Law 57 & Integrated Resource Plan

http://www.aeepr.com/Aeees/ley57.asp