PREPA Public Disclosure
March 31, 2015

Introduction

As previously announced, on August 14, 2014, Puerto Rico Electric Power Authority ("**PREPA**") executed forbearance agreements, as amended on March 30, 2015 (the "**Forbearance Agreements**") with certain insurers and beneficial owners of its outstanding power revenue bonds and power revenue refunding bonds (collectively, the "**Forbearing Bondholders**") as well as with Citibank, N.A. and Scotiabank de Puerto Rico and the lenders signatory thereto (collectively with Scotiabank de Puerto Rico and Citibank, N.A., the "**Revolving Credit Line Providers**," and together with the Forbearing Bondholders and certain other creditors who also executed forbearance agreements, the "**Forbearing Creditors**"). Pursuant to the Forbearance Agreements, the Forbearing Bondholders also consented to an amendment, which became effective on August 27, 2014 (the "**First Amendment**") to that certain Trust Agreement, dated as of January 1, 1974, as amended and supplemented through August 1, 2011, between PREPA and U.S. Bank, as successor trustee (the "**Trust Agreement**") to, among other things, permit PREPA to use certain funds held in the Construction Fund for Current Expenses (as those terms are defined in the Trust Agreement), subject to certain limitations.

Pursuant to the Forbearance Agreements, on December 15, 2014, PREPA provided to each of the Forbearing Creditors (or its advisors, if so requested) a business plan (the **"Business Plan"**) including certain assumptions with respect to financial projections excluding a capital structure over a nine-year period, potential cost saving and revenue enhancement initiatives, and projections for maintenance, development, and environmental capital expenditures. In addition, pursuant to the Forbearance Agreements, PREPA retained Leidos Engineering, LLC (**"Leidos"**) and delivered to each of the Forbearing Creditors (or its advisors, if so requested) an integrated resource plan focusing on generation on November 28, 2014 (the "**IRP Stage 1**").

On March 30, 2015 PREPA announced that it had reached agreement with certain Forbearing Bondholders and the Revolving Credit Line Providers to extend the term of the Forbearance Agreements until 11:59 p.m. (prevailing Eastern Time) on April 15, 2015. The terms of such extended Forbearance Agreements are substantially similar to the original agreements, with the addition of covenants by PREPA to (i) work collaboratively and in good faith with the Forbearing Creditors to transform PREPA for the benefit of all of PREPA's stakeholders, including its existing creditors; and (ii) consider in good faith a plan presented by certain Forbearing Creditors to PREPA on March 26, 2015.

Forward-Looking Statements

The information contained in this notice and associated exhibits encompass certain "forward-looking" statements and information. These forward-looking statements may relate to the fiscal and economic condition, financial performance, plans, or objectives of PREPA. All statements contained herein that are not clearly historical facts are forward-looking, and the words "anticipates," "believes," "continues," "expects," "estimates," "intends," "aims," "projects," and similar expressions, and future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may," or similar expressions, are generally intended to identify forward-looking statements. The information contained herein is subjective in many respects and thus subject to interpretation.

These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, estimates, opinions, expectations and assumptions by PREPA that are difficult to predict and inherently uncertain and many of them are beyond the control of PREPA. The economic and financial condition of PREPA is affected by various financial, social, economic and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by PREPA, but also by entities such as the Commonwealth of Puerto Rico (the **"Commonwealth"**), the government of the United States of America, and other third parties. Because of the uncertainty and unpredictability of these factors, their impact cannot, as a practical matter, be included in the assumptions underlying PREPA's projections.

Any projections set forth in this disclosure were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the officers of PREPA responsible for the preparation of such information, were prepared on a reasonable basis based on information available to PREPA and its advisors, AlixPartners LLP and Leidos, at the time of preparation. This information may be incomplete, however, and any information that subsequently becomes available may have a material impact on the projections. It is not possible for PREPA to forecast all the risks which may emerge from time to time nor is it feasible for PREPA to assess the operational or financial impact that such risks may have on its business. Any combination of risks and other unforeseen challenges may cause results to differ materially from those contained in this disclosure. As such, readers are cautioned not to place undue reliance on any forward-looking financial information contained herein. Actual future results may differ materially from the forward-looking information presented herein.

PREPA does not undertake to update or revise this disclosure, except to the extent required by law.

Neither PREPA's independent auditors, nor any other independent auditors, including those of the Commonwealth, have compiled, examined, audited or performed any procedures with respect to the financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability and disclaim any association with such financial information. Neither PREPA's independent auditors, nor any other independent auditors, including those of the Commonwealth, have been consulted in connection with the preparation of this disclosure, and the independent auditors assume no responsibility for its content.

The Business Plan and the IRP Stage 1 are based on certain assumptions that may or may not be accurate or reflective of future events. The Preliminary Business Plan includes PREPA's projections for operations and capital needs on a "status quo" basis to form a baseline for ongoing discussions. It does not propose a capital structure for PREPA, or otherwise propose any changes to PREPA's operations, employee benefits or existing rates. Nothing in the Business Plan or the IRP Stage 1 should be viewed as, or constitute, any recommendation or proposal of PREPA with respect to a proposed course of action or inaction.

Without limiting the foregoing, the financial and operational information contained herein may not reflect, and may differ materially from, information that may be contained in future business plans or similar materials. Following the completion and delivery of the Business Plan, PREPA engaged Siemens Industry, Inc. (**"Siemens"**) to conduct an integrated resource plan (the **"Act 57 IRP"**) to comply with Act 57-2014. When completed, the Act 57 IRP may include materially different assumptions, costs and projections than those included in the IRP Stage 1.

To assist PREPA in satisfying its obligations under Act 57, PREPA engaged Navigant Consulting, Inc. to conduct a rate study (the **"Rate Study"**). The information included in the Business Plan and the IRP Stage 1 do not contemplate any adjustments in PREPA's rates or rate structure as a result of this Rate Study or any action the Energy Commission may take. As a result, the financial information contained herein may differ significantly from that contained in future business plans or similar materials. In addition, any new business plan would likely account for the effects of potential cost-saving initiatives preliminarily identified in the Business Plan and other initiatives identified over time.

As part of its discussions with Forbearing Creditors concerning an extension of the Forbearance Agreements, PREPA executed confidentiality agreements with certain holders of PREPA's power revenue bonds. Under the terms of these confidentiality agreements, PREPA agreed to publicly disclose certain material confidential information provided in the Business Plan and IRP Stage 1. PREPA is publicly disclosing the information contained in this release to comply with its obligations under such confidentiality agreements.

Disclosure of Selected Material Information Contained in the Business Plan

Labor Expense Assumptions

Total labor costs were assumed to be in accordance with Law 66. Headcount assumptions were based on PREPA's employee census at September 30, 2014 and reflect anticipated tenure-related retirements. Overtime assumptions were based on fiscal 2015 year-to-date run-rates at the time the Business Plan was prepared with benefit assumptions reflecting then current benefit rates as a percentage of basic salary and overtime. Table 1 shows projected labor costs.

Table 1: Labor Costs ($ in millions)

FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
$539	$530	$519	$522	$521	$527	$532	$537	$543

The preceding labor cost assumptions do not give consideration to potential changes in PREPA's asset base which may result in cost changes required to service a revised asset base.

General Operating Expenses

General operating expenses including items such as per diem, maintenance, utilities, banking, security, advisory, legal, and other items were forecasted and account for approximately 5% - 6% of total operating expenses each year during the Business Plan projections period. These assumptions did not include potential cost reductions attributable to improvement initiatives currently being developed and at various stages of implementation.

Generation Loss Assumptions

The Business Plan accounted for generation losses in-line with results from fiscal year 2013. Historically, PREPA's losses have been broken into three categories: (i) self-consumption, (ii) line losses, and (iii) non-technical losses. Self-consumption includes parasitic load at power plants as well as electricity required for offices. Line loss includes generation lost through transmission, transformer, and distribution. Non-technical losses include billing limitations, faulty metering, and theft. The Business Plan assumed these three categories collectively account for approximately 17.0% of total generation, consistent with performance for fiscal year 2013.

Maintenance Capital Expenditures

The Business Plan assumed capital expenditures on existing assets would adhere to PREPA's five-year plan through fiscal year 2019, and extrapolated for years beyond fiscal 2019.

The Business Plan's forecasted capital expenditures included expenditures to replace transmission and distribution lines and equipment, construct new lines, improve substations and other equipment, and ongoing maintenance of generating assets. Table 2 summarizes these forecasted maintenance capital expenditures on PREPA's existing asset base.

Table 2: Capital Expenditures Summary ($ in millions)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Total T&D Capex	$140	$167	$161	$154	$158	$163	$168	$173	$178
Gen. Capex Excl. New Units	88	108	89	86	88	83	86	89	93
Total Cust. Service Capex	14	14	14	14	14	15	15	15	15
Total G&A Capex	20	15	14	16	16	16	16	16	16
Total Maintenance Capex	**$262**	**$305**	**$278**	**$269**	**$276**	**$277**	**$284**	**$293**	**$303**

In addition to the projections shown above, PREPA has previously disclosed plans to build the Aguirre Offshore Gas Port ("AOGP"). The capital expenditures shown in the table above do not include the projections for AOGP. For further detail on the AOGP project, parties should reference the PREPA Public Disclosure dated October 15, 2014.

Preliminary Balance Sheet

The Business Plan included an unaudited, preliminary balance sheet for June 30, 2015[1]. PREPA's actual balance sheet on June 30, 2015 may differ from the forecasted balance sheet due to many variables including, but not limited to: differences in forecasts versus actual performance for customer demand, customer collections and fuel costs, successful implementation of cash flow improvement initiatives, capital structure changes, funding new assets and any changes that may be necessary as a result of ongoing discussions with the Forbearing Creditors or any other restructuring. PREPA's preliminary forecasted June 30, 2015 balance sheet is shown below:

[1] Balances for restricted assets (excluding Construction Fund), Total Current Liabilities from Restricted Assets and Total Non-Current Liabilities Represent estimated balances at 12/31/2014.

Table 3: Preliminary Balance Sheet ($ millions)[1]

	6/30/2015
$ in millions	
Current assets	
Cash and cash equivalents	
General fund	$ 331
Revenue fund	0
Working funds	1
Total cash and cash equivalents	332
Accounts receivable, excluding CILT	1,253
Accrued CILT	669
Fuel oil inventory	146
Materials and supplies inventory	196
Prepayments and other	7
Total current assets	2,272
Non-Current Receivables	103
(1) **Restricted Assets**	
Cash held by trustees	3
Investments held by trustees	594
Construction fund	65
Other restriscted assets	22
Total Restricted Assets	684
Utility plant, net	6,723
Deferred debits, net	154
Total Assets	$ 10,266

[1] Balances for restricted assets (excluding Construction Fund), Total Current Liabilities from Restricted Assets and Total Non-Current Liabilities Represent estimated balances at 12/31/2014.

Current Liabilities		
Notes payable to banks		732
Accounts payable and accrued liabilities, excluding CILT		740
Accrued CILT liablity		669
Customer deposits, including acrrued interest		14
Total Current Liabilities		2,155
Current liabilities payable from restricted assets		
Current portion of long-term debt		421
Notes payable from restricted assets		-
Accrued interest on payable bonds and notes		227
Other current liabilities		52
(1) **Total Current Liabilities from Restricted Assets**		700
Non-current liabilities		
Power revenue bonds, net of unamortized debt discount		8,044
Non current portion, accounts payable, and acrrued sick leave		122
Accrued unfunded OPEB		146
Customer deposit - noncurrent		167
(1) **Total Noncurrent Liabilities**		8,479
Total Liabilities	$	11,333
Net Position	$	(1,067)
Total Liabilities and Equity	$	10,266

[1] Balances for restricted assets (excluding Construction Fund), Total Current Liabilities from Restricted Assets and Total Non-Current Liabilities Represent estimated balances at 12/31/2014.

The Business Plan excluded the effects of various improvement initiatives currently being developed and at various stages of implementation. The following list of operational improvement opportunities was identified after the delivery of the Business Plan. These improvements include cash enhancements due to improved revenue collections and cost savings related to operations excluding labor costs. As a result, PREPA's actual future financials may differ materially from those presented in the Business Plan. The following improvement initiatives preliminary estimates were outlined in the Business Plan and are subject to material revision based upon ongoing diligence by PREPA and its advisors. Because such diligence is ongoing and the implementation of various improvements is either in initial stages or yet to begin, PREPA is disclosing a range of values which may or may not be achievable on an annual basis.

Table 4: Operational Improvement Initiatives ($ in millions)

Improvement Opportunity	Potential Annual Improvement
Fuel	$95-200M
Customer Service	$65-125M
Indirect Procurement	$35-75M
Safety	$5-10M
Total	**$200-410M**

Disclosure of Selected Material Information Contained in the IRP Stage 1

The IRP Stage 1 was focused on generation, including PREPA's ability to comply with regulations imposed by the United States Environmental Protection Agency (**"EPA"**). IRP Stage 1 complied with EPA regulations by designating certain aged generation assets as limited use and installing new generation capacity with lower environmental emissions due to technical specifications and fuel source. The study was limited by numerous factors, including, but not limited to: uncertainty surrounding PREPA's access to financing on terms acceptable to PREPA, availability of alternative energy sources and PREPA's ability to receive and distribute such sources, variable and potentially volatile nature of fuel prices, uncertain nature of projections related to future load growth, and other significant factors.

In developing the IRP Stage 1, Leidos used certain assumptions and inputs which are detailed in the tables below. Included among those items are: (i) summary of PREPA's current generating facilities, (ii) summary of the generation statistics of the various plant types currently in PREPA's generation portfolio, (iii) summary of the new generation options Leidos considered when conducting the IRP Stage 1, (iv) summary of current renewable energy plants and the capacity of potential new renewable generation projects, and (v) summary of the hydroelectric generation assumptions Leidos utilized.

PREPA's generation system is currently comprised of 5,691MW of generation, of which PREPA owns over 80%. As a practical matter, PREPA only has direct access to fuel oil number 6 and number 2, with limited quantities of natural gas available to Costa Sur through arrangements with certain suppliers. Table 5 shows PREPA's current generation supply before considering any new generation options.

Table 5: PREPA Generating Facilities, Key Characteristics[1]

	Firm Capacity (MW)	Heat Rate (MMBtu/MWh)	Fuel Type	Owned / Contracted
Aguirre 1&2 Steam Units	900	9.65	No. 6 fuel oil	Owned
Aguirre 1&2 CC Units	552	11.14	No. 2 fuel oil	Owned
Costa Sur 3&4 Units	170	10.48	No. 6 fuel oil	Owned
Costa Sur 5 Steam Unit	410	9.75	NG/No. 6 fuel oil	Owned
Costa Sur 6 Steam Unit	410	9.97	NG/No. 6 fuel oil	Owned
Palo Seco 1&2 Steam Units	170	10.20	No. 6 fuel oil	Owned
Palo Seco 3&4 Steam Units	432	9.73	No. 6 fuel oil	Owned
San Juan 7&8 Steam Units	200	10.47	No. 6 fuel oil	Owned
San Juan 9&10 Steam Units	200	10.27	No. 6 fuel oil	Owned
San Juan 5 CC Unit	200	7.63	No. 2 fuel oil	Owned
San Juan 6 CC Unit	200	7.85	No. 2 fuel oil	Owned
Cambalache 1-3 Gas Turbines	248	11.55	No. 2 fuel oil	Owned
Mayagüez 1-4 Gas Turbines	200	9.32	No. 2 fuel oil	Owned
Gas Turbines 1-22	378	14.40	No. 2 fuel oil	Owned
Hydro Facilities	60	0.00	Run of River	Owned
AES-PR Coal Plant	454		Coal	Contracted
EcoEléctrica Plant	507		NG	Contracted

Table 6 provides an aggregated summary of the generation statistics of PREPA's existing plants by plant type. Aggregate megawatt capacity reflects the total for individual units. Fixed operation and maintenance costs have been aggregated based on a weighted average of megawatts produced. Similarly, variable operations and maintenance costs reflect a weighted average based on megawatt hours produced. It is also important to note that the impact of outages (both planned and forced) and generation costs accounted for at the PREPA corporate level were not considered. Moreover, the numbers below do not include external power plants or smaller remote plants.

Table 6: Total Generation Statistics by Plant Type

	CC	Steam	CT
Max Capacity (MW)	952.0	2,892.0	447.5
Fixed O&M 2014$ / KW-year	$22.8	$35.5	$17.4
Variable O&M 2014 / MWh	$3.8	$3.1	$6.0

In developing assumptions for new potential thermal supply options, Leidos relied upon information supplied by PREPA, vendor-supplied performance and cost information and internal Leidos estimates of performance and cost for each of the three generation technologies considered in the IRP Stage 1.

Given the preliminary nature, numerous open items and limited time available to prepare the IRP Stage 1, it was not prudent for PREPA to undertake detailed engineering evaluations of new generation options.

The Act 57 IRP may contemplate additional or different options and a more detailed engineering evaluation of such options, which could affect the results of the Act 57 IRP (and by extension

[1] Excludes installed contracted renewable generation and six diesel generators, and includes one unit at Cambalache that has not been operational since 2009.

future business plans or similar materials) materially. Table 7 shows the new generation Leidos considered.

Table 7: Future Thermal Supply Options

Table 7 - Future Thermal Supply Options	Units	H-Class CC 1x1	SGT800 CC 5x1	Reciprocating Engine
Installed Capital Cost	2014$ / kW	1,293	1,700	1,118
Fixed O&M	2014$ / kW-year	16.3	20.0	18.0
Variable O&M	2014$ / MWh	5.6	7.5	6.0
Maximum Capacity	MW	367.0	335.0	18.5
Minimum Capacity	MW	146.8	35.0	0.6
Minimum Up Time	Hours	4	4	1
Minimum Down Time	Hours	4	4	1
Ramp-Up Rate	MW/hr	2,400	1,800	200
Ramp-Down Rate	MW/hr	2,400	1,800	200
Average Heat Rate at Maximum	MMBtu / MWh	6.39	7.23	8.50
Average Heat Rate at Minimum	MMBtu / MWh	7.69	8.83	8.50
Forced Outage Rate	%	3%	3%	2%
Scheduled Maintenance Rate	%	5%	5%	5%
Capacity Degradation	%	5%	5%	1%
Heat Rate Degradation	%	3%	3%	1%

Puerto Rico's Renewable Portfolio Standards (the **"RPS"**) were established by Act 82-2010 and amended by Act 57-2014. The RPS require 12 percent of PREPA's retail sales to be supplied by renewable generating sources by 2015, with additional requirements for 15 percent by 2020 and 20 percent by 2035. As of September 2014, PREPA had 121 MW of operating renewable generating capacity with an additional 40 MW anticipated to enter commercial operation in the next year. The IRP Stage 1 assumed PREPA would meet RPS using its currently contracted renewable projects regardless of current status along with additional generic renewable projects.

The portfolio of forecasted existing renewable generating capacity, excluding PREPA owned hydro generation of 60 MW is summarized in Table 8 below[1]:

Table 8: Forecasted Existing Renewable Plant Assumptions

	Capacity (MW)	$/MWh (2015)
Wind	101.0	$156.6
Solar	52.1	190.2
Landfill Gas	8.0	92.0
Total	**161.1**	

A summary of the capacity and cost per MWh of the additional potential renewable projects is shown below.

Table 9: Additional Potential Future Renewable Project Assumptions

	Capacity (MW)	$/MWh (2015)
Solar	433.3	$184.3
Landfill Gas	3.5	92.0
Waste-to-Energy	79.0	100.0
Total	**515.8**	

[1] Cost per MWh is based on a weighted average of per plant data.

As noted in PREPA's Generating Facilities, Key Characteristics table, PREPA currently has hydroelectric facilities with a combined capacity of 60 MW. Table 10 outlines the assumptions Leidos included for hydroelectric generation in the IRP Stage 1.

Table 10: Hydroelectric Generation Assumptions

Month	No. Days	MWh/Day	Total MWh
1	31	267	8,268
2	28	239	6,704
3	31	206	6,371
4	30	192	5,751
5	31	367	11,373
6	30	329	9,859
7	31	274	8,502
8	31	403	12,483
9	30	470	14,113
10	31	439	13,619
11	30	360	10,797
12	31	288	8,941
Total			**116,781**