PREPA Public Disclosure
July 22, 2015

Introduction

As previously announced, on August 14, 2014, the Puerto Rico Electric Power Authority ("**PREPA**") entered into forbearance agreements (the "**Forbearance Agreements**") with Citibank, N.A. ("**Citibank**"), Scotiabank de Puerto Rico ("**Scotiabank**") and the other lenders party to that certain Credit Agreement, dated as of May 4, 2012 (as amended, restated, extended, supplemented or otherwise modified from time to time) (the "**Scotiabank Lenders**"), entities insuring or beneficially owning greater than 60% in aggregate principal amount of the bonds (the "**Forbearing Bondholders**") issued pursuant to that certain Trust Agreement, dated as of January 1, 1974, as amended and supplemented, between the Authority and U.S. Bank (the "**Trustee**"), as successor trustee (the "**Trust Agreement**"), and the Government Development Bank for Puerto Rico ("**GDB**," and together with Citibank, its transferees, as applicable, the Scotiabank Lenders and the Forbearing Bondholders, the "**Forbearing Creditors**"). In light of ongoing discussions regarding a potential recovery plan, PREPA and the Forbearing Creditors agreed on several occasions to extend the expiration date of the Forbearance Agreements (the "**Forbearance Agreement Extensions**"). As a result of the most recent Forbearance Agreement Extension, the Forbearance Agreements are scheduled to expire on September 15, 2015 at 11:59 p.m., unless terminated earlier in accordance with their terms.

In connection with discussions and negotiations regarding a potential recovery plan, PREPA executed confidentiality agreements and held discussions with certain Forbearing Creditors (the "**Confidential Information Parties**"), including an Ad Hoc Group of Bondholders. Under these agreements, PREPA agreed to publicly disclose certain confidential information provided to the Confidential Information Parties on or before 11:59 p.m. on July 22, 2015. After receiving a revitalization plan proposal from the Ad Hoc Group of Bondholders two days before the publication deadline, PREPA requested an extension of that deadline to allow confidential negotiations to continue, but the Ad Hoc Group of Bondholders rejected that request. The information included in this notice and its annexes is being furnished to comply with PREPA's obligations under the confidentiality agreements.

Current Status of Discussions with Forbearing Creditors

PREPA is continuing discussions and negotiations with the Forbearing Creditors regarding the terms of a potential recovery plan. Under the current terms of the Forbearance Agreements, if PREPA and the Forbearing Creditors do not reach an agreement to support a comprehensive recovery plan on or before September 1, 2015, the Forbearance Agreements terminate automatically.

PREPA's June 1 Recovery Plan Proposal

On June 1, 2015, PREPA presented a proposed recovery plan to the Forbearing Creditors ("**PREPA's June 1 Recovery Plan**"). The material terms of PREPA's June 1 Recovery Plan are attached as Annex A hereto.

Draft Framework Agreement

In the course of discussions regarding a potential recovery plan, on June 15, 2015, PREPA proposed to the Forbearing Creditors an agreement pursuant to which PREPA and the Forbearing Creditors (in the context of this agreement, the "**Supporting Creditors**" and, together with PREPA, the "**Parties**") would work collaboratively and in good faith to finalize and document a comprehensive recovery plan (the "**Framework Agreement**") incorporating the material terms set forth on a term sheet annexed to the Framework Agreement (the "**Framework Agreement Term Sheet**"). The Framework Agreement also called for the Parties to finalize and document an agreement to support such recovery plan (the "**Restructuring Support Agreement**").

Among other things, the Framework Agreement Term Sheet incorporated the non-economic terms of PREPA's June 1 Recovery Plan Proposal, including a new governance structure, operational improvements and a competitive bidding process for the solicitation of bids for the management of existing operations and the development of new generation plants and projects.

Ad Hoc Group Revitalization Plan

On June 17, 2015, the Ad Hoc Group of Bondholders presented a proposed revitalization plan to PREPA and the other Forbearing Creditors (the "**Ad Hoc Group Revitalization Plan**"). A summary of the material terms of the Ad Hoc Group Revitalization Plan is attached as Annex B hereto.

Insurers' Proposed Modifications to the Ad Hoc Group Revitalization Plan

On June 18, 2015, National Public Finance Guarantee Corporation ("**National**"), Assured Guaranty Corp., and Assured Guaranty Municipal Corp. (together with Assured Guaranty Corp., "**Assured**") presented proposed modifications to the Ad Hoc Group Revitalization Plan to PREPA and the other Forbearing Creditors (the "**Insurer Modifications**"). A summary of the material terms of the Insurer Modifications is attached as Annex C hereto.

PREPA's Revised Recovery Plan

On June 25, 2015, PREPA presented a proposed revitalization plan to the Forbearing Creditors (the "**PREPA Revised Recovery Plan**"). A summary of the material terms of the PREPA Revised Recovery Plan is attached as Annex D hereto.

Ad Hoc Group Revised Revitalization Plan

On July 20, 2015, the Ad Hoc Group of Bondholders presented a counterproposal to the PREPA Revised Recovery Plan. This counterproposal is not supported by the other Forbearing Creditors. The Ad Hoc Group of Bondholders has informed PREPA that it intends to release this revised counterproposal separately.

Forward-Looking Statements

The information contained in this notice encompasses 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.

The 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 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 they 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.

Annex A

PREPA's June 1 Recovery Plan

PREPA's Transformation
A Path to Sustainability

June 1, 2015

Benefits of the Recovery Plan

Reduce Energy Costs

- Converting existing plants to burn both natural gas and fuel oil will help lower fuel costs
- Opening up PREPA's network to third party investors to build new, more efficient generation plants and diversify away from expensive fuel oil
- Evaluate potential third party operators to operate PREPA's system more effectively

Protecting the Environment

- Reducing reliance on heavy fuel oils and moving to greater reliance on cleaner natural gas and renewables
- Investing in PREPA's transmission and distribution to position PREPA to accelerate the integration of renewable energy into the system

People of Puerto Rico

Modernized utility that provides clean reliable electricity for the island and complies with all environmental regulations. A non-political utility implementing best practices with long-term strategic planning for the future. Reduction of energy costs through efficiency and other initiatives over time

Depoliticize and Professionalize PREPA

- Evaluate potential third party system operators to improve customer service and operating efficiency
- Changing PREPA's corporate governance to eliminate political influence and patronage

Jump Start Economic Development

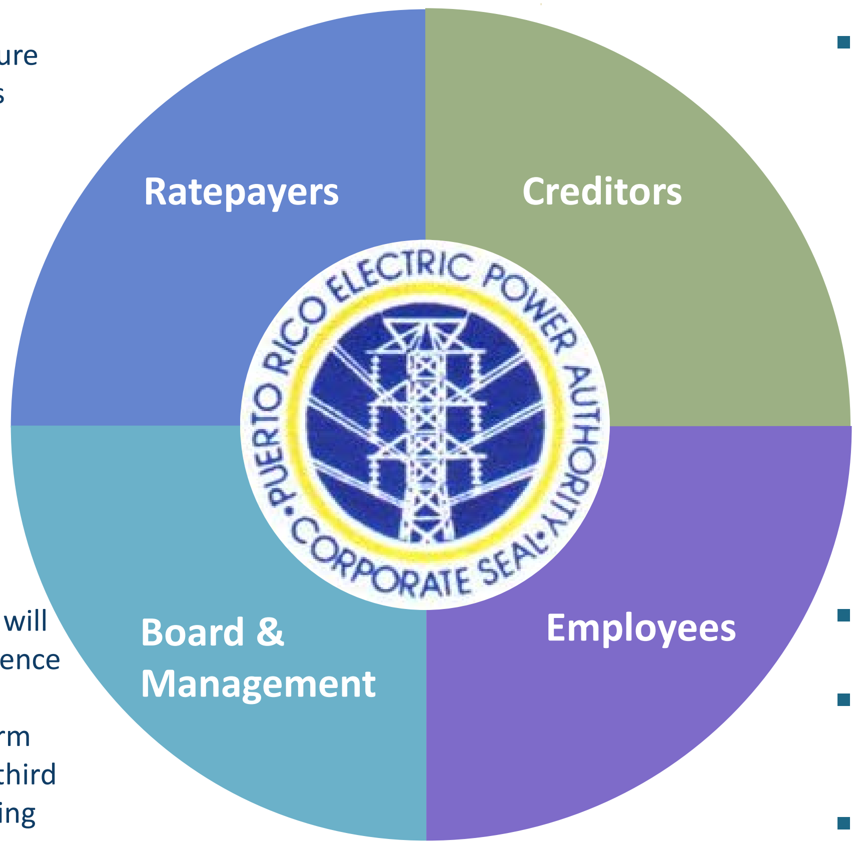
- Creating a reliable utility with stable and reasonable electricity rates for Puerto Rico's businesses and residential customers
- Generating over $2 billion of investments over the next five years, creating new employment opportunities

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



- New governance structure will increase PREPA's independence from political interference thereby 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

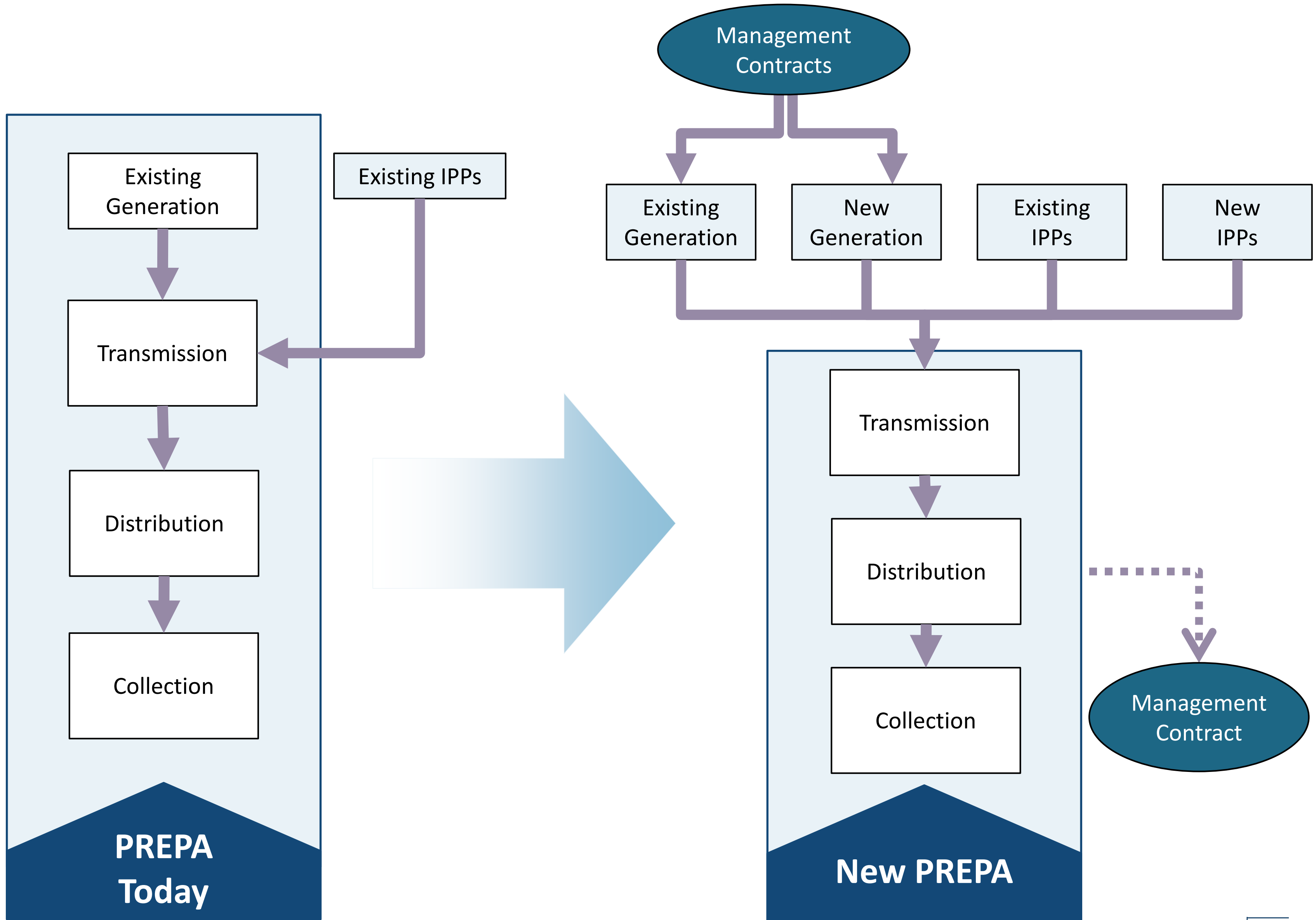
Business Plan Objectives

The Recovery Plan addresses the following key issues

Issue	Business Plan Approach
Clean energy	■ Investment of approximately $900 million to construct AOGP, convert existing units at Aguirre to burn gas and retire old units over the next six years
System reliability	■ Investment of approximately $200 million to improve T&D infrastructure to accommodate demand in the North and increased capacity for distributed generation
Energy efficiency	■ Investment of $1.2 billion at Aguirre and Costa Sur to lower the cost fuel and improve heat rates ■ This new investment will improve fleet efficiency and lower fuel charges for customers
Third party investment	■ PREPA will evaluate potential investment proposals from third parties that are interested in developing generation assets and upgrading the T&D system as part of both the first and second phases of the Recovery Plan
Third party management	■ PREPA will evaluate potential third party operators to provide management expertise and training, selected through a competitive bidding process
Operational savings	■ PREPA expects to capture $320 million of annual operating savings by 2018 ■ PREPA is continuing to evaluate additional areas for savings
Independent oversight	■ Appointment of diverse and qualified board members, identified by a nationally recognized search firm

Illustrative Third Party Management Structure

PREPA will evaluate, through a competitive bidding process, potential third party operators to provide management expertise and training



Preliminary and Confidential Draft Subject to Material Change - Prepared at the Request of Counsel

Business Plan Summary

The following forecast shows direct operating costs and excludes CILT, OPEB, working capital and financing costs

- Direct operating expenses average $3.0 billion per year, capital expenditures average $455 million per year and cost improvements average $315 million per year
- The forecast below does not reflect any pension-related savings

Summary of Expenditures ($ in millions)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Operating Expenses															
Fuel	($1,381)	($1,447)	($1,205)	($1,168)	($1,237)	($1,236)	($1,142)	($1,030)	($1,035)	($1,027)	($1,103)	($1,110)	($969)	($949)	($979)
Purchased Power	(827)	(863)	(868)	(923)	(963)	(984)	(991)	(990)	(995)	(1,030)	(1,040)	(1,045)	(1,071)	(1,088)	(1,084)
Labor	(497)	(494)	(488)	(485)	(486)	(491)	(496)	(501)	(506)	(511)	(516)	(521)	(527)	(532)	(537)
O&M and Other	(223)	(199)	(197)	(199)	(201)	(203)	(205)	(207)	(209)	(211)	(214)	(216)	(218)	(220)	(222)
Total Operating Expenses	**($2,929)**	**($3,003)**	**($2,757)**	**($2,775)**	**($2,888)**	**($2,915)**	**($2,834)**	**($2,728)**	**($2,745)**	**($2,780)**	**($2,873)**	**($2,892)**	**($2,785)**	**($2,789)**	**($2,823)**
Operational Improvements															
Customer Service	$26	$44	$51	$51	$52	$52	$53	$53	$54	$54	$55	$55	$56	$56	$57
Fuel	93	129	109	109	108	110	110	110	110	110	110	110	110	110	110
Procurement	38	55	56	56	57	57	58	58	59	60	60	61	61	62	63
Other, Net	21	71	101	102	103	104	105	106	107	108	109	110	112	113	114
Total Savings	**$178**	**$298**	**$316**	**$318**	**$320**	**$323**	**$325**	**$328**	**$330**	**$332**	**$334**	**$336**	**$339**	**$341**	**$343**
Total Opex Net of Improvements	**($2,751)**	**($2,705)**	**($2,442)**	**($2,457)**	**($2,568)**	**($2,592)**	**($2,509)**	**($2,400)**	**($2,415)**	**($2,448)**	**($2,539)**	**($2,556)**	**($2,446)**	**($2,448)**	**($2,480)**
Capital Expenditures															
Maintenance Capex	($296)	($315)	($284)	($278)	($281)	($285)	($289)	($293)	($296)	($300)	($304)	($309)	($313)	($317)	($321)
Investment Capex	(149)	(446)	(102)	(215)	(367)	(193)	(65)	-	-	(170)	(170)	(233)	(164)	(67)	-
Total Capital Expenditures	**($446)**	**($760)**	**($387)**	**($492)**	**($649)**	**($478)**	**($354)**	**($293)**	**($296)**	**($471)**	**($475)**	**($542)**	**($477)**	**($383)**	**($321)**
Total Opex & Capex Net of Improvements	**($3,197)**	**($3,465)**	**($2,828)**	**($2,949)**	**($3,217)**	**($3,069)**	**($2,863)**	**($2,693)**	**($2,711)**	**($2,918)**	**($3,014)**	**($3,097)**	**($2,923)**	**($2,831)**	**($2,801)**

Sources: PREPA Finance and Generation directorates, Siemens Stage 2 IRP (preliminary)

Investment in New Infrastructure

PREPA will invest at least $2.3 billion in new infrastructure (excluding maintenance capex) in two phases over the next 15 years. PREPA will immediately embark on an RFP process to determine the most efficient source of capital for these projects

- **Phase 1** consists of infrastructure investments PREPA is required to make to comply with MATS regulations and improve system reliability
- **Phase 2** includes investments to further improve PREPA's energy efficiency
  - The capital investment strategy embedded in the Business Plan reflects upgrades to the existing fleet through repowerings. **However, PREPA will immediately pursue investments in the form of public private partnerships, which may result in alternative build plans**

Business Plan – Phase 1

Business Plan – Phase 2
Illustrative Purposes Only

	AOGP	New Units	T&D	Fleet Upgrade	Maint. Capex
Description	• Construction of Aguirre Offshore Gas Port to improve fuel diversity and facilitate MATS compliance for Aguirre	• 3 new diesel CC or Recip. units at Palo Seco (210 MW in FY2022) • Retirement of oil-fired units at Palo Seco, Costa Sur and San Juan	• Insulation and hardware investment • Improve system reliability • Increase capacity to service distributed generation	• Repowerings to improve efficiency at Costa Sur and Aguirre (Steam and CC)	• Approx. $300 million per year for maintenance capex (80% for materials and 20% for capitalized labor costs)
Project Cost	$481 million FY2016-FY2017	$443 million FY2018-FY2021	$226 million for FY2016-FY2020	$1.2 billion FY2020-FY2030	$4.5 billion for FY2016-FY2030

New Investment Capital Expenditures Detail

The table below shows the amount of capital investment required for each major project

- Through FY2020, all projects will be financed 100% with internally-generated cash (equity)
- Beyond FY2020, PREPA is assumed to finance half of the capital requirements with new debt and the remainder with internally-generated cash (equity)
  - — PREPA could modify Phase 2 of the capital plan based on the results of final IRP and proposals of private investors

Summary of Capex Plan ($ in millions)

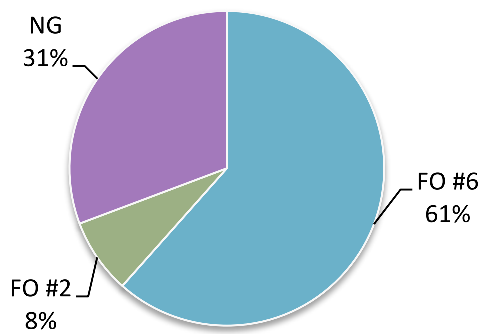
		FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	Total
Phase 1 - MATS Compliance / Air Quality	AOGP and Related Projects	96	384	--	--	--	--	--	--	--	--	--	--	--	--	--	**481**
	Palo Seco																
	Unit 1	--	--	24	48	48	--	--	--	--	--	--	--	--	--	--	**120**
	Unit 2	--	--	22	45	45	11	--	--	--	--	--	--	--	--	--	**123**
	Unit 3	--	--	20	41	41	20	--	--	--	--	--	--	--	--	--	**123**
	Retirements	--	--	--	37	41	--	--	--	--	--	--	--	--	--	--	**78**
	Total for MATS Compliance	**96**	**384**	**67**	**170**	**174**	**32**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**924**
Phase 1 - T&D		**53**	**61**	**36**	**44**	**32**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**226**
Phase 2 - Energy Efficiency Improvements	Aguirre																
	CC 1 Repowering	--	--	--	--	96	96	--	--	--	--	--	--	--	--	--	**192**
	CC 2 Repowering	--	--	--	--	65	65	65	--	--	--	--	--	--	--	--	**195**
	Steam 1 Repowering	--	--	--	--	--	--	--	--	--	101	101	--	--	--	--	**203**
	Steam 2 Repowering	--	--	--	--	--	--	--	--	--	69	69	69	--	--	--	**207**
	Costa Sur																**--**
	Unit 5 Repowering	--	--	--	--	--	--	--	--	--	--	--	98	98	--	--	**196**
	Unit 6 Repowering	--	--	--	--	--	--	--	--	--	--	--	67	67	67	--	**200**
	Total for Energy Efficiency	**--**	**--**	**--**	**--**	**161**	**161**	**65**	**--**	**--**	**170**	**170**	**233**	**164**	**67**	**--**	**1,192**
	Total for New Capex	**149**	**446**	**102**	**215**	**367**	**193**	**65**	**--**	**--**	**170**	**170**	**233**	**164**	**67**	**--**	**2,342**
	Cumulative	*149*	*595*	*697*	*912*	*1,280*	*1,472*	*1,537*	*1,537*	*1,537*	*1,708*	*1,878*	*2,112*	*2,276*	*2,342*	*2,342*	
Maintenance		296	315	284	278	281	285	289	293	296	300	304	309	313	317	321	**4,481**
	Total Capex	**446**	**760**	**387**	**492**	**649**	**478**	**354**	**293**	**296**	**471**	**475**	**542**	**477**	**383**	**321**	**6,823**
	Cumulative	*446*	*1,206*	*1,593*	*2,085*	*2,734*	*3,211*	*3,565*	*3,858*	*4,154*	*4,625*	*5,100*	*5,642*	*6,119*	*6,502*	*6,823*	

Sources: Siemens Stage 2 IRP (preliminary).

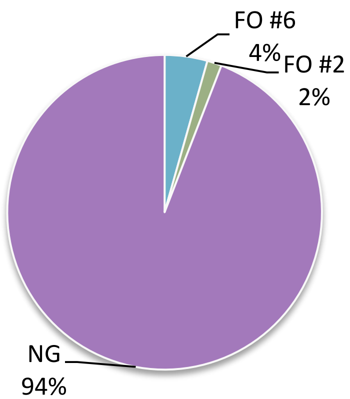
Investment in New Infrastructure

PREPA's improved infrastructure will allow it to reduce fuel costs and modernize its owned generation fleet

Fuel Mix (GBTU) - FY2016 vs. FY2030

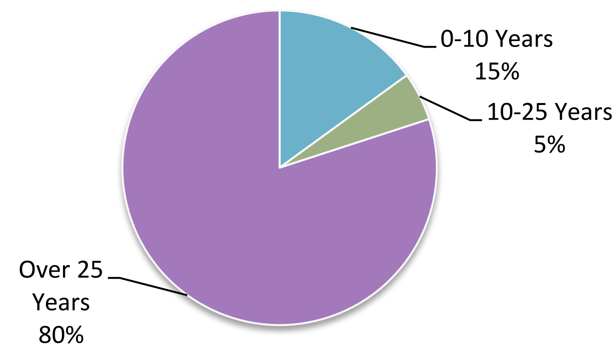


FY2016 Weighted Average Fuel Price: $11.33 / mmbtu

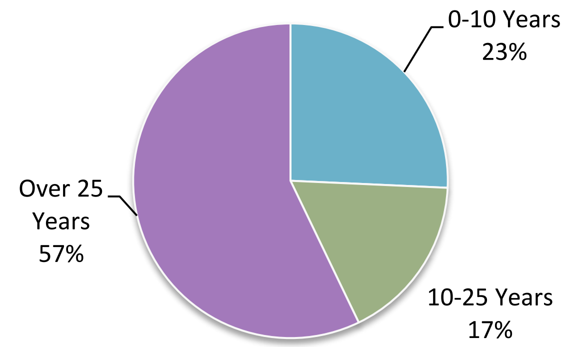


FY2030 Weighted Average Fuel Price: $10.43 / mmbtu

Unit Age and Efficiency – FY2016 vs. FY2030



FY2016 Heat Rate: 9.8 mmbtu/MWh

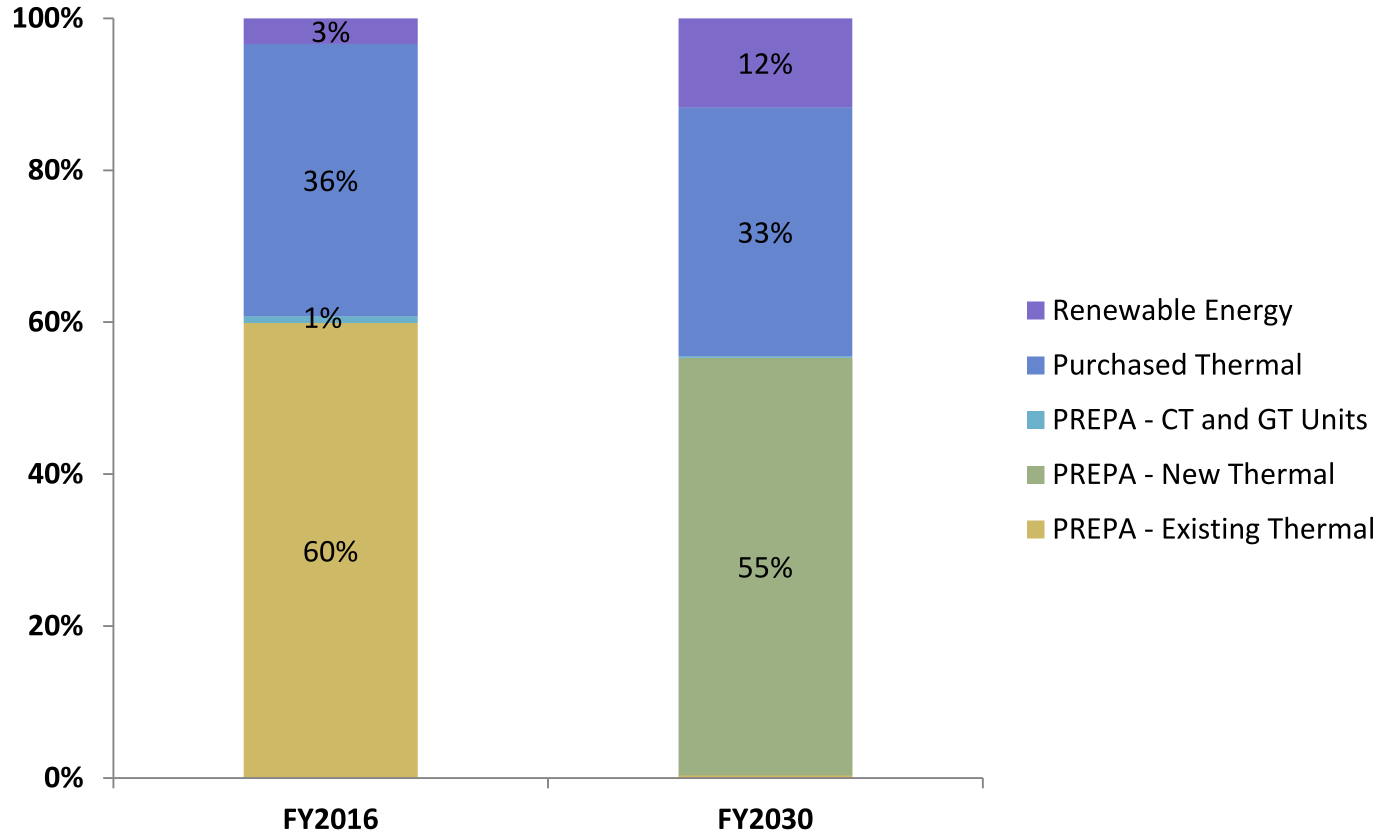


FY2030 Heat Rate: 8.5 mmbtu/MWh

Focus on Clean Energy

PREPA will revamp approximately 60% of its current energy sources by updating its existing owned plants, increasing its purchases of renewable energy and developing solar projects

Gross Generation – FY2016 vs. FY2030



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

Other Key Operating Inputs

	Comments
Load Forecast	▪ Average annual gross load increase of 0.35% from FY16-FY20 then flat thereafter ▪ Average annual net load decline of 0.26% from FY16-FY20
Generation	▪ Share of demand supplied by thermal generation decreases by 12.4% from FY16-FY30 while share of demand supplied by renewable generation increases by 9.3%; DSM makes up the balance
Fuel Mix	▪ Aguirre burns No. 6 until FY18 when it switches to natural gas supply provided by AOGP ▪ Costa Sur continues to use blend of natural gas and fuel oil ("No. 6") ▪ Palo Seco, San Juan, GT's and CT's use No.6 and diesel ("No. 2") through FY21 and then use No. 2 ▪ Purchased power uses gas and coal
Purchased Power	▪ Existing IPPs included based on existing contract terms; assumed to extend contracts at rates in effect at time of the extension ▪ Pricing for new renewable contracts based on existing contracts, adjusted downward by ~2% ▪ Renewable capacity grows from 207 MW in FY16 to 1,193 MW in FY30
Labor	▪ PREPA current labor force at March 2015 (7,077) and adjusted for estimated retirements ▪ "Net" retirements cease in FY2019 with labor force of 6,395 employees ▪ Average annual increase of 1% for inflation beginning in FY2017 (before cost saving initiatives) ▪ Elimination of "trust employee" construct
Pension	▪ Annual contribution increased to $160 million to support underfunded pension, adjusted for inflation
Non-Labor O&M	▪ FY2015 costs include actuals through February plus four months of FY15 budget ("8+4") ▪ 1% year-over-year increase for inflation (before reduction from cost saving initiatives)
Government, CILT & Subsidies	▪ Government represents 17.6% of operating revenue ▪ CILT represents 36.9% of government revenue (municipalities represent 31.8% and other government appropriations (mainly subsidies) represent 5.1%)
Accounts Receivable	▪ Based on trends over trailing six months through February 2015
Accounts Payable	▪ Based on current and anticipated contract terms

Corporate Governance and Legislative Reform

In order to ensure that the reforms at PREPA take hold and remain in place, the Recovery Proposal aims to reduce political influence over PREPA through a combination of the following:

- Reorganization of existing board makeup, including the appointment by the Governor (with consent of Senate) of independent, non-political directors identified by a nationally recognized search firm
- Specified experience requirements for board members
- Staggered terms for board members that extend beyond the 4-year election cycle
- Replacement mechanics to ensure continued stability
- Legislative changes to reform CILT, government and residential customer collection policies and subsidies

Reprofiling Proposal: Summary Term Sheet

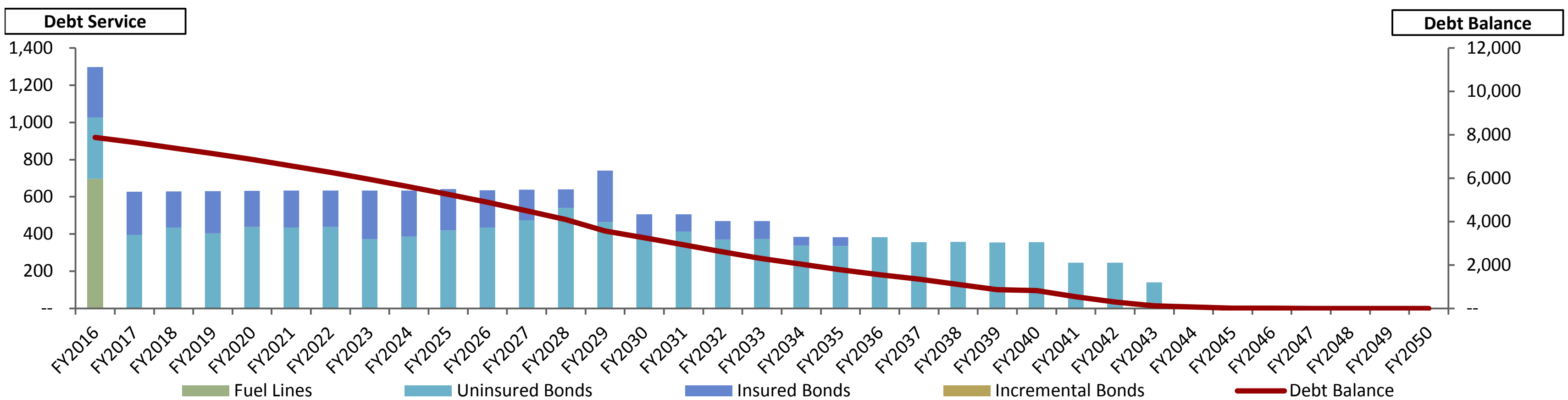
The Recovery Plan will provide the maximum possible recoveries to bondholders and allow PREPA to invest in infrastructure to improve its operations

Issues and Objectives	▪ Over the next five years, PREPA will need approximately $2.7 billion in new and maintenance capex to modernize its generation fleet ▪ In order to fund its capital requirements while stabilizing rates, PREPA will need to reprofile its existing debt service in the near term ▪ A reprofiling of existing debt service is expected to improve PREPA's credit ratings over time and permit PREPA to issue new debt at reasonable interest rates
Proposed Treatment of Legacy Bonds	▪ The principal and interest paid on July 1, 2015, excluding any amounts paid from the debt service reserve fund, shall be reinvested by forbearing creditors in incremental revenue bonds — The new bonds are assumed to earn 7.25% interest — Monoline insurers will wrap the portion corresponding to their pro rata share of the July 1 payment — Bonds will be repaid upon the earlier of July 1, 2016 and the consummation of the reprofiling transaction ▪ The legacy bonds would be exchanged into a series of new bonds (the "Exchange Bonds") with the following terms: — Five year principal holiday; 1% interest on legacy bond obligations during holiday — Scheduled principal and interest payments resume at contract rates after the five year holiday — Requires participation of 85% of all bondholders
Proposed Treatment of Fuel Lines	▪ The Fuel Lines have the option to receive: — Five year principal holiday; 1% interest on outstanding amounts during holiday, five year term-out beginning in year six; or — Amendment providing for conversion into tax-exempt debt with 30% principal reduction, current interest and principal payments and extension of additional working capital credit to PREPA
Contingent Value Note	▪ Contingent value notes shall be issued to the legacy bonds and fuel lines on a pro rata basis ▪ Contingent value notes shall receive an annual payments equal to the actual cost savings that are achieved in excess of the estimates included in the Business Plan ▪ Payments under contingent value notes shall offset payments otherwise due to the Exchange Bonds and Fuel Lines ▪ Tax treatment is subject to further discussion
Other	▪ The GDB line of credit is assumed to have the same treatment as the Fuel Lines ▪ Treatment of existing swaps is subject to further discussion

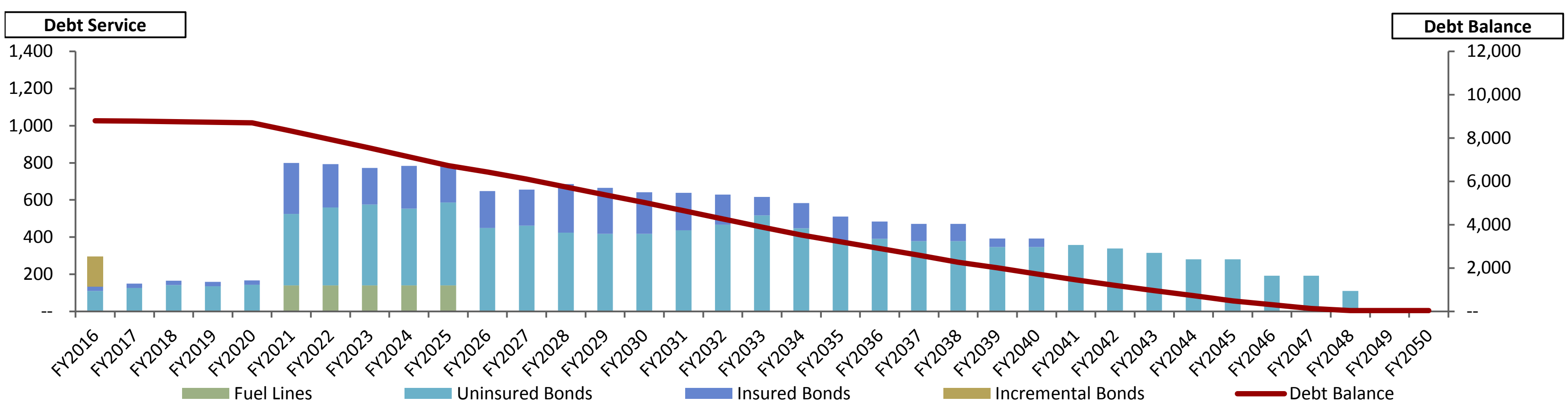
Reprofiling Proposal: Status Quo vs. Recovery Plan

Under the reprofiling proposal, the participating creditors would be repaid five years after their original repayment date

Debt Service of Legacy Bonds and Fuel Lines under the Status Quo Scenario



Debt Service of Legacy Bonds and Fuel Lines under the Recovery Plan(1)

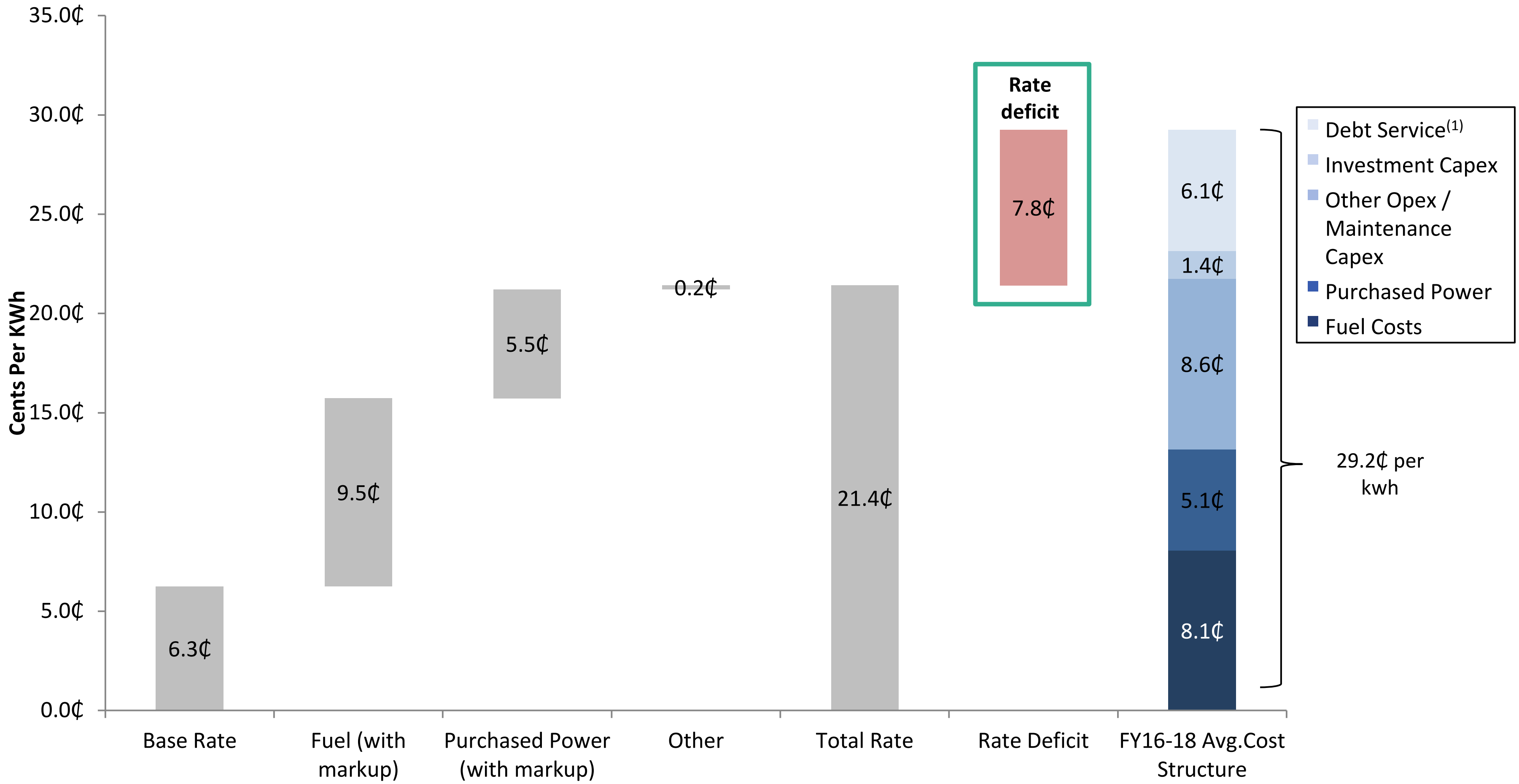


(1) Assumes an illustrative 85% participation rate by all creditors.

Current Rate Structure vs. Cost Base

This graph is for illustrative purposes only. The purpose of the graph is to show the deficit gap between current rate and total costs. Closing the rate deficit will require equitable burden sharing across all stakeholders

Summary of Rate Deficit

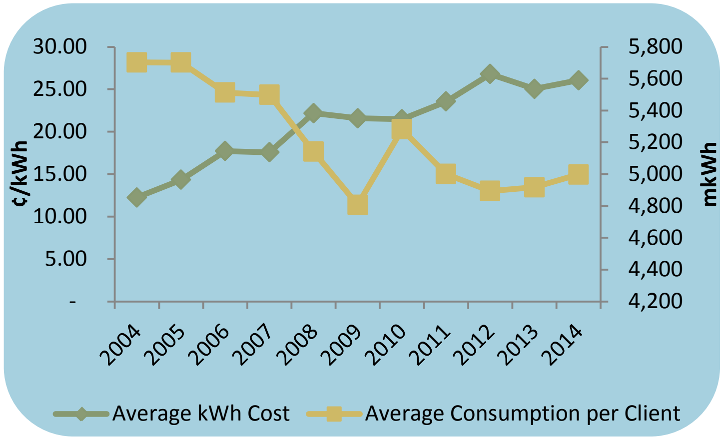


- At current demand level each one cent reduction in rate will require cost improvements of ~$165 million
- FY16-18 average rate and cost are ***illustrative*** based on the Preliminary Stage 2 IRP and Stage 2 Business Plan inputs and ***does not incorporate any operational cost savings***

(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.

Negative Impact of Rate Increases

Rate increases will have a negative impact on demand and revenues(1)

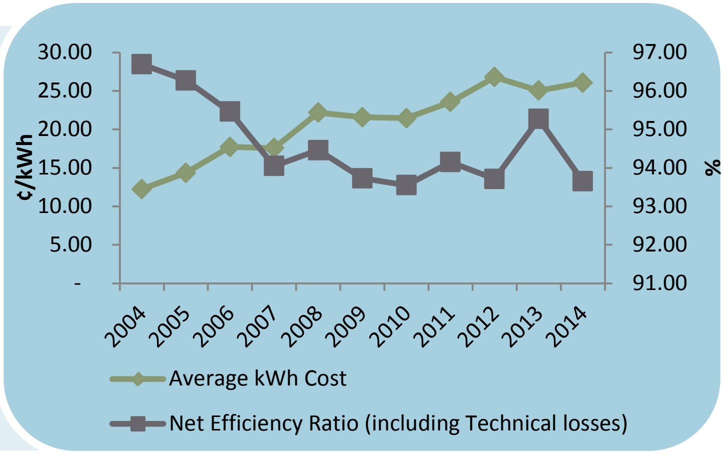


Average Annual Consumption
vs. Average kWh Cost – Residential

- Average consumption reduced substantially from 2004 to 2009, while rates increased
- However during this period, PR experienced a deep recession which likely affected consumption as well

Net Efficiency (incl. technical losses)
vs. Average Residential kWh Cost

- As rates increased from 2004 to 2008, the net efficiency ratio decreased (potentially resulting from higher theft rate)
- Additionally, implementation of remote metering may have increased theft (in addition to rising rates) as fewer field operators visited meters and distribution lines



(1) Note: The data illustrate the historical comparison between increasing residential rates and the above mentioned factors; however there are several variables (i.e., outsized PR recession, switch to remote metering, etc.) which are not quantified and may affect results as well. The data show correlation but do not prove causation.

Implementation Timeline

The following presents a summary of upcoming milestones and target dates for PREPA's restructuring process

June – Dec 2015

June 4
Forbearance Agreements expire by their terms

June 15
- Navigant to deliver final report and recommendations regarding rates
- Siemens to deliver to PREPA final draft of IRP

June 30
- Final IRP delivered to PREPA
- Execution of agreement in principle regarding restructuring with PREPA, GDB and Forbearing Creditors

July 1
- Payment of principal and interest due under bonds
- Energy Commission or PREPA to commence rate case, including public hearings

August
Introduce PREPA Transformation Act in the Legislative Assembly

August
- Design Third Party Operator/Private IPP Contract and Outline
- Survey market for Private Operator/IPP feedback/ market sounding
- Decide RFP process, milestones, selection criteria and marketing strategy

September
Commence exchange offer/consent solicitation for bonds and banks

October
- PREPA selects Qualified Bidders for Operators
- PREPA commences Request for Proposals from Qualified Bidders for Operators

November
Consummate exchange offer and bank exchange

December
PREPA evaluates bids for operators

December 31
Target date for new rates to take effect (subject to Energy Commission approval and schedule)

2016

January 1
Payment of interest due under bonds

Annex B

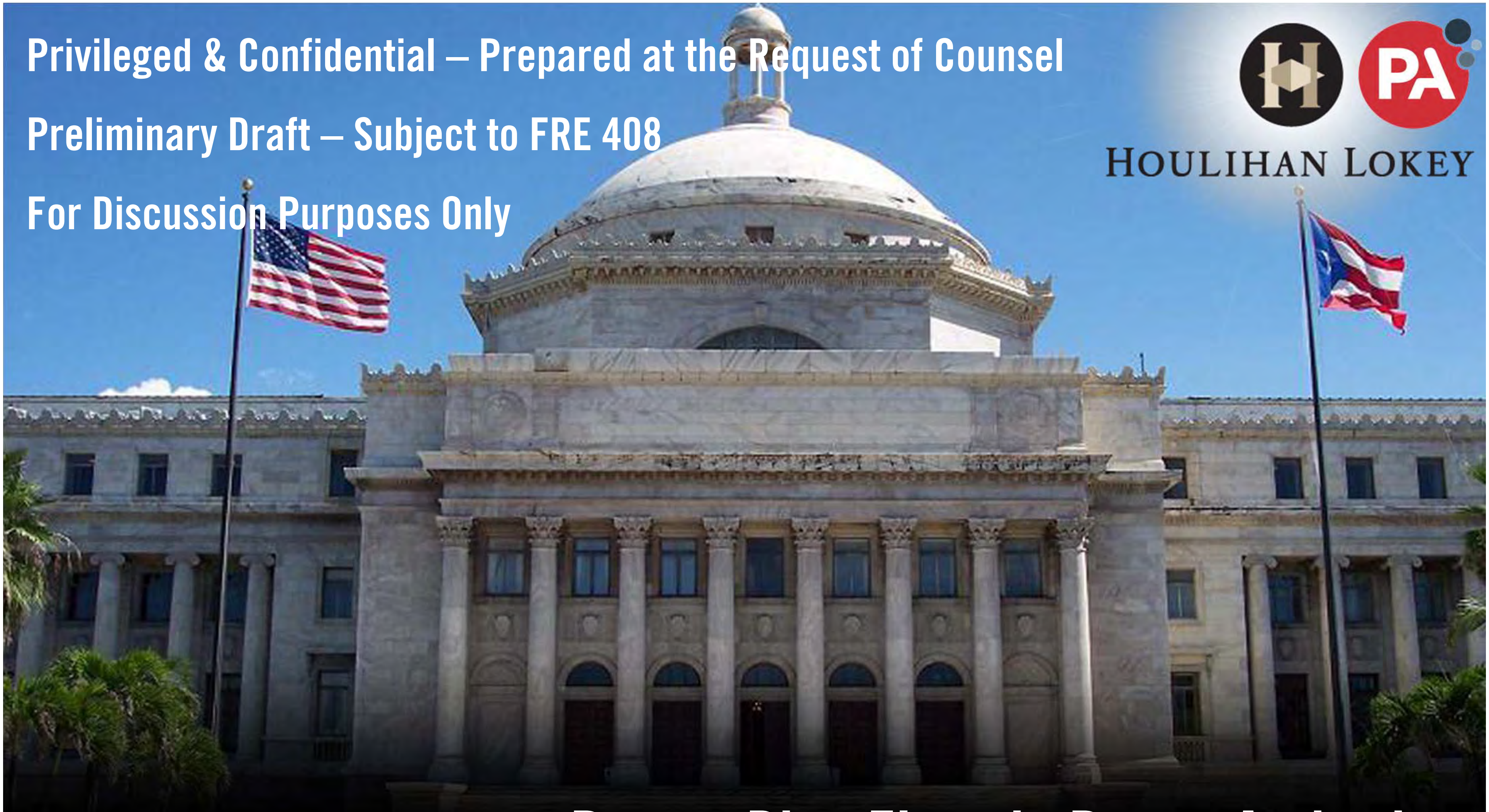
Ad Hoc Group Revitalization Plan of June 17, 2015

Privileged & Confidential – Prepared at the Request of Counsel

Preliminary Draft – Subject to FRE 408

For Discussion Purposes Only

HOULIHAN LOKEY



Puerto Rico Electric Power Authority

Comprehensive PREPA Revitalization Plan 2.0

June 2015

CORPORATE FINANCE
FINANCIAL ADVISORY SERVICES
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Plan Overview

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Executive Summary

- On June 1, 2015, PREPA and AlixPartners publically released a transformation business plan ("PREPA Business Plan")
- In response, the Ad Hoc Group of PREPA Bondholders ("Ad Hoc Group") modified the Comprehensive PREPA Revitalization Plan. The Ad Hoc Group previously presented a plan ("Plan 1.0") to PREPA and its advisors on April 1, 2015 to accommodate the capital investment and operational elements of the PREPA Business Plan
  - The revised Ad Hoc Group Plan merges the PREPA Business Plan and Plan 1.0 into a new plan ("Plan 2.0") to accomplish the following objectives:

✔ A diversified and lower cost power generation platform resulting in stable rates with a capacity to lower the rates for Puerto Rican customers

✔ Compliance with the EPA Mercury and Air Toxics Standards ("MATS") in 2021. Plan 2.0 adopts PREPA plans to obtain waivers rather than use fuel blending for MATS compliance

✔ Compliance with PREPA-proposed changes to the legislatively mandated renewable energy requirements, which include recognizing distributed renewable energy as a renewable resource

✔ A fully financed new $2.4 billion capital investment plan leveraging financial support of existing and new PREPA investors

✔ Significant "Green Energy" job creation benefits as early as the second half of 2015

✔ A path to achieving investment grade ratings and a lower cost of debt

✔ Restoration of capital markets access for PREPA and credit support for Puerto Rico through full repayment of existing revenue bond obligations consistent with contractual commitments

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Source: PA Consulting and Houlihan Lokey analysis
Note: All analyses are strictly illustrative in nature

Plan 2.0 Comparison to PREPA Business Plan

Plan Comparison

Category	PREPA Business Plan	Plan 2.0 Assumptions
Palo Seco New Generation	■ Three new diesel CC or reciprocating units owned by PREPA to generate 210MW in FY2022 ■ Estimated total capex cost of $366 million from FY2018 to FY2021 for new build (excluding retirements) financed through internally-generated cash flow(1)	■ 210 MW new reciprocating unit build at Palo Seco under a Power Purchase Tolling Agreement ("PPTA"), in which a third party owns and operates the facility while PREPA pays for power and is responsible for the storage and delivery of fuel
Aguirre Generation	■ Repowering of existing Aguirre CCs units to improve heat rate and efficiency ■ Estimated total capex spend of $387 million from FY2020 to FY2022 for repowering through internally-generated cash flow	■ 800 MW new combined cycle build at Aguirre under a PPTA structure with 6,500 Btu heat rate ■ Existing Aguirre CC units remain online with potential for future repowering ■ Both Aguirre steam units are retired
Maintenance Capex	■ Average maintenance capex of $292 million from FY2016 to FY2025	■ Assumes same maintenance capex schedule as the PREPA Business Plan with the exception of reduced annual maintenance capex of $45 million from FY2022 onward to account for PPTA structures
Debt Service		■ Two debt service scenarios: debt moratorium and securitization ■ Debt moratorium scenario assumes 2-year principal and interest deferral of legacy bond obligations following payment of July 1, 2015 debt service ● Interest is paid-in-kind ("PIK") during moratorium at a 3% premium ● 85% participation with holdouts paid on original terms ■ Preliminary illustrative bond securitization scenario assumes [70%] of bonds outstanding are securitized through a stranded cost rate charge on PREPA's customers(2) ● Remaining [30%] of bonds outstanding rolled into a convertible PIK note with [5%] PIK interest or [4%] cash interest which matures in [July 2044] ■ Both scenarios assume fuel lines/GDB termed out over 5 years at 7.25% cash interest
Rate Stabilization Fund	■ No adjustment for rate stabilization fund	■ In the debt moratorium scenario, PREPA pays [$83] million annually in FY2016, FY2017 and FY2018 into a rate stabilization fund and draws [$83] million annually in FY2019, FY2020 and FY2021 to stabilize rates ■ No adjustment for rate stabilization fund in the securitization scenario
Generation Repowering	■ Repowering of Aguirre CC units in FY2022, Aguirre steam units in FY2027 and Costa Sur units in FY2028	■ No repowering occurs in Plan 2.0

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Source: PA Consulting, Houlihan Lokey analysis and PREPA Business Plan
Note: All analyses are strictly illustrative in nature
(1) Assumed total retirement costs of $78 million incurred between FY2019 to FY2020
(2) Structure of securitization scenario is preliminary and illustrative. Final structure is assumed to provide full recovery to PREPA bondholders

Revisions to Revitalization Plan

Revisions to Revitalization Plan		
Category	**Plan 1.0 Assumptions**	**Plan 2.0 Assumptions**
Load Forecast	■ Load forecast developed with inputs based on econometric forecasts of residential, commercial and industrial load ■ Forecast based on Moody's estimate of Puerto Rico's Gross State Product, which shows an increase over the next decade	■ Load forecast adjusted lower to closely reflect PREPA's estimated power demand ● Distributed generation ("DG"), demand side management ("DSM") & net metering and line loss set equal to PREPA's assumptions
MATS Compliance	■ MATS compliance achieved through a combination of building the Aguirre Offshore Gas Port ("AOGP") on the south side of the island and blending No. 2 Fuel Oil ("FO2"), No. 6 Fuel Oil ("FO6") at the northern power generating facilities (Palo Seco Units 1-4 and San Juan Units 7-10)	■ Plan 2.0 supports a long term plan for MATS compliance through the gradual replacement of fossil fuel plants. The plan relies on PREPA assumptions that it will achieve waivers from the EPA based upon the long term compliance plan and need to manage costs ● Retirement of oil-fired units at Palo Seco and San Juan in FY2021 ● 210 MW PPA structure with tolling agreement assumed at Palo Seco
Fuel Cost	■ Fuel costs derived from February forward curves from Bloomberg for fuel oil and liquefied natural gas ("LNG") prices	■ Plan 2.0 uses PREPA's projected fuel costs for FO2, FO6 and LNG
Operational Improvements	■ Assumed annual operating cost reductions of $305 million from fuel, customer service, indirect procurement and safety based on midpoint of AlixPartners' assumptions	■ Reflects PREPA's assumption of fuel, customer service, procurement and other operational improvements, averaging approximately $307 million annually from FY2016 to FY2025
Plan 2.0 vs Base Case	■ Plan 1.0 presents both the Base Case, which minimizes capital expenditures while achieving system technical requirements, and the PPA Case, which includes an 800 MW combined-cycle facility at Aguirre that is constructed and operated by a third party with PREPA buying the power through a long-term power purchase agreement ("PPA")	■ PPA Case identified as the best course of action for PREPA and its stakeholders by providing lower cost electricity and greater fuel diversification ■ Gradual replacement of PREPA's generation fleet while maintaining MATS compliance allows options for new technology in both utility central generation and customer distributed generation
Renewable Generation	■ 79 MW waste-to-energy plant assumed operational on Jan. 2017 ■ New solar PPAs added to achieve RPS compliance ■ Wind projects modeled with PA assumed production profile	■ Waste-to-energy plant not assumed in Plan 2.0 ■ Amount of new solar projects and price match PREPA's assumptions ■ Production profile of wind projects increased to reflect PREPA's assumptions
Forecast Timing	■ Calendar year forecast ■ New Aguirre CC online in 2019 ■ Aguirre steam units 1 and 2 retired in 2019	■ Fiscal year forecast to better match PREPA's numbers ■ New Aguirre CC online in 2021 ■ Aguirre steam units 1 and 2 retired in 2021

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Source: *PA Consulting, Houlihan Lokey analysis and PREPA Business Plan*
Note: *All analyses are strictly illustrative in nature*

Key Plan Assumptions

Rate Structure

- Consistent with PREPA's Business Plan, Plan 2.0 assumes a fixed rate that covers all expenses including fuel and purchased power expenses
  - All operational expenses including fuel and purchased power expenses are passed through to customers, without any markup or surcharge, through a rate that is adjusted monthly to reflect actual costs incurred
  - Plan 2.0 assumes a rate case occurs every third year beginning in 2016 that sets a consistent Base Rate for the period
    - The Base Rate consists of operational expenses excluding fuel and purchased power expenses, securitization debt service, working capital adjustments, CILT and other subsidies
- Debt service in the moratorium scenario is based on the current schedule with an assumed 2-year principal and interest deferral (further detail provided later in this presentation)
- Debt service in the securitization scenario assumes [70%] of bonds outstanding are securitized through a stranded cost rate charge on PREPA's customers. Remaining [30%] of bonds outstanding rolled into a convertible PIK note with [5%] PIK interest or [4%] cash interest which matures in [July 2044][2]

Illustrative Plan 2.0 (Debt Moratorium) Average Rate Summary ($/kWh)[1]

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Rate for Base Operations	**$0.0946**	**$0.0946**	**$0.0946**	**$0.1030**	**$0.1030**	**$0.1030**	**$0.0880**	**$0.0880**	**$0.0880**	**$0.0888**
Plus: Rate for Fuel Expenses	0.0784	0.0727	0.0664	0.0647	0.0634	0.0640	0.0507	0.0512	0.0513	0.0517
Plus: Rate for Purchased Power	0.0457	0.0481	0.0488	0.0525	0.0570	0.0606	0.0706	0.0722	0.0738	0.0751
Plus: Rate for CILT, Bad Debt, W/C and Other	0.0272	0.0243	0.0260	0.0270	0.0244	0.0265	0.0262	0.0261	0.0270	0.0268
Electricity Rate	**$0.2459**	**$0.2398**	**$0.2359**	**$0.2472**	**$0.2479**	**$0.2541**	**$0.2355**	**$0.2374**	**$0.2402**	**$0.2423**
Plus: Rate for Stabilization Fund of $250mm	0.0050	0.0050	0.0050	(0.0050)	(0.0050)	(0.0051)	0.0000	0.0000	0.0000	0.0000
Electricity Rate Plus Stabilization Fund	**$0.2509**	**$0.2448**	**$0.2409**	**$0.2422**	**$0.2428**	**$0.2490**	**$0.2355**	**$0.2374**	**$0.2402**	**$0.2423**

Illustrative Plan 2.0 (Securitization) Average Rate Summary ($/kWh)[1]

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Rate for Base Operations	**$0.0756**	**$0.0756**	**$0.0756**	**$0.0579**	**$0.0579**	**$0.0579**	**$0.0431**	**$0.0431**	**$0.0431**	**$0.0445**
Plus: Rate for Fuel Expenses	0.0784	0.0727	0.0664	0.0647	0.0634	0.0640	0.0507	0.0512	0.0513	0.0517
Plus: Rate for Purchased Power	0.0457	0.0481	0.0488	0.0525	0.0570	0.0606	0.0706	0.0722	0.0738	0.0751
Plus: Rate for CILT, Bad Debt, W/C and Other	0.0272	0.0243	0.0260	0.0270	0.0244	0.0265	0.0262	0.0261	0.0270	0.0268
Electricity Rate	**$0.2269**	**$0.2207**	**$0.2169**	**$0.2021**	**$0.2027**	**$0.2090**	**$0.1906**	**$0.1925**	**$0.1952**	**$0.1980**
Plus: Rate for Securitization Charge	0.0136	0.0136	0.0136	0.0247	0.0249	0.0252	0.0255	0.0256	0.0258	0.0259
Electricity Rate Plus Securitization Charge	**$0.2405**	**$0.2343**	**$0.2305**	**$0.2268**	**$0.2277**	**$0.2341**	**$0.2160**	**$0.2181**	**$0.2210**	**$0.2240**

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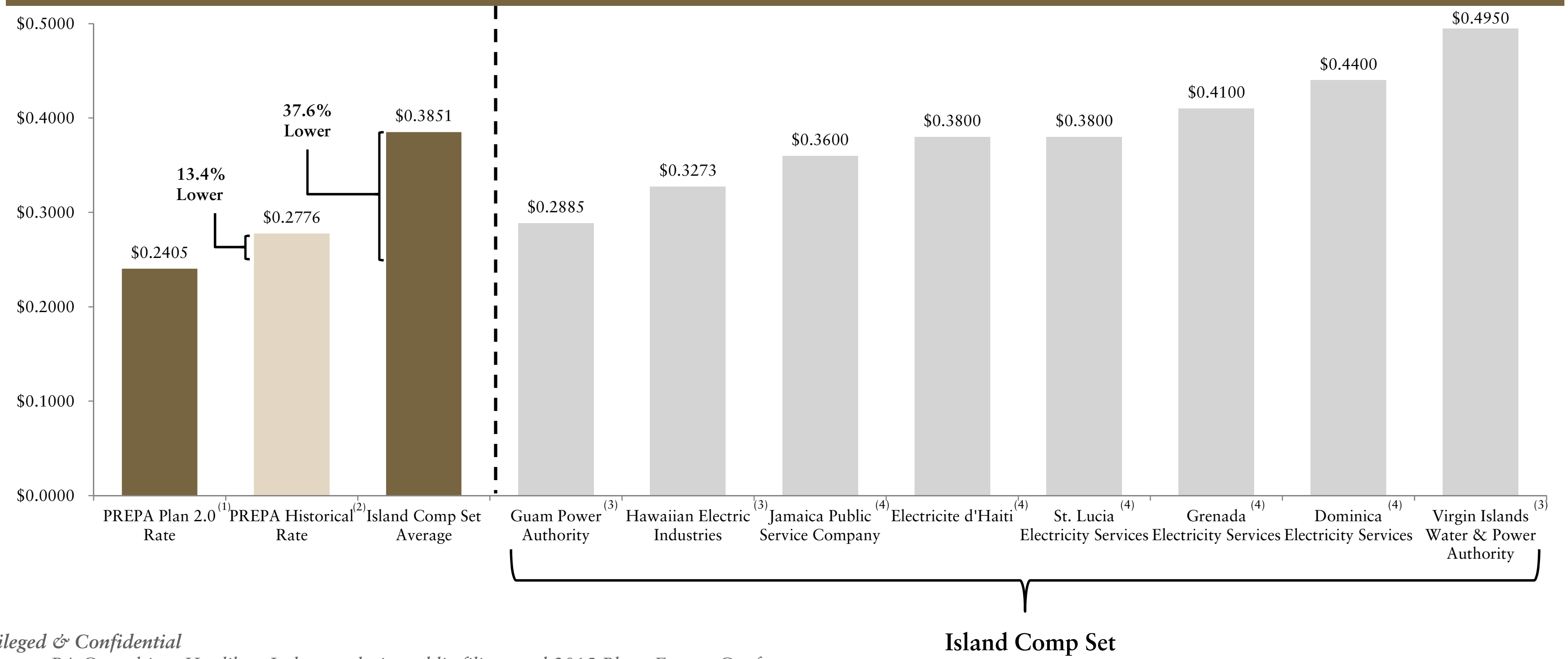
Source: PA Consulting, Houlihan Lokey analysis and PREPA Business Plan
Note: All analyses are strictly illustrative in nature
(1) Excludes debt service coverage ratio requirement
(2) Structure of securitization scenario is preliminary and illustrative. Final structure is assumed to provide full recovery to PREPA bondholders

Plan 2.0 Advantages – Lower Cost Electricity

- By investing approximately $2.4 billion in fuel and generation infrastructure, Plan 2.0 generates power at a substantial discount relative to PREPA's historical electricity costs and to other comparable island utilities
  - Plan 2.0 electricity rate in the securitization scenario is approximately 13.4% lower than PREPA's August 2014 average electricity rate and approximately 37.6% below other comparable islands' electricity rates
  - Plan 2.0 uses the same assumptions on MATS compliance, renewable investment and energy efficiency as the PREPA Business Plan

Plan 2.0 Average Rate Comparison ($/kWh)



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Source: PA Consulting, Houlihan Lokey analysis, public filings and 2015 Platts Energy Conference

Note: All analyses are strictly illustrative in nature

(1) Represents illustrative FY2016 Plan 2.0 rate in the securitization scenario and excludes the debt service coverage ratio requirement

(2) Based on August 2014 average electricity rate for residential, commercial, industrial and other customers

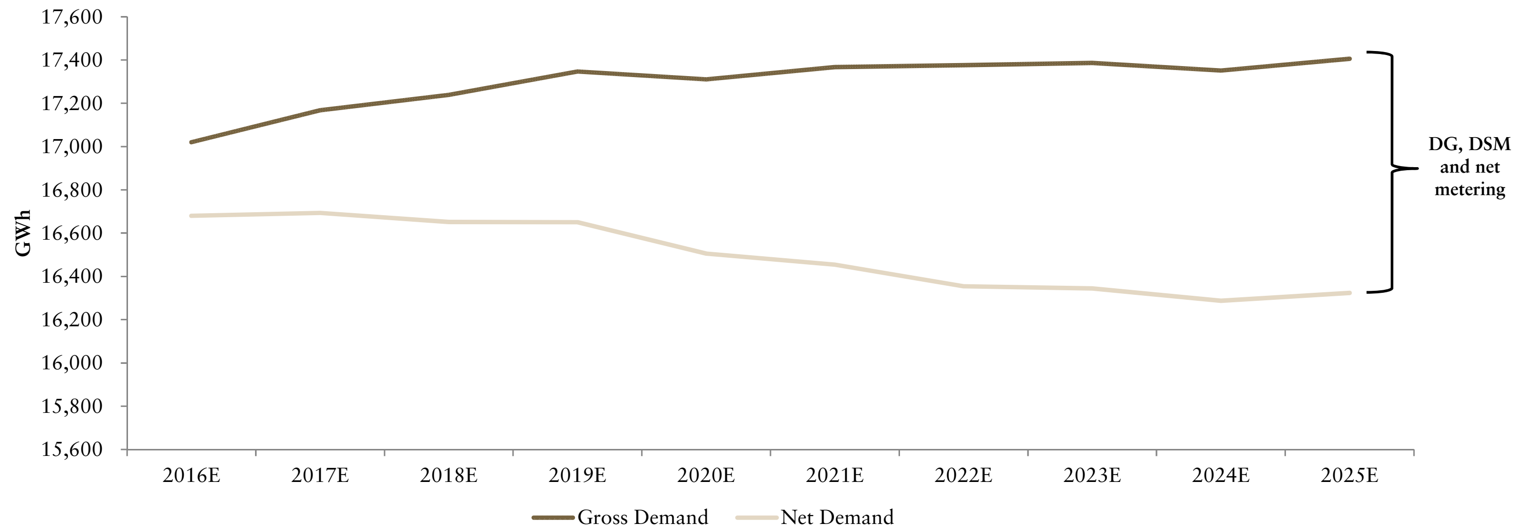
(3) Reflects average electricity rate for residential, commercial and industrial customers during the last reported fiscal year

(4) Reflects 2012 average electricity rates for the island

Load Assumptions

- PA Consulting ("PA") used gross and net load forecasts for Puerto Rico based upon assumptions included in PREPA's Business Plan
- Net demand is calculated using PREPA's assumptions for DSM, DG and net metering
  - Gross demand increases slightly during the forecast period while net demand declines
  - By the end of the forecast period, DG, DSM and net metering reduce gross demand by approximately 6.2% versus the beginning of the forecast period at 2.0%

Demand Forecast (GWh)



	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Gross Demand	17,020	17,167	17,239	17,347	17,311	17,367	17,376	17,387	17,351	17,406
Less: DG, DSM and Net Metering	(340)	(474)	(587)	(696)	(806)	(913)	(1,022)	(1,042)	(1,064)	(1,082)
Net Demand	**16,680**	**16,693**	**16,652**	**16,651**	**16,505**	**16,454**	**16,354**	**16,345**	**16,287**	**16,324**

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Source: *PA Consulting, Houlihan Lokey analysis and PREPA Business Plan*
Note: *All analyses are strictly illustrative in nature*

Operating Improvements

- Upon conducting a comprehensive overview of PREPA operations, AlixPartners, building on prior analysis conducted by A&M and FTI, identified a variety of operational improvement initiatives that were included in the PREPA Business Plan
  - Annual and one-time operational savings consist of fuel, customer service, procurement and other savings that are incorporated into Plan 2.0
- Total labor costs and headcount assumptions going forward mirror PREPA's Business Plan
- To the extent further cost reductions are realized, additional savings could be passed on to PREPA's customers or creditors, either in the form of lower rates or enhanced cash flow for debt service, respectively
  - The PREPA Business Plan contemplates contingent value notes that are issued to legacy bondholders and fuel line lenders on a pro rata basis
  - The contingent value noteholders receive an annual payment equal to actual cost savings that are achieved in excess of the savings estimated in the PREPA Business Plan

Operational Improvements ($mm)

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Customer Service Performance Improvements	$26	$44	$51	$51	$52	$52	$53	$53	$54	$54
Fuel Performance Improvements	93	129	109	109	108	110	110	110	110	110
Procurement Performance Improvements	38	55	56	56	57	57	58	58	59	60
Other, Net Performance Improvements	21	71	101	102	103	104	105	106	107	108
Total Operational Savings	**$178**	**$298**	**$316**	**$318**	**$320**	**$323**	**$325**	**$328**	**$330**	**$332**

Source: PA Consulting, Houlihan Lokey analysis and PREPA Business Plan
Note: All analyses are strictly illustrative in nature

Purchased Power Assumptions

- Assumptions regarding existing PPAs with EcoEléctrica and AES are consistent with the PREPA Business Plan
- Plan 2.0 assumes PREPA purchases power from the 800 MW Aguirre combined-cycle and the 210 MW Palo Seco reciprocating facilities through a Power Purchase Tolling Agreement ("PPTA"), in which a third party owns and operates the facility while PREPA pays for power and is responsible for the procurement and delivery of fuel
- Assumptions regarding existing solar capacity and new renewable projects going forward (cost per KwH, contractual terms, etc.) are consistent with the PREPA Business Plan

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Source: PA Consulting, Houlihan Lokey analysis and PREPA Business Plan

Note: All analyses are strictly illustrative in nature

Capital Expenditure Assumptions

- The table below summarizes annual and one-time capital expenditures needed to maintain current generating units and replace older units with new technology, which offers significant flexibility and fuel cost savings
- New unit build costs based on HL and PA experience in addition to conversations with Original Equipment Manufactures
- Maintenance capex same as the schedule in PREPA Business Plan with the exception of reduced annual maintenance capex of $45 million from FY2022 onward to account for the PPTA structures
- Plan 2.0 uses PREPA's assumptions for investment capital expenditures regarding AOGP, reciprocating units at Palo Seco, new T&D investment and demolition of obsolete units
- Does not give effect to any Department of Energy grant or loan guarantees

Description	Plan 2.0 Capital Expenditure	
	Capex Spend Timing	Cost
Maintenance Capex	Annually	$274 million(1)
New Investment Capex		
AOGP Capex	FY2016 to FY2017	$481 million
Aguirre CC Capex (PPTA)	FY2020 to FY2022	$1,200 million(2)
Palo Seco Capex (PPTA)	FY2018 to FY2021	$366 million(2)
Retirement of Old Palo Seco Units Capex	FY2019 to FY2020	$78 million
Transmission & Distribution Capex	FY2016 to FY2020	$226 million

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Source: PA Consulting, Houlihan Lokey analysis and PREPA Business Plan
Note: All analyses are strictly illustrative in nature
(1) Represents the estimated average annual cost from FY2016 to FY2025
(2) Capital expenditure for PPTA structure is directly not incurred by PREPA

Financing Assumptions (Summary)

- The table below sets out the assumed financing costs for various capital projects

Category	Interest Rate[1]	Amortization[1]	Maturity[1]	Notes[1]
Aguirre CC Capex	6% cash interest	1% per year with bullet payment at maturity	NA	▪ Assumes Aguirre combined-cycle facility built by a third party and financed with 60% debt and 40% equity at a 6% cost of debt and 12% cost of equity
Palo Seco Capex	6% cash interest	1% per year with bullet payment at maturity	NA	▪ Assumes Palo Seco built with similar terms as Aguirre CC PPTA
Fuel Line Credit Facility / GDB LOC	7.25% cash interest	10% per year	5 years	▪ Termed out over 5-year period
Power Revenue Bonds – Debt Moratorium	3% PIK premium for FY2016 to FY2017 and original cash interest schedule onwards	Sinking fund payments remain for holdout bonds	Current maturities extended by 2 years	▪ 2-year principal and interest moratorium following payment of July 1, 2015 debt service ▪ Interest is PIK'd during moratorium at a 3% premium to the interest rate on each individual CUSIP ▪ 85% participation with holdouts paid on original terms
Power Revenue Bonds – Securitization ([70%] of Bonds Outstanding)	[4%] cash interest	NA	Matures from [FY2019 to FY2043]	▪ Bond securitization structure in which [70%] of bonds outstanding are securitized through a stranded cost rate charge on PREPA's customers
Power Revenue Bonds – Securitization ([30%] of Bonds Outstanding)	Convertible: [5%] PIK interest / [4%] cash interest	NA	[July 2044]	▪ Remaining [30%] of current bonds outstanding rolled into a convertible PIK note with [5%] PIK interest or [4%] cash interest which matures in [July 2044] ▪ Assumes cash interest payments beginning [2031]

Privileged & Confidential
Source: *PA Consulting, Houlihan Lokey analysis and PREPA Business Plan*
Note: *All analyses are strictly illustrative in nature*
(1) *Terms reflect illustrative assumptions. Final terms and structure to ensure a market clearing price*

Financing Assumptions (Debt Moratorium)

- The debt moratorium scenario in Plan 2.0 assumes a 2-year moratorium period in which PREPA does not make any principal or cash interest payments on participating Power Revenue Bonds (the "Participating Bonds")
  - During this period, PREPA will pay PIK interest on the Participating Bonds at a rate equal to each bond's current interest rate plus a 3.0% premium
  - Participating Bonds mature 2 years following each bond's original maturity
  - No early amortization (i.e., sinking fund payments) on any Participating Bonds
  - PREPA retains any subsidies forecasted in the PREPA Business Plan
- The moratorium period will commence following the July 1, 2015 principal and interest payment (January 1, 2016), with cash interest payments resuming on January 1, 2019 and principal payments resuming on July 1, 2019
- For illustrative purposes, Plan 2.0 assumes that in addition to participation from bonds owned by the Ad Hoc Group and wrapped by the monolines, the remaining bonds participate such that Participating Bonds represent 85% of total Power Revenue Bonds outstanding (pro forma for the July 1, 2015 principal payment)
- No modifications are assumed for bonds that do not participate in the moratorium

Debt Moratorium Scenario Debt Service ($mm)

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Bond Principal	$18	$40	$277	$265	$296	$305	$294	$316	$350	$367
Bond Interest	66	65	486	472	459	444	429	415	399	382
Subsidies & Capitalized Interest	(38)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Fuel Line / GDB LOC Principal	146	146	146	146	146	0	0	0	0	0
Fuel Line / GDB LOC Interest	38	31	23	15	8	0	0	0	0	0
Total Debt Service	**$232**	**$268**	**$918**	**$884**	**$894**	**$735**	**$709**	**$717**	**$734**	**$734**
Less: PREPA Business Plan Debt Service[(1)]	(1,334)	(628)	(630)	(631)	(632)	(633)	(633)	(634)	(634)	(634)
Debt Service Variance	**($1,102)**	**($360)**	**$288**	**$253**	**$263**	**$102**	**$75**	**$83**	**$100**	**$100**

Privileged & Confidential
Source: Houlihan Lokey analysis
Note: All analyses are strictly illustrative in nature
(1) PREPA Business Plan assumes status quo payments for the bonds and full payment of the fuel lines / GDB LOC on July 1, 2015

Financing Assumptions (Securitization)

- Below terms reflect illustrative assumptions. Final terms and structure to ensure a market clearing price
- The securitization scenario in Plan 2.0 assumes a bond securitization structure in which [70%] of current bond principal outstanding are securitized through a stranded cost rate charge on PREPA's customers
  - The securitized bonds shall be issued in 2015 and pay cash interest at a rate of [4%]
  - The securitized bonds shall mature beginning in July 2019, with a portion of the bonds maturing each year until the final maturity payment on [July 2043]
- The remaining [30%] of current bond principal outstanding will be rolled into a convertible PIK note that shall mature in July 2044
  - The convertible PIK note shall pay PIK interest of [5%] and be convertible at any year of PREPA's choosing into a cash pay note with a [4%] interest rate
    - Plan 2.0 assumes that the convertible PIK note begins paying cash interest in 2031
- Revenues received from the securitization charges shall be placed directly into an escrow account for the payment of the securitized bond debt service
- PREPA retains any subsidies forecasted in the PREPA Business Plan
- Assumes PREPA pays July 1, 2015 principal and interest

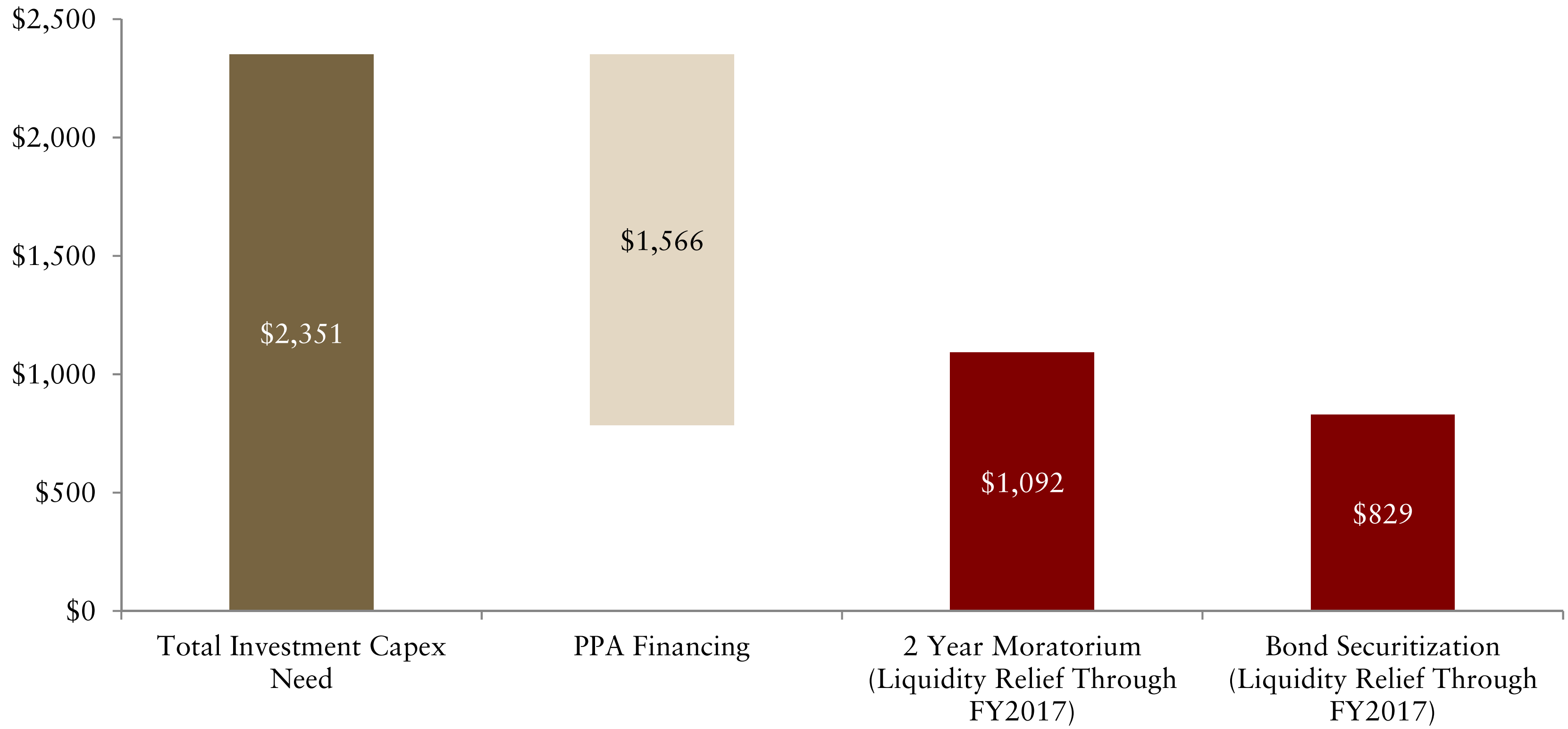
Securitization Scenario Debt Service ($mm)

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Bond Principal	$0	$0	$0	$184	$193	$202	$213	$223	$234	$246
Bond Interest	227	227	227	227	220	212	204	195	186	177
Subsidies & Capitalized Interest	(38)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Fuel Line / GDB LOC Principal	146	146	146	146	146	0	0	0	0	0
Fuel Line / GDB LOC Interest	38	31	23	15	8	0	0	0	0	0
Total Debt Service	**$374**	**$390**	**$382**	**$558**	**$552**	**$400**	**$402**	**$404**	**$406**	**$409**
Less: PREPA Business Plan Debt Service[1]	(1,334)	(628)	(630)	(631)	(632)	(633)	(633)	(634)	(634)	(634)
Debt Service Variance	**($960)**	**($239)**	**($248)**	**($73)**	**($80)**	**($233)**	**($232)**	**($230)**	**($228)**	**($226)**

Privileged & Confidential
Source: Houlihan Lokey analysis
Note: All analyses are strictly illustrative in nature
(1) PREPA Business Plan assumes status quo payments for the bonds and full payment of the fuel lines / GDB LOC on July 1, 2015

Sources and Uses

Illustrative Investment Capex Sources and Uses ($mm)



Source: PA Consulting, Houlihan Lokey analysis and PREPA Business Plan
Note: All analyses are strictly illustrative in nature


Model Output

Financial Model Detail

Plan 2.0 Model + 2 Year Debt Moratorium + Rate Stabilization Adjustment + 3 Year Rate Case

Illustrative Demand and Supply Drivers (GWh)

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Gross Demand	**17,066**	**17,167**	**17,239**	**17,347**	**17,356**	**17,367**	**17,378**	**17,386**	**17,396**	**17,405**
Less: DG, DSM & Net Metering	(340)	(474)	(587)	(696)	(806)	(913)	(1,022)	(1,042)	(1,064)	(1,082)
Net Demand	**16,726**	**16,693**	**16,652**	**16,651**	**16,551**	**16,454**	**16,356**	**16,345**	**16,332**	**16,323**

Illustrative Average Rate Summary ($/kWh)

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Rate for Base Operations	**$0.0946**	**$0.0946**	**$0.0946**	**$0.1030**	**$0.1030**	**$0.1030**	**$0.0880**	**$0.0880**	**$0.0880**	**$0.0888**
Plus: Rate for Fuel Expenses	0.0784	0.0727	0.0664	0.0647	0.0634	0.0640	0.0507	0.0512	0.0513	0.0517
Plus: Rate for Purchased Power	0.0457	0.0481	0.0488	0.0525	0.0570	0.0606	0.0706	0.0722	0.0738	0.0751
Plus: Rate for CILT, Bad Debt, W/C and Other	0.0272	0.0243	0.0260	0.0270	0.0244	0.0265	0.0262	0.0261	0.0270	0.0268
Electricity Rate	**$0.2459**	**$0.2398**	**$0.2359**	**$0.2472**	**$0.2479**	**$0.2541**	**$0.2355**	**$0.2374**	**$0.2402**	**$0.2423**
Plus: Rate for Stabilization Fund of $250mm	0.0050	0.0050	0.0050	(0.0050)	(0.0050)	(0.0051)	0.0000	0.0000	0.0000	0.0000
Electricity Rate Plus Stabilization Fund	**$0.2509**	**$0.2448**	**$0.2409**	**$0.2422**	**$0.2428**	**$0.2490**	**$0.2355**	**$0.2374**	**$0.2402**	**$0.2423**

Privileged & Confidential
Source: PA Consulting, Houlihan Lokey analysis and PREPA Business Plan
Note: All analyses are strictly illustrative in nature

Financial Model Detail (Cont.)

Plan 2.0 Model + 2 Year Debt Moratorium + Rate Stabilization Adjustment + 3 Year Rate Case

Illustrative Cash Flow Summary ($mm)[1]

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Revenues	**$4,197**	**$4,086**	**$4,012**	**$4,033**	**$4,019**	**$4,097**	**$3,852**	**$3,880**	**$3,922**	**$3,956**
Less: Fuel	(1,405)	(1,342)	(1,215)	(1,187)	(1,158)	(1,163)	(939)	(946)	(948)	(953)
Less: Purchased Power	(764)	(804)	(813)	(873)	(944)	(997)	(1,155)	(1,179)	(1,206)	(1,226)
Less: Labor	(497)	(494)	(488)	(485)	(486)	(491)	(496)	(501)	(506)	(511)
Less: O&M and Other	(254)	(262)	(260)	(261)	(262)	(251)	(195)	(182)	(185)	(186)
Gross Profit Before Performance Improvements	**$1,276**	**$1,183**	**$1,235**	**$1,226**	**$1,169**	**$1,195**	**$1,067**	**$1,071**	**$1,078**	**$1,079**
Plus: Customer Service Performance Improvements	26	44	51	51	52	52	53	53	54	54
Plus: Fuel Performance Improvements	93	129	109	109	108	110	110	110	110	110
Plus: Procurement Performance Improvements	38	55	56	56	57	57	58	58	59	60
Plus: Other, Net Performance Improvements	21	71	101	102	103	104	105	106	107	108
Gross Profit After Performance Improvements	**$1,454**	**$1,482**	**$1,551**	**$1,545**	**$1,489**	**$1,519**	**$1,393**	**$1,399**	**$1,407**	**$1,411**
Less: Other (CILT, Bad Debt, W/C and OPEB)	(455)	(405)	(433)	(450)	(404)	(436)	(429)	(427)	(441)	(437)
Less: Maintenance Capex	(296)	(315)	(284)	(278)	(281)	(285)	(244)	(248)	(251)	(255)
Less: Investment Capex	(149)	(446)	(36)	(81)	(73)	0	0	0	0	0
Free Cash Flow Before Debt Service	**$553**	**$316**	**$798**	**$736**	**$730**	**$797**	**$720**	**$725**	**$715**	**$719**
Less: Bond Principal	(18)	(40)	(277)	(265)	(296)	(305)	(294)	(316)	(350)	(367)
Less: Bond Interest	(66)	(65)	(486)	(472)	(459)	(444)	(429)	(415)	(399)	(382)
Plus: Subsidies & Capitalized Interest	38	14	14	14	14	14	14	14	14	14
Less: Fuel Line / GDB LOC Principal	(146)	(146)	(146)	(146)	(146)	0	0	0	0	0
Less: Fuel Line / GDB LOC Interest	(38)	(31)	(23)	(15)	(8)	0	0	0	0	0
Less: Rate Stabilization Fund	(83)	(83)	(83)	83	83	83	0	0	0	0
Levered Free Cash Flow	**$238**	**($36)**	**($203)**	**($65)**	**($81)**	**$146**	**$12**	**$8**	**($20)**	**($15)**
Beginning Cash[2]	**$698**	**$936**	**$901**	**$698**	**$633**	**$552**	**$698**	**$710**	**$718**	**$698**
Plus: Levered Free Cash Flow	238	(36)	(203)	(65)	(81)	146	12	8	(20)	(15)
Ending Cash	$936	$901	$698	$633	$552	$698	$710	$718	$698	$683

Privileged & Confidential

Source: PA Consulting, Houlihan Lokey analysis and PREPA Business Plan

Note: All analyses are strictly illustrative in nature

(1) Excludes DSCR requirement

(2) Assumes restricted cash remains unchanged from the June 30, 2015 projected balance and July 1, 2015 interest payment is made

Financial Model Detail (Cont.)

Plan 2.0 Model + Securitization Structure + 3 Year Rate Case

Illustrative Demand and Supply Drivers (GWh)

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Gross Demand	**17,066**	**17,167**	**17,239**	**17,347**	**17,356**	**17,367**	**17,378**	**17,386**	**17,396**	**17,405**
Less: DG, DSM & Net Metering	(340)	(474)	(587)	(696)	(806)	(913)	(1,022)	(1,042)	(1,064)	(1,082)
Net Demand	**16,726**	**16,693**	**16,652**	**16,651**	**16,551**	**16,454**	**16,356**	**16,345**	**16,332**	**16,323**

Illustrative Average Rate Summary ($/kWh)

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Rate for Base Operations	**$0.0756**	**$0.0756**	**$0.0756**	**$0.0579**	**$0.0579**	**$0.0579**	**$0.0431**	**$0.0431**	**$0.0431**	**$0.0445**
Plus: Rate for Fuel Expenses	0.0784	0.0727	0.0664	0.0647	0.0634	0.0640	0.0507	0.0512	0.0513	0.0517
Plus: Rate for Purchased Power	0.0457	0.0481	0.0488	0.0525	0.0570	0.0606	0.0706	0.0722	0.0738	0.0751
Plus: Rate for CILT, Bad Debt, W/C and Other	0.0272	0.0243	0.0260	0.0270	0.0244	0.0265	0.0262	0.0261	0.0270	0.0268
Electricity Rate	**$0.2269**	**$0.2207**	**$0.2169**	**$0.2021**	**$0.2027**	**$0.2090**	**$0.1906**	**$0.1925**	**$0.1952**	**$0.1980**
Plus: Rate for Securitization Charge	0.0136	0.0136	0.0136	0.0247	0.0249	0.0252	0.0255	0.0256	0.0258	0.0259
Electricity Rate Plus Securitization Charge	**$0.2405**	**$0.2343**	**$0.2305**	**$0.2268**	**$0.2277**	**$0.2341**	**$0.2160**	**$0.2181**	**$0.2210**	**$0.2240**
Plus: Rate for Debt Service Coverage(1)	0.0028	0.0032	0.0032	0.0059	0.0060	0.0061	0.0061	0.0062	0.0062	0.0063
Electricity Rate Incl. Debt Service Coverage(1)	**$0.2433**	**$0.2375**	**$0.2337**	**$0.2327**	**$0.2337**	**$0.2402**	**$0.2222**	**$0.2243**	**$0.2272**	**$0.2302**

Privileged & Confidential
Source: *PA Consulting, Houlihan Lokey analysis and PREPA Business Plan*
Note: *All analyses are strictly illustrative in nature*
(1) *Illustrative rate assuming 1.25x debt service coverage ratio with excess cash accumulating on balance sheet*

Financial Model Detail (Cont.)

Plan 2.0 Model + Securitization Structure + 3 Year Rate Case

Illustrative Cash Flow Summary ($mm)[1]

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Revenues	**$4,022**	**$3,912**	**$3,839**	**$3,776**	**$3,768**	**$3,852**	**$3,533**	**$3,565**	**$3,609**	**$3,656**
Less: Fuel	(1,405)	(1,342)	(1,215)	(1,187)	(1,158)	(1,163)	(939)	(946)	(948)	(953)
Less: Purchased Power	(764)	(804)	(813)	(873)	(944)	(997)	(1,155)	(1,179)	(1,206)	(1,226)
Less: Labor	(497)	(494)	(488)	(485)	(486)	(491)	(496)	(501)	(506)	(511)
Less: O&M and Other	(254)	(262)	(260)	(261)	(262)	(251)	(195)	(182)	(185)	(186)
Gross Profit Before Performance Improvements	**$1,102**	**$1,009**	**$1,062**	**$969**	**$918**	**$950**	**$749**	**$756**	**$764**	**$779**
Plus: Customer Service Performance Improvements	26	44	51	51	52	52	53	53	54	54
Plus: Fuel Performance Improvements	93	129	109	109	108	110	110	110	110	110
Plus: Procurement Performance Improvements	38	55	56	56	57	57	58	58	59	60
Plus: Other, Net Performance Improvements	21	71	101	102	103	104	105	106	107	108
Gross Profit After Performance Improvements	**$1,279**	**$1,308**	**$1,378**	**$1,287**	**$1,237**	**$1,274**	**$1,074**	**$1,083**	**$1,094**	**$1,111**
Less: Other (CILT, Bad Debt, W/C and OPEB)	(455)	(405)	(433)	(450)	(404)	(436)	(429)	(427)	(441)	(437)
Less: Maintenance Capex	(296)	(315)	(284)	(278)	(281)	(285)	(244)	(248)	(251)	(255)
Less: Investment Capex	(149)	(446)	(36)	(81)	(73)	0	0	0	0	0
Free Cash Flow Before Debt Service	**$378**	**$142**	**$625**	**$478**	**$479**	**$552**	**$402**	**$409**	**$402**	**$419**
Less: Bond Principal	0	0	0	(184)	(193)	(202)	(213)	(223)	(234)	(246)
Less: Bond Interest	(227)	(227)	(227)	(227)	(220)	(212)	(204)	(195)	(186)	(177)
Plus: Subsidies & Capitalized Interest	38	14	14	14	14	14	14	14	14	14
Less: Fuel Line / GDB LOC Principal	(146)	(146)	(146)	(146)	(146)	0	0	0	0	0
Less: Fuel Line / GDB LOC Interest	(38)	(31)	(23)	(15)	(8)	0	0	0	0	0
Less: Rate Stabilization Fund	0	0	0	0	0	0	0	0	0	0
Levered Free Cash Flow	**$5**	**($248)**	**$243**	**($80)**	**($73)**	**$153**	**$0**	**$5**	**($4)**	**$10**
Beginning Cash[2]	**$698**	**$703**	**$455**	**$698**	**$618**	**$546**	**$698**	**$698**	**$703**	**$698**
Plus: Levered Free Cash Flow	5	(248)	243	(80)	(73)	153	0	5	(4)	10
Ending Cash	**$703**	**$455**	**$698**	**$618**	**$546**	**$698**	**$698**	**$703**	**$698**	**$708**

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Source: PA Consulting, Houlihan Lokey analysis and PREPA Business Plan

Note: All analyses are strictly illustrative in nature

(1) Excludes DSCR requirement

(2) Assumes restricted cash remains unchanged from the June 30, 2015 projected balance and July 1, 2015 interest payment is made

Financial Model Detail (Cont.)

PREPA Business Plan Model + Status Quo Debt Schedule + Annual Rate Case

Illustrative Demand and Supply Drivers (GWh)

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Gross Demand	**17,066**	**17,167**	**17,239**	**17,347**	**17,356**	**17,367**	**17,378**	**17,386**	**17,396**	**17,405**
Less: DG, DSM & Net Metering	(340)	(474)	(587)	(696)	(806)	(913)	(1,022)	(1,042)	(1,064)	(1,082)
Net Demand	**16,726**	**16,693**	**16,652**	**16,651**	**16,551**	**16,454**	**16,356**	**16,345**	**16,332**	**16,323**

Illustrative Average Rate Summary ($/kWh)

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Rate for Base Operations	**$0.1444**	**$0.1146**	**$0.0897**	**$0.0961**	**$0.1062**	**$0.0967**	**$0.0901**	**$0.0867**	**$0.0873**	**$0.0983**
Plus: Rate for Fuel Expenses	0.0770	0.0790	0.0658	0.0636	0.0682	0.0685	0.0631	0.0563	0.0566	0.0562
Plus: Rate for Purchased Power	0.0495	0.0517	0.0521	0.0555	0.0582	0.0598	0.0606	0.0606	0.0609	0.0631
Plus: Rate for CILT, Bad Debt, W/C and Other	0.0273	0.0252	0.0258	0.0267	0.0248	0.0266	0.0267	0.0253	0.0260	0.0258
Electricity Rate	**$0.2981**	**$0.2704**	**$0.2334**	**$0.2418**	**$0.2573**	**$0.2516**	**$0.2404**	**$0.2288**	**$0.2308**	**$0.2434**
Plus: Rate for Stabilization Fund of $0mm	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Electricity Rate Plus Stabilization Fund	**$0.2981**	**$0.2704**	**$0.2334**	**$0.2418**	**$0.2573**	**$0.2516**	**$0.2404**	**$0.2288**	**$0.2308**	**$0.2434**
Plus: Rate for Debt Service Coverage(1)	0.0090	0.0094	0.0095	0.0095	0.0095	0.0096	0.0097	0.0097	0.0097	0.0097
Electricity Rate Incl. Debt Service Coverage(1)	**$0.3071**	**$0.2798**	**$0.2429**	**$0.2513**	**$0.2668**	**$0.2612**	**$0.2501**	**$0.2385**	**$0.2405**	**$0.2531**

Privileged & Confidential
Source: PA Consulting, Houlihan Lokey analysis and PREPA Business Plan
Note: All analyses are strictly illustrative in nature
(1) Assumes a 1.25x debt service coverage ratio with excess cash accumulating on balance sheet

Financial Model Detail (Cont.)

PREPA Business Plan Model + Status Quo Debt Schedule + Annual Rate Case

Illustrative Cash Flow Summary ($mm)(1)

	Fiscal Year Ending June 30th									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Revenues	**$4,987**	**$4,513**	**$3,887**	**$4,026**	**$4,259**	**$4,140**	**$3,932**	**$3,741**	**$3,771**	**$3,974**
Less: Fuel	(1,381)	(1,447)	(1,205)	(1,168)	(1,237)	(1,236)	(1,142)	(1,030)	(1,035)	(1,027)
Less: Purchased Power	(827)	(863)	(868)	(923)	(963)	(984)	(991)	(990)	(995)	(1,030)
Less: Labor	(497)	(494)	(488)	(485)	(486)	(491)	(496)	(501)	(506)	(511)
Less: O&M and Other	(223)	(199)	(197)	(199)	(201)	(203)	(205)	(207)	(209)	(211)
Gross Profit Before Performance Improvements	**$2,058**	**$1,510**	**$1,130**	**$1,251**	**$1,371**	**$1,225**	**$1,098**	**$1,013**	**$1,026**	**$1,195**
Plus: Customer Service Performance Improvements	26	44	51	51	52	52	53	53	54	54
Plus: Fuel Performance Improvements	93	129	109	109	108	110	110	110	110	110
Plus: Procurement Performance Improvements	38	55	56	56	57	57	58	58	59	60
Plus: Other, Net Performance Improvements	21	71	101	102	103	104	105	106	107	108
Gross Profit After Performance Improvements	**$2,236**	**$1,808**	**$1,446**	**$1,569**	**$1,691**	**$1,548**	**$1,424**	**$1,340**	**$1,356**	**$1,527**
Less: Other (CILT, Bad Debt, W/C and OPEB)	(456)	(420)	(430)	(445)	(410)	(438)	(436)	(414)	(426)	(422)
Less: Maintenance Capex	(296)	(315)	(284)	(278)	(281)	(285)	(289)	(293)	(296)	(300)
Less: Investment Capex	(149)	(446)	(102)	(215)	(368)	(192)	(65)	0	0	(170)
Free Cash Flow Before Debt Service	**$1,334**	**$628**	**$630**	**$631**	**$632**	**$633**	**$633**	**$634**	**$634**	**$634**
Less: Bond Principal	(224)	(237)	(250)	(262)	(275)	(289)	(304)	(319)	(335)	(351)
Less: Bond Interest	(416)	(405)	(395)	(383)	(371)	(359)	(344)	(329)	(314)	(297)
Plus: Subsidies & Capitalized Interest	38	14	14	14	14	14	14	14	14	14
Less: Fuel Line / GDB LOC Principal	(731)	0	0	0	0	0	0	0	0	0
Less: Fuel Line / GDB LOC Interest	0	0	0	0	0	0	0	0	0	0
Less: Rate Stabilization Fund	0	0	0	0	0	0	0	0	0	0
Levered Free Cash Flow	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Beginning Cash(2)	**$698**	**$698**	**$698**	**$698**	**$698**	**$698**	**$698**	**$698**	**$698**	**$698**
Plus: Levered Free Cash Flow	0	0	0	0	0	0	0	0	0	0
Ending Cash	**$698**	**$698**	**$698**	**$698**	**$698**	**$698**	**$698**	**$698**	**$698**	**$698**

Privileged & Confidential
Source: PA Consulting, Houlihan Lokey analysis and PREPA Business Plan
Note: All analyses are strictly illustrative in nature
(1) Excludes DSCR requirement
(2) Assumes restricted cash remains unchanged from the June 30, 2015 projected balance and July 1, 2015 interest payment is made

Annex C

Insurer Modifications of June 18, 2015

DISCUSSION MATERIALS

PREPA

LAZARD

DISCLAIMER

The terms and conditions contained herein are indicative only, can be changed at any time, are subject to additional internal approvals by each of the parties, and are provided for discussion purposes. This presentation is intended to outline terms and does not purport to list or summarize all of the terms and conditions of the transactions described, which will only be contained in the definitive documentation for each transaction. Nothing in this presentation shall be construed as an actual commitment by any Party, such commitment, if any, being subject to the execution of definitive documentation.

Introduction

- **Assured Guaranty, LTD and National Public Finance Guarantee Corporation (together the "Monolines") have been working diligently to develop proposals to address PREPA's request for enhanced liquidity; PREPA's request is challenging for a number of reasons, including, among others:**
  - PREPA's business plan remains a work in progress with material cost and cash flow improvement opportunities identified but yet to be included in base case business plan
  - MATS compliance strategies and new generation investment remain subject to debate and discussion
  - Current rate profile does not meet contractual or statutory obligation to meet debt service. Rate profile with full debt service remains below historical levels today
- **The Monolines have been in active dialogue with the HLHZ group in search of a unified creditor solution for PREPA. While the proposed HLHZ debt deferment proposal is constructive, there are elements of the proposal that do not work for the Monoline group and can be improved for the benefit of all parties**
- **We have proposed adjustments that improve economic efficiencies and provide workable mechanics**

Monoline Proposal

- **The Monolines, after significant analysis and debate, are willing to support PREPA's liquidity request despite the challenges noted. In summary, the Monolines would agree to provide up to $431mm in new liquidity through the wrap[(a)] of new securities**
  - New Monoline commitment to be funded through a securitization structure. Financing terms to include long-dated maturity and rate reflective of the credit
  - Reflects incremental long-dated new wrap exposure for Monolines at a time of significant uncertainty in regards to Puerto Rico
  - Monoline support could be deployed in any number of ways to maximize liquidity benefit for PREPA
  - Minimizes accumulated debt by avoiding PIK interest at a premium
- **Monoline commitment is subject to key conditions:**
  - Payment of July 1 debt service (consistent with HLHZ proposal)
  - 2 year principal and interest deferral by HLHZ group as proposed
  - [7] year term out of fuel line lender debt at contractual interest rate
  - Acceptable non-economic and governance terms

Monolines would be prepared to extend forbearance to allow for development of detailed plan to implement the proposal outlined herein

(a) Liquidity support may also come in the form of direct purchase of the new securities.

Monoline Proposal with HLHZ Deferral Will Provide Liquidity for PREPA's Capital Improvement Plan

($ in millions)

The table below summarizes PREPA's cash costs over the next 5 fiscal years

COST COMPONENTS	FY2016	FY2017	FY2018	FY2019	FY2020
Operating Costs Net of Performance Improvement [a]	$1,092	$944	$909	$920	$886
Maintenance Capex	296	315	284	278	281
Investment Capex	149	446	102	215	367
Fuel and Purchased Power Net of Performance Improvement	2,115	2,181	1,963	1,982	2,092
Debt Service on Bonds	603	628	630	631	632
Debt Service on Fuel Lines / GDB LOC	731	0	0	0	0
Enhanced Debt Service Coverage	151	157	157	158	158
Total Cash Cost	**$5,138**	**$4,671**	**$4,046**	**$4,183**	**$4,416**
Normalization of Fuel Line Debt Service and GDB LOC [b]	(591)	135	129	124	118
Removal of Enhanced Annual Debt Service Coverage Contributions	(151)	(157)	(157)	(158)	(158)
Total Normalized Cash Cost	**$4,396**	**$4,648**	**$4,017**	**$4,149**	**$4,377**
MEMO I:					
AOGP	$96	$384	$0	$0	$0
New Units/Repowering	0	0	67	134	295
T&D Investment CapEx	53	61	36	44	32
Retirements/Demolition	0	0	0	37	41
Total Investment CapEx	**$149**	**$446**	**$102**	**$215**	**$367**

- **~$700 million of new investment CapEx in 3 year period**
- **Providing for this ~$700 million of CapEx would reduce rates ~2 cents in FY 2016/FY2017 getting to a normalized rate ~24-25 cents/kwh in those years**

Note: Fiscal year end June 30th.

(a) Includes CILT & Other Appropriations, Bad Debt Expense, OPEB and Changes in Working Capital. Fuel & Purchased Power calculated separately.

(b) Assumes 7 year-term out of Fuel Line Debt and GDB LOC at contractual interest rate.

New Proposal is Before Consideration of Additional PREPA Opportunities to Enhance Liquidity

($ in millions)

Summarized below are potential additional cost opportunities not currently included in PREPA's proposed business plan or this proposal

KEY POTENTIAL ADJUSTMENTS

CILT	A	**Additional CILT collections from non-essential/"for-profit" municipal activities and improved working capital ($25mm annual savings)**
Non-Technical Loss	B	**$45 - $90mm of annual non-technical loss that may not be captured in customer rate calculations ($67.5mm annual savings)**
Labor	C	**Per benchmarking to other island utilities, potential for the reduction of FTE's at generation assets ($67.5mm annual savings)**
Pension	D	**Potential for reduction in pension vis-a-vis the ~$160mm annual contribution currently modeled ($60mm annual savings)**
One-Time Improvements	E	**Realization of AlixPartners' one-time operational improvement in customer service, indirect procurement and fuel ($250mm annual savings)**
AOGP Financing	F	**Financing of AOGP; 50% cost is financed at 7.5% rate over a 20 year period[a] ($216.7mm upfront cost deferral)**

IMPACT OF CERTAIN ADJUSTMENTS

	FY2016	FY2017	FY2018	FY2019	FY2020
Total Cash Costs	**$5,138**	**$4,671**	**$4,046**	**$4,183**	**$4,416**
Normalization of Fuel Line Debt Service and GDB LOC [a]	(591)	135	129	124	118
Removal Enhanced Annual Debt Service Coverage Contributions	(151)	(157)	(157)	(158)	(158)
Total Normalized Cash Costs	**$4,396**	**$4,648**	**$4,017**	**$4,149**	**$4,377**
Total Normalized Rate (cents)	**26.28**	**27.84**	**24.13**	**24.92**	**26.44**
A. CILT Adjustments	($25)	($25)	($25)	($25)	($25)
B. Non-Technical Loss	(68)	(68)	(68)	(68)	(68)
C. Additional Labor Reduction (Generation)	(68)	(68)	(68)	(68)	(68)
D. Pension Savings	(60)	(60)	(60)	(60)	(60)
E. One-Time Cash Savings Impact	(250)				
F. Potential AOGP Financing (75% of Cost)	(217)	24	24	24	24
Additional Labor Reduction (Non-Generation)	**TBD**				

Every ~$165mm of annual cash savings equals 1 cent of rate

(a) Debt serviced through mortgage-style payments.

Monolines are Providing a Disproportion Share of New Liquidity under this Proposal

($ in millions)

PERCENT PRINCIPAL OUTSTANDING	%
Wrapped Bonds	
Assured	11.4%
MBIA	15.5%
Syncora	2.1%
Unwrapped Bonds	
Participating (HLHZ group)	37.1%
Non-Participating	33.9%
Total	**100.0%**

CUMULATIVE DEBT SERVICE IN MILLIONS USD	2 YEAR PERIOD	
	Jan 1, 2016 — July 1, 2017	
Wrapped Bonds	**Principal**	**Interest**
Assured	$25.8	$75.5
MBIA	199.4	130.6
Syncora	71.2	18.9
Unwrapped Bonds		
Participating (HLHZ group)	$35.6	$322.1
Non-Participating	129.4	290.6
Total	**$461.4**	**$837.7**

Assured and National represent ~27% of the debt outstanding at PREPA but the Monoline Proposal provides 55% of total liquidity provided

(a) Gross debt service provided for Assured vs. net debt service as per public filings.

Rate Structure Under Monoline/HLHZ Proposal

- **Assuming ~$431mm of new monoline support and 2 year principal and interest deferral from the HLHZ group, PREPA's rates are expected to remain significantly below historical norms**
  - Assumes [7] year term out of fuel line debt at contractual rate
  - Does not include benefit of expected additional PREPA cash flow and cost reduction initiatives
  - Does not yet include deferrals/participation by Syncora or participation by non-HLHZ unwrapped bonds in deferral
- **The island comparable average rate is 38.51 cents comprised of islands such as Guam, Hawaii, Jamaica, St. Lucia, Virgin Islands, *etc***
- **PREPA's historical rate is 27.76 cents[(a)]**
- **Proposed rates under illustrative Monoline/HLHZ Proposal is 25.43 cents[(b)]**

(a) Based on August 2014 average electricity rate.
(b) Average rate over 5 year forecast period. Rate calculation based on HLHZ Comprehensive PREPA Revitalization Plan 2.0 adjusted for mono-line proposal and removal of the rate stabilization fund.

Annex D

PREPA Revised Recovery Plan of June 25, 2015

PREPA Counterproposal

June 25, 2015

Disclaimer

The information contained in this file (the "Information") has been provided and prepared by advisors to PREPA and the Government Development Bank for Puerto Rico ("GDB"). The Information is in draft form subject to further discussions and revisions. No representations or warranties, express or implied, is made by PREPA or any of its advisors, or advisors to the GDB as to the accuracy or completeness of the Information. PREPA, GDB and their respective advisors shall have no responsibility or liability for the accuracy or completeness of the Information or the consequences of any party's reliance upon the Information. The Information does not constitute an offer or solicitation to sell or purchase securities. None of PREPA, GDB, or their respective advisors shall have any liability, whether direct or indirect, in contract, tort or otherwise, to any person in connection with the Information.

The Information contained herein encompasses certain "forward-looking" statements and information. These forward-looking statements and information are not guarantees of future performance and involve certain risks, uncertainties, estimates, opinions, expectations and assumptions by PREPA, GDB and their respective advisors and many of them are beyond the control of said parties. Factors that may impact PREPA's future debt service obligations, such as increases in prevailing interest rates, are entirely beyond the control of PREPA, GDB and their respective advisors. The parties reviewing the Information are cautioned not to place any reliance on the forward-looking information contained herein.

The Information is being provided pursuant to confidentiality agreements between you and PREPA, is confidential in nature, may include information that is not publicly available, and may not be shared with or disclosed to any other person.

PREPA Counterproposal: Summary Term Sheet

The PREPA Counterproposal is structured maximize creditor recoveries while providing capital and flexibility to allow PREPA to invest in infrastructure to improve its operations

July 1st Interest Payment

- Forbearing creditors will purchase approx. $152 million in subordinated notes to fund the July 1 payment
  - — The new bonds would earn 7.25% interest
  - — Bonds will be repaid upon the earlier of July 1, 2016 and the consummation of a reprofiling transaction

Forbearing Bonds

- Unwrapped Forbearing Bonds would be exchanged at par into a series of new turbo bonds (the "Exchange Turbo Bonds") with the following terms:
  - — Cash interest payable at 1% for the first five years; difference between contract and 1% may be deferred for up to five years
  - — No principal payments for first five years
  - — If at the end of any fiscal year, PREPA's cash balance, adjusted to account for the estimated cash flow shortfall, if any, exceeds $450 million, PREPA would use any excess cash over the minimum balance to prepay the turbo bonds, in the following order of priority:
    - Unpaid interest
    - Unpaid principal in order of original maturity
    - Turbo payments would be capped at the cumulative foregone payments (for example, a turbo payment in FY 2017 could not be more than the total payments foregone in FY2016 and FY2017)
- Scheduled principal and interest payments resume at contract rates in year six
- Requires 100% participation from all unwrapped Forbearing Bonds
- The exchange would require exit consents, stripping the remaining legacy bonds of covenants and remedies, including right of acceleration
- The debt service reserve fund for the Exchange Turbo Bonds will be funded over the first five years to cover 12 months of debt service

Non-Forbearing Bonds

- Unwrapped Non-Forbearing Bonds have the option to:
  - — Participate in the exchange offered to the Forbearing Bonds; or
  - — Tender their bonds at a discount to par
    - 70% for bonds maturing in the first five years
    - 65% for bonds maturing in year six or later
  - — Requires minimum participation of 70% from the Non-Forbearing Bonds
  - — The tender would require exit consents, stripping the remaining legacy bonds of covenants and remedies, including right of acceleration

PREPA Counterproposal: Summary Term Sheet (cont'd)

Monolines	▪ The legacy bonds insured by the monolines will be excluded from any transactions and will remain unchanged ▪ Monolines to provide a new wrap to support the [$1.3] billion of new Tender Bonds assuming a 70% participation rate — 6% interest rate — No insurance premiums paid — First five years are interest-only; principal amortization to begin in the sixth year (FY2021) — The debt service reserve fund for the Tender Bonds will be funded over the first five years to cover 12 months of debt service
Fuel Lines	▪ The Fuel Lines have the option to receive: — Seven year term out with escalating amortization; <u>or</u> — Amendment providing for a rollover facility with a 30% principal reduction; current interest and principal payments and extension of additional working capital credit to PREPA ▪ See attached terms
New Financing	▪ New money securitization bonds of [$1.1 billion] to fund new capital expenditures shall be issued with the following terms: — Targeted investment grade rating — 6% interest rate; first two years are interest-only — [17 year] final maturity; [15-year] mortgage-style semi-annual payments to begin in the third year (FY2018) — Delayed draw feature to provide PREPA the flexibility to finance new capex requirements as needed — The debt service reserve fund for 12 months of debt service will be funded with bond proceeds upon issuance
Other	▪ Proposal is subject to an agreement on the non-economic terms (e.g., governance, RFP for third party managers, etc.) ▪ PREPA will continue to explore alternative financing options, including those proposed by the Ad Hoc group, to augment or replace the financing proposed herein — Such financing, if available on terms superior to the terms of this proposal, would enable PREPA to make early payments on the Exchange Turbo Bonds ▪ The GDB line of credit is assumed to have the same treatment as the Fuel Lines ▪ Existing swaps assumed to remain in place

Proposal Comparison

	PREPA Recovery Plan	Ad Hoc Proposal		Monoline Proposal	PREPA Counterproposal
		Debt Moratorium	Securitization		
Date	June 1, 2015	June 17, 2015	June 17, 2015	June 18, 2015	June 24, 2015
Fuel Lines	▪ 5 year principal holiday ▪ Repayment of principal in equal installments in years 6-10 ▪ 1% interest during principal holiday ▪ 7.25% interest thereafter	▪ Repayment of principal in equal installments in years 1-5 ▪ 7.25% interest	▪ Repayment of principal in equal installments in years 1-5 ▪ 7.25% interest	▪ Repayment of principal in equal installments in years 1-7 ▪ 7.25% interest	▪ Repayment of principal in escalating amounts in years 1-7 ▪ 7.25% interest
Forbearing Bonds	▪ Principal payments delayed five years ▪ 1% interest during principal holiday ▪ Contract interest rates after holiday ▪ 85% average participation across all creditor groups	▪ Principal payments delayed two years ▪ Interest paid in kind at contract rate plus 3%, during principal holiday ▪ Contract interest rates after holiday ▪ 85% average participation across all creditor groups	▪ Participating creditors would receive new securitization bond — 4% interest — Interest only through FY 2018 ▪ Non-Participating creditors would receive convertible note maturing in 2043, with interest at 4% cash or 5% PIK	▪ Same as Ad Hoc Proposal	▪ Exchanged for new turbo bonds, with maturity schedule delayed five years, but prepayable from excess cash flow ▪ 100% participation
Non-Forbearing Uninsured Bonds	▪ Same as Forbearing Bonds	▪ Same as Forbearing Bonds	▪ Same as Forbearing Bonds	▪ Same as Ad Hoc Proposal	▪ Option 1: Tender offer at 65% to 70% of par, using newly issued insured bonds ▪ Option 2: Same as Forbearing Bonds ▪ [70%] participation
Insured Bonds	▪ Same as Forbearing Bonds	▪ Same as Forbearing Bonds	▪ Same as Forbearing Bonds	▪ Provide $431 million new insurance policy for a new securitization, the proceeds of which would be used to refinance insured bonds maturing in FY16 and FY17	▪ Provide up to [$1.3 billion] of insurance for new bonds, proceeds of which will be used to fund tender offer ▪ No insurance premium for new wrap ▪ Assumes contribution from both National and Assured
Blended Bond Participation Rate	▪ 85%	▪ 85%	▪ 100%	▪ N/A	▪ 61%

PUERTO RICO ELECTRIC POWER AUTHORITY
TRADE FINANCE FACILITY TERM SHEET

This Term Sheet is presented for discussion purposes only and is entitled to protection from any use or disclosure to any person or entity pursuant to Federal Rule of Evidence 408 and any other rule of similar import. This Term Sheet is confidential and may not be disclosed to any person or entity other than the Puerto Rico Electric Power Authority and its advisors.

This Term Sheet does not create, and is not intended to create, (i) a binding or enforceable contract between the Parties (as defined below), (ii) any duty to negotiate toward a binding contract or (iii) a commitment to advance funds or enter into any transaction on the terms set forth herein. This Term Sheet does not set forth all of the terms that would be included in definitive documents, and the proposed financing contemplated hereby is subject in all respects to completion of legal and financial due diligence, further negotiation between the Parties, execution of definitive documents and obtaining any necessary approvals.

This Term Sheet and the provisions hereof shall not by implication or otherwise limit, impair or constitute a waiver of any right, power or remedy of the Lenders (as defined below) under the Existing Facility (as defined below), the Trust Agreement (as defined below), or any related documents or agreements (including any forbearance agreements), all of which are fully reserved.

Nothing in this Term Sheet shall constitute an admission or representation of any fact or circumstance or an admission of any liability or waiver of any right or claim, and nothing contained herein may be used or offered into evidence in any legal, administrative or other proceeding. The rights of all parties are subject to the agreement and execution of definitive documentation in all respects. Unless and until the execution of definitive documentation, the parties shall retain their respective rights and any negotiation of and/or agreement to this Term Sheet shall not be deemed a waiver of any rights of any party. If executed, the terms of such definitive documentation shall control.

Borrower:	Puerto Rico Electric Power Authority (the "**Borrower**").
Lenders:	[●] (the "**Lenders**"). The term "**Parties**" shall mean the Borrower and the Lenders.
Facility:	A committed revolving trade line of credit (the "**Trade Finance Facility**"), comprising $[[●] million][1] aggregate amount of new money commitments available on the Closing Date (the "**New Commitments**") and up to $[●][2] aggregate amount of Roll Up Commitments (as defined below) (the "**Roll Up Cap**"). Subject to the Roll Up Cap, each Lender providing a New Commitment shall also be entitled to replace each $[●] of principal amount of Existing Commitments (as defined below) with commitments of up to $[●] under the Trade Finance Facility (the "**Roll Up Commitments**"), such replacement to occur on each date a New Commitment is drawn under the Trade Finance Facility. The Roll Up Commitments shall be deemed borrowed as of the date of disbursement of each New Commitment under the Trade Finance Facility *pro rata* to the amount of such Lender's

[1] To be discussed.

[2] Aggregate amount of Existing Facility rolled up into the Trade Finance Facility to reflect a **[●]%** reduction on the principal currently outstanding under the Existing Facility. Percentage of discount to be agreed.

	New Commitment. Upon the occurrence of each such deemed borrowing an equal principal amount of the loans of such Lender under the Existing Facility (as defined below) shall be deemed repaid in full without further obligations of the Borrower. The New Commitments and the Roll Up Commitments are collectively referred to as the "**Commitments**." Each draw of the Commitments shall be at least $1,000,000 (or such lower amount as shall be available) (each draw referred to herein as an "**Advance**").
Documentation:	The Trade Finance Facility shall be documented under an amended and restated agreement (the "**Trade Facility Agreement**") having terms substantially consistent with the [●] (as amended, the "**Existing Facility**" and the advances made thereunder, the "**Existing Advances**"), except for modifications to reflect the terms set forth herein and as otherwise agreed under the Recovery Plan (as defined below).
Purpose:	The Advances shall be used exclusively for operating expenses, which constitute Current Expenses.
Availability and Maturity:	• <u>New Commitments</u>: Advances with respect to New Commitments shall be available on a revolving basis during the period commencing on the date all conditions precedent to the initial funding are satisfied (the "**Closing Date**") and ending on the date that is [one] year from the Closing Date (the "**New Commitments Termination Date**"). Each Advance shall mature and be repaid on the earlier of (x) [●] days from the date such Advance is funded by the Lenders and (y) the New Commitments Termination Date. • <u>Roll Up Commitments</u>: Advances with respect to Roll Up Commitments shall be available on a revolving basis during the period commencing on the Closing Date and ending on the date that is [seven] years from the Closing Date (the "**Roll Up Termination Date**"). Each Advance shall mature and be repaid on the earlier of (x) [●] days from the date such Advance is funded by the Lenders and (y) the Roll Up Termination Date.
Priority:	The Advances and all other obligations outstanding under the Trade Facility Agreement shall constitute Current Expenses of the Borrower, including under the Trust Agreement, dated as of January 1, 1974 (as amended, supplemented or otherwise modified from time to time, the "<u>Trust Agreement</u>"), and shall continue to be senior in right of payment to any bonds at any time issued by the Borrower, including pursuant to the Trust Agreement.
Voluntary Prepayments:	Substantially consistent with the Existing Facility.
Interest Rate, Fees and	[Interest rate: [●].]

Expenses:[3]	[“Applicable Spread”: means an amount equal to [●] basis points.] [Default rate: [●]%]] The Borrower shall pay all reasonable, out-of-pocket fees and expenses of the Lenders.
Closing Conditions:	Among others, PREPA and the Lenders shall have finalized and documented (a) a comprehensive recovery plan (the “**Recovery Plan**”) and (b) an agreement to support such Recovery Plan (the “**Restructuring Support Agreement**”). Otherwise, substantially consistent with the Existing Facility, which conditions include receipt by the Lenders of Resolutions, Certificates and any other requested evidence that the Advances and other obligations outstanding under the Trade Facility Agreement constitute Current Expenses.
Representations and Warranties:	Substantially consistent with the Existing Facility, except as otherwise agreed by the Parties and to reflect current circumstances.
Affirmative and Negative Covenants:	Substantially consistent with the Existing Facility, except as otherwise agreed by the Parties and to reflect current circumstances, including (but not limited to) the following changes: (i) Rate covenant to be conformed to new rate structure consistent with the terms of new bond debt under the Recovery Plan and to be made subject to applicable laws and regulations (i.e., Energy Relief Act). (ii) Lien covenant to be conformed to lien covenant of new bond debt under the Recovery Plan (i.e., to allow flexibility to access favorably priced financing). (iii) Any other change to incorporate into Trade Facility Agreement terms of new bond debt under the Recovery Plan (to the extent that the Existing Facility incorporated terms of the Trust Agreement). [The Borrower shall afford the Lenders or their affiliates the right to participate in any new financing arrangement incurred in connection with any restructuring of the Borrower or otherwise incurred to fund any improvements or expansion of the Borrower’s system.][4]
Events of Default:	Substantially consistent with the Existing Facility, except as otherwise agreed by the Parties and to reflect current circumstances, including (but

[3] To be discussed.

[4] To be discussed.

	not limited to), the following changes: (i) Deletion of downgrade-triggered Event of Default. (ii) [Treatment of bankruptcy / receivership Event of Default to be discussed]. (iii) [Treatment of cross default Event of Default to be discussed.] (iv) [Treatment of MAE Event of Default to be discussed.]
Indemnification:	Substantially consistent with the Existing Facility, except as otherwise agreed by the Parties and to reflect current circumstances.
Governing Law:	Consistent with the Existing Facility.
Jurisdiction:	Consistent with the Existing Facility.