



Puerto Rico Electric Power Authority

A Stronger PREPA

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Concluding Remarks

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Concluding Remarks

Who is PREPA?

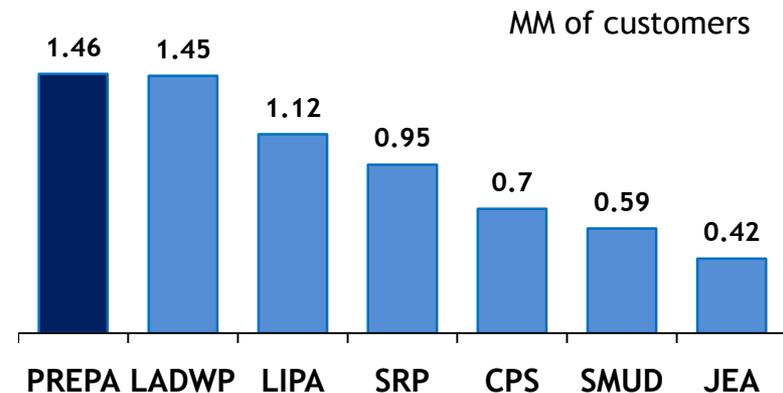
Overview of PREPA

- Independent island utility
- Monopoly provider selling an essential service with full rate setting authority
- No customer concentration risk
- Fuel and purchased power costs passed through to PREPA's customers on a monthly basis
- PREPA is one of the largest public power agencies and is:
 - First in number of customers served (approximately 1.5 million)
 - First in revenues (\$4.4 billion in FY2011)

Public Power Issuers by Revenues (\$Bn)

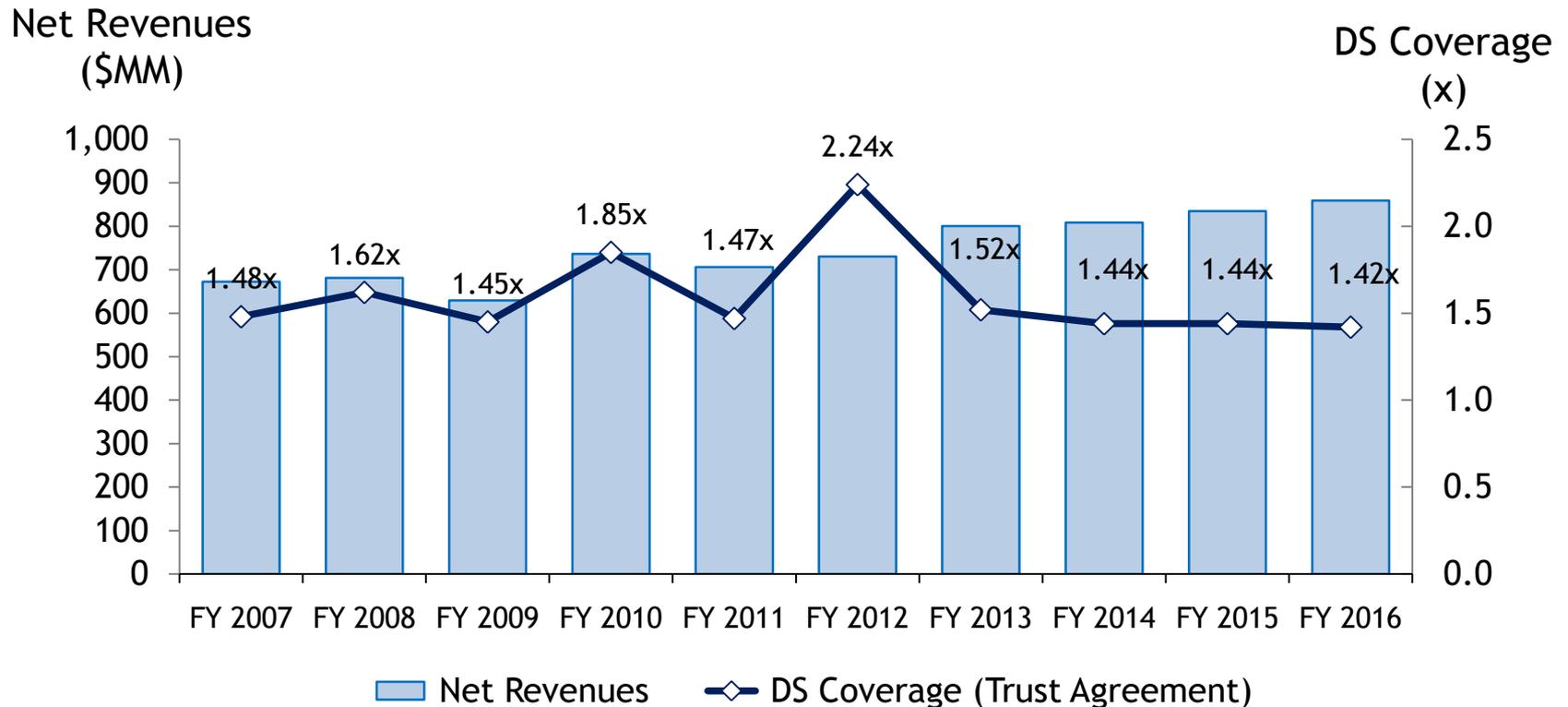


Public Power Issuers by # of Customers



Who is PREPA?

Net Revenues and Debt Service Coverage

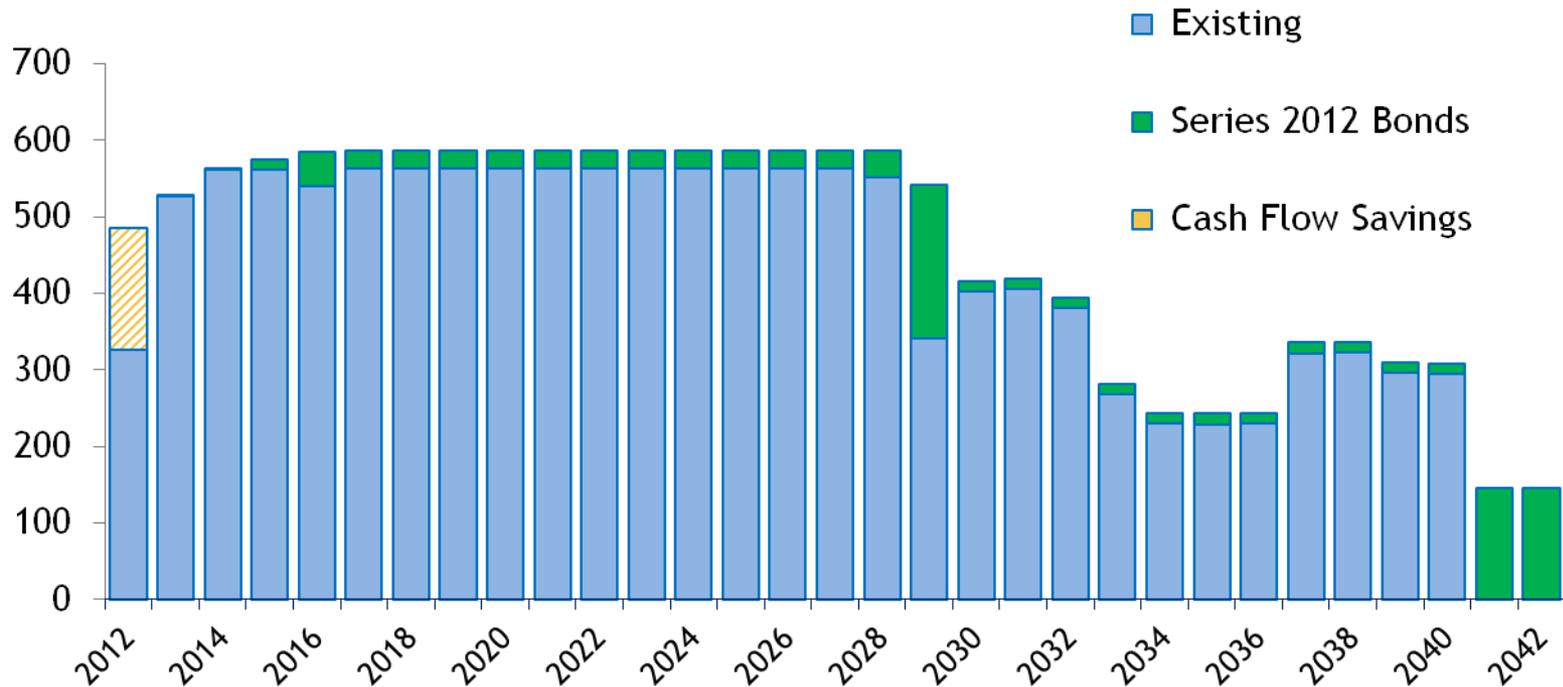


- PREPA's Net Revenues and debt service coverage have been relatively stable
- Higher coverage in FY2012 reflects lower debt service as a result of the 2012 plan of finance

Who is PREPA?

Conservative Debt Profile

Debt Service Profile after Series 2012AB Transaction (\$MM)



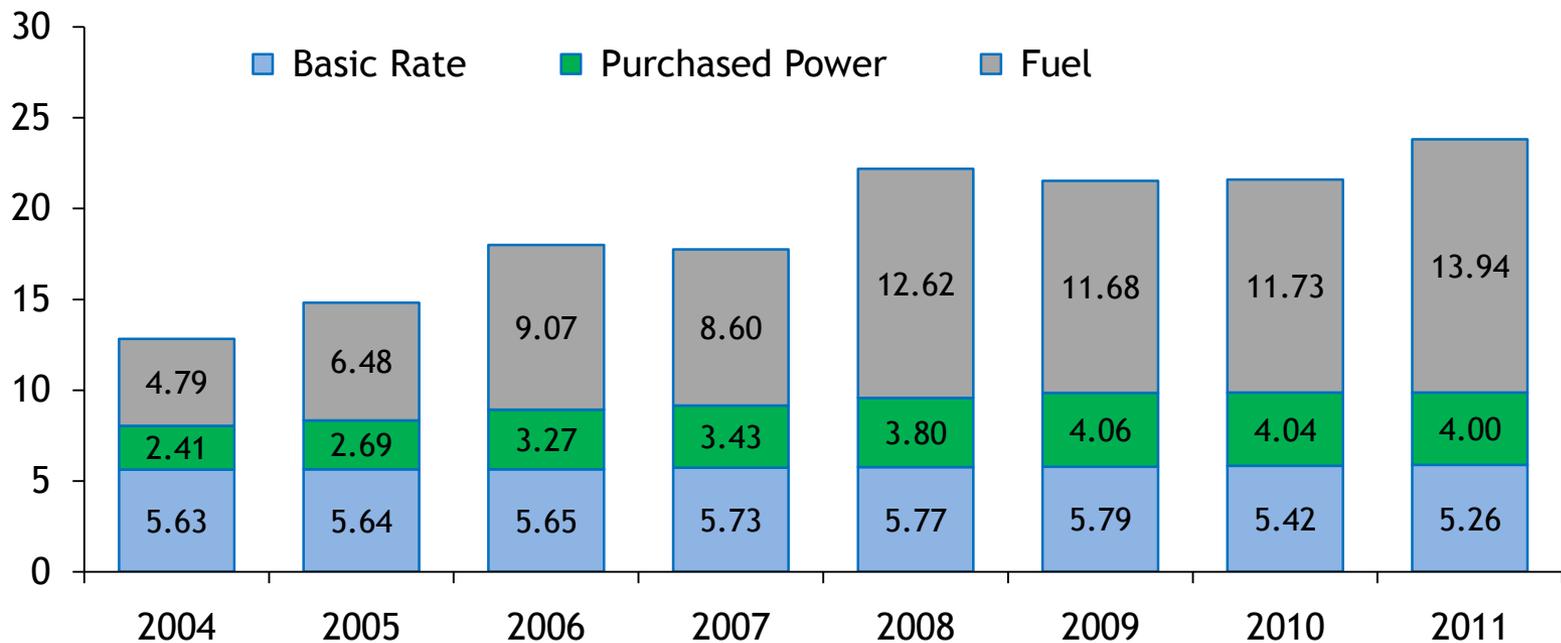
- PREPA has a downward sloping debt service profile with no variable rate risk or put risk on its senior lien

Who is PREPA?

Pass Through of Volatile Fuel Costs in Customer Rates

- Fuel and purchased power represent more than 72% of PREPA's costs
- Rates are adjusted monthly to pass these costs through to customers
- Increases (or decreases) in PREPA's fuel and purchased power cost are recovered in rates two months after such costs are incurred (billing cycle)

Average Rate per kWh (cents per kWh)

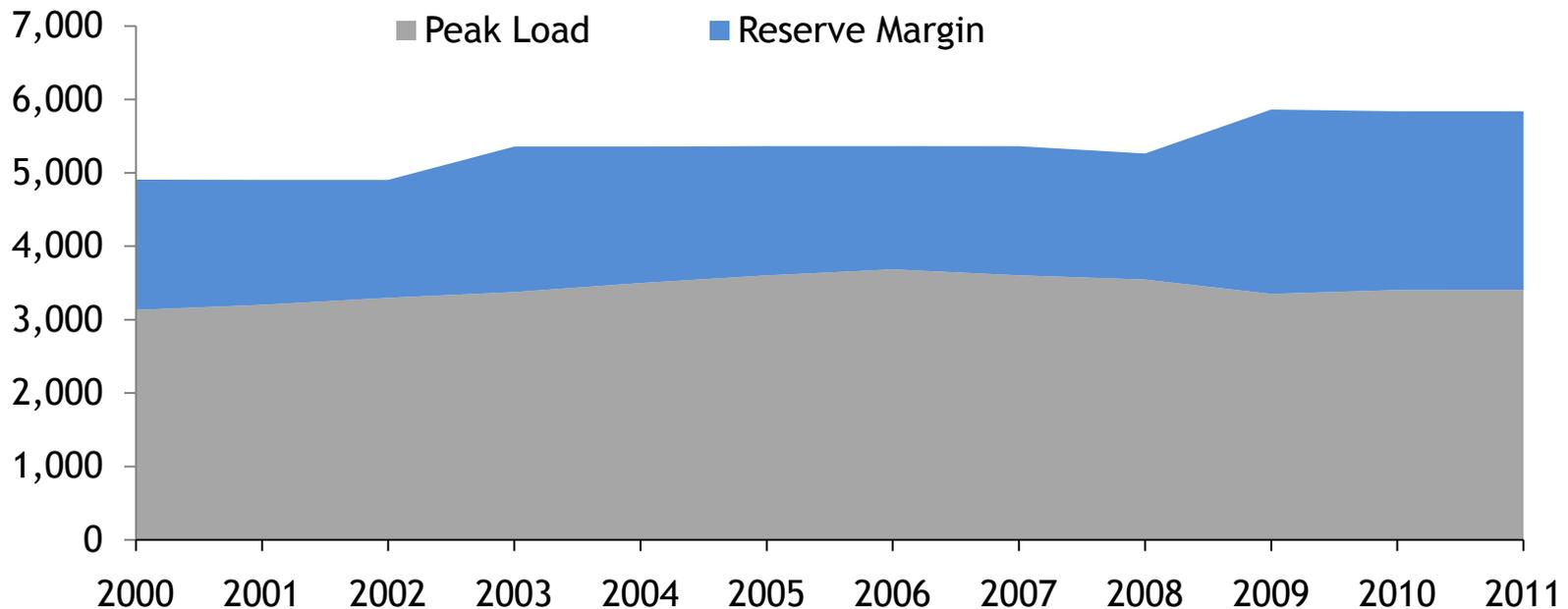


Who is PREPA?

Adequate Reserve Margins

- Fleet of 31 major generating units aggregating to 5,839 MW in 20 facilities
- PREPA estimates that its reserve margins are adequate beyond 2020
- PREPA's reserve margins should continue to increase as PREPA has entered into PPAs with developers for renewable energy projects

PREPA's Reserve Margins (MW)



Who is PREPA?

PREPA's Cash Reserves Strengthen Bondholder Security

- PREPA's unrestricted cash and cash equivalents total almost \$65 million
- In addition, PREPA has \$478 million of restricted cash and cash equivalents that can be used to pay debt service

Available Funds (\$000)

<u>Type</u>	<u>Amount</u>
Unrestricted cash and cash equivalents	\$64,856
Restricted cash and cash equivalents	
Reserve Account	\$377,903
Self Insurance Fund	\$84,645
Reserve Maintenance Fund	\$15,691
Total	\$543,095

Who is PREPA?

Recent Developments at PREPA

- Comprehensive strategic plan to address challenges
- First six months of FY 2012:
 - Net Revenues up 22.4% compared to the same period last year
 - Operating expenses (excluding fuel and purchased power) are down by \$13.3 million compared to the same period last year
- Improvement in levels of accounts receivable; Ports Authority made a \$60 million payment in late January, which had accounted for 29% of all public authority receivables
- Continued improvement in theft reduction
- A number of new laws passed in December 2011 will help PREPA to reduce accounts receivable, improve theft reduction, reduce CILTs, and implement a new, more efficient fuel procurement process

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Strategic Plan for a Stronger PREPA

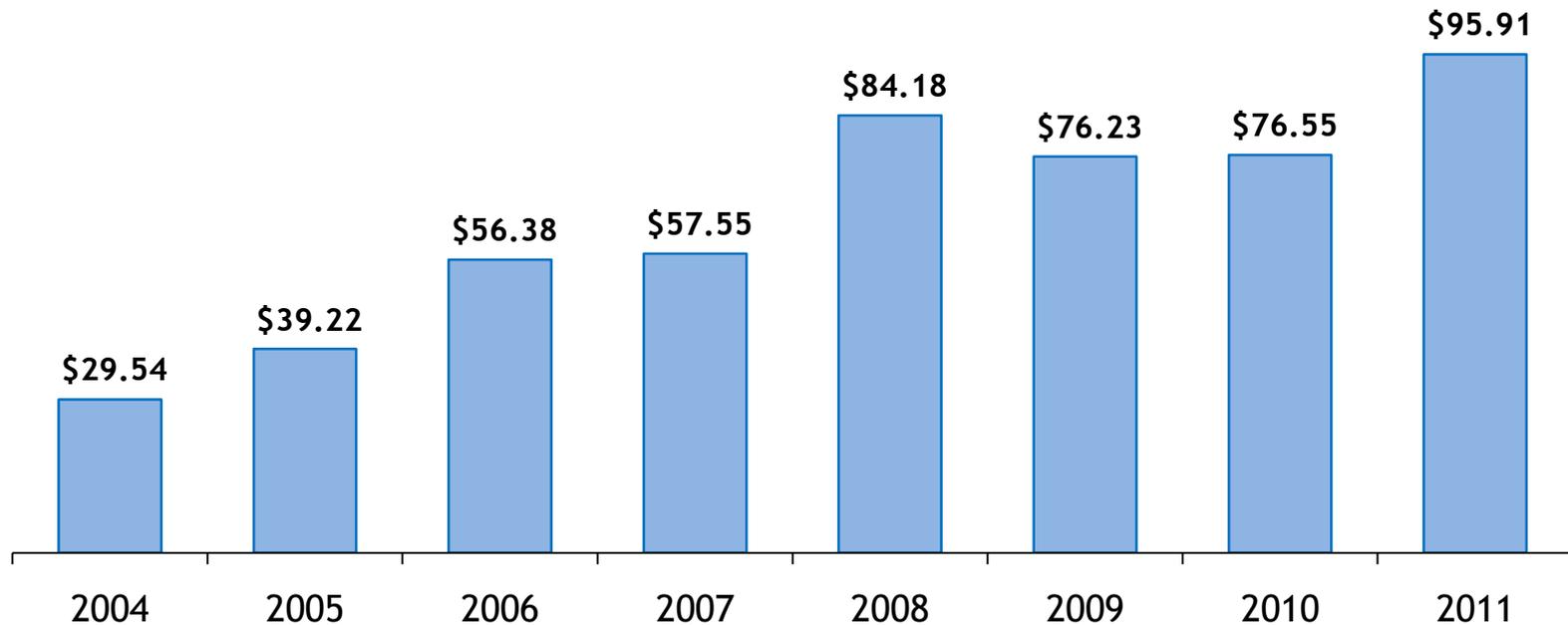
1. Diversify energy production with use of natural gas and renewables
2. Implement new Fuel Procurement Model
3. Reduce operating expenses
4. Aggressive theft recovery plan
5. Ensure efficient use of CIP funds
6. Improve cash flow and liquidity by reducing accounts receivable
7. Limit CILTs by collecting on energy consumed by municipalities for earnings purposes

Strategic Plan for a Stronger PREPA

Strategy 1: Diversify Energy Production

- PREPA is heavily reliant on oil - 65% compared to the US average of 1%
- Increasing oil prices have driven PREPA's rates to double that of the US average rate of 11 cents per kWh

PREPA's Average Cost of Oil (\$/barrel)



Strategic Plan for a Stronger PREPA

PREPA's Current System Is Oil Reliant

- The majority of PREPA's generation resources are reliant on high cost oil; Costa Sur began burning natural gas on a limited basis in April
- In order to address this, PREPA has a plan to either convert its plants to dual fuel or to source non-oil reliant PPAs

Oil-Fired Units



Aguirre (1-2)

Available: 450 MW
Fuel Type: Oil #6



Costa Sur (3-6)

Available: 990 MW
Fuel Type: Oil #6 / Nat Gas



Palo Seco (1-4)

Available: 581 MW
Fuel Type: Oil #6



San Juan (7-10)

Available: 248 MW
Fuel Type: Oil #6



Guayama (AES)

Available: 454 MW
Fuel Type: Coal



Aguirre (CC 1-2)

Available: 546 MW
Fuel Type: Oil #2



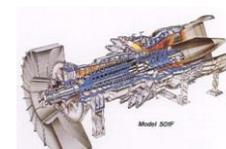
San Juan (5-6)

Available: 220 MW
Fuel Type: Oil #2



Cambalache

Available: 165 MW
Fuel Type: Oil #2



Mayagüez

Available: 193 MW
Fuel Type: Oil #2



Peñuelas (EcoElectrica)

Available: 507 MW
Fuel Type: Natural Gas

Strategic Plan for a Stronger PREPA

PREPA Proactively Addressing MATS Regulations

EPA's Mercury and Air Toxics Standards ("MATS")

- The EPA's recently adopted MATS rules govern the emission of mercury and air toxics by coal and oil-burning power plants
- Power plants will have three years to comply with the new regulations, with a limited ability to obtain a one-year extension
- PREPA's plan to convert to natural gas is on schedule to comply *with the MATS rules within the 3 year period*



9304 Federal Register / Vol. 77, No. 32 / Thursday, February 16, 2012 / Rules and Regulations

ENVIRONMENTAL PROTECTION AGENCY

40 CFR Parts 60 and 63
[EPA-HQ-OAR-2009-0234; EPA-HQ-OAR-2011-0044, FRL-9611-4]
RIN 2060-AP52; RIN 2060-AR31

National Emission Standards for Hazardous Air Pollutants From Coal- and Oil-Fired Electric Utility Steam Generating Units and Standards of Performance for Fossil-Fuel-Fired Electric Utility, Industrial-Commercial-Institutional, and Small Industrial-Commercial-Institutional Steam Generating Units

AGENCY: Environmental Protection Agency (EPA).

ACTION: Final rule.

SUMMARY: On May 3, 2011, under authority of Clean Air Act (CAA) sections 111 and 112, the EPA proposed both national emission standards for hazardous air pollutants (NESHAP) from coal- and oil-fired electric utility steam generating units (EGUs) and standards of performance for fossil-fuel-fired electric utility, industrial-commercial-institutional, and small industrial-commercial-institutional steam generating units (76 FR 24976). After consideration of public comments, the EPA is finalizing these rules in this action.

Pursuant to CAA section 111, the EPA is revising standards of performance in response to a voluntary remand of a final rule. Specifically, we are amending new source performance standards (NSPS) after analysis of the public comments we received. We are also finalizing several minor amendments, technical clarifications, and corrections to existing NSPS provisions for fossil fuel-fired EGUs and large and small industrial-commercial-institutional steam generating units.

Pursuant to CAA section 112, the EPA is establishing NESHAP that will require coal- and oil-fired EGUs to meet hazardous air pollutant (HAP) standards reflecting the application of the maximum achievable control technology. This rule protects air quality and promotes public health by reducing emissions of the HAP listed in CAA section 112(b)(1).

DATES: This final rule is effective on April 16, 2012. The incorporation by reference of certain publications listed in this rule is approved by the Director of the Federal Register as of April 16, 2012.

ADDRESSES: The EPA established two dockets for this action: Docket ID No. EPA-HQ-OAR-2011-0044 (NSPS action) or Docket ID No. EPA-HQ-OAR-2009-0234 (NESHAP action). All documents in the dockets are listed on the <http://www.regulations.gov> Web site. Although listed in the index, some information is not publicly available, e.g., confidential business information or other information whose disclosure is restricted by statute. Certain other material, such as copyrighted material, is not placed on the Internet and will be publicly available only in hard copy form. Publicly available docket materials are available either electronically through <http://www.regulations.gov> or in hard copy at EPA's Docket Center, Public Reading Room, EPA West Building, Room 3334, 1301 Constitution Avenue NW., Washington, DC 20004. This Docket Facility is open from 8:30 a.m. to 4:30 p.m., Monday through Friday, excluding legal holidays. The telephone number for the Public Reading Room is (202) 566-1744, and the telephone number for the Air Docket is (202) 566-1741.

FOR FURTHER INFORMATION CONTACT: For the NESHAP action: Mr. William Maxwell, Energy Strategies Group, Sector Policies and Programs Division, (D243-01), Office of Air Quality Planning and Standards, U.S. Environmental Protection Agency, Research Triangle Park, North Carolina 27711; Telephone number: (919) 541-5430; Fax number: (919) 541-5450; Email address: maxwell.bill@epa.gov. For the NSPS action: Mr. Christian Follner, Energy Strategies Group, Sector Policies and Programs Division, (D243-01), Office of Air Quality Planning and Standards, U.S. Environmental Protection Agency, Research Triangle Park, North Carolina 27711; Telephone number: (919) 541-4003; Fax number: (919) 541-5450; Email address: follner.christian@epa.gov.

SUPPLEMENTARY INFORMATION:

The information presented in this preamble is organized as follows:

I. General Information
 A. Does this action apply to me?
 B. Where can I get a copy of this document?
 C. Judicial Review
 D. What are the costs and benefits of these final rules?

II. Background Information on the NESHAP
 A. What is the statutory authority for this final NESHAP?
 B. What is the litigation history of this final rule?
 C. What is the relationship between this final rule and other combustion rules?
 D. What are the health effects of pollutants emitted from coal- and oil-fired EGUs?

III. Appropriate and Necessary Finding

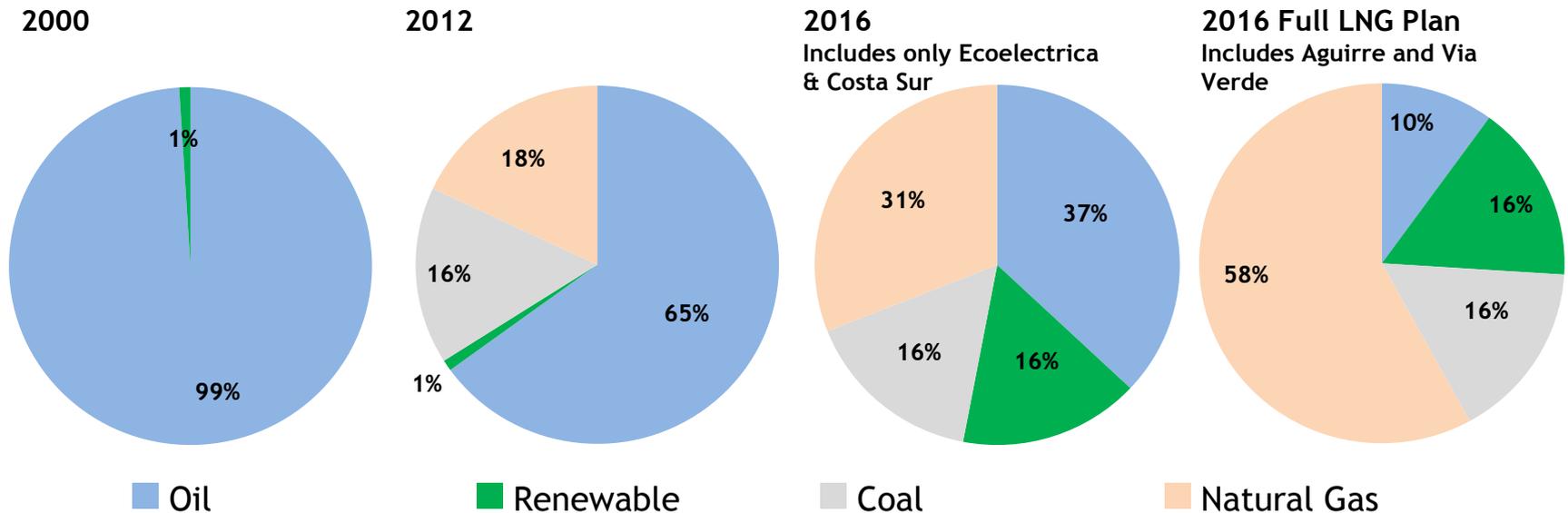
B. Peer Review of the Hg Risk TSD Supporting the Appropriate and Necessary Finding for Coal and Oil-Fired EGUs and EPA Response
 C. Summary of Results of Revised Hg Risk TSD of Risks to Populations With High Levels of Self-Caught Fish Consumption
 D. Peer Review of the Approach for Estimating Cancer Risks Associated With Cr and Ni Emissions in the U.S. EGU Case Studies of Cancer and Non-Cancer Inhalation Risks for Non-Mercury Hg HAP and EPA Response
 E. Summary of Results of Revised U.S. EGU Case Studies of Cancer and Non-Cancer Inhalation Risks for Non-Mercury Hg HAP
 F. Public Comments and Responses to the Appropriate and Necessary Finding
 G. EPA Affirms the Finding That It Is Appropriate and Necessary To Regulate EGUs To Address Public Health and Environmental Hazards Associated With Emissions of Hg and Non-Mercury Hg HAP From EGUs
 IV. Denial of Delisting Petition
 A. Requirements of Section 112(c)(9)
 B. Rationale for Denying UARG's Delisting Petition
 C. EPA's Technical Analyses for the Appropriate and Necessary Finding Provide Further Support for the Conclusion That Coal-Fired EGUs Should Remain a Listed Source Category
 V. Summary of the Final NESHAP
 A. What is the source category regulated by this final rule?
 B. What is the affected source?
 C. What are the pollutants regulated by this final rule?
 D. What emission limits and work practice standards must I meet?
 E. What are the requirements during periods of startup, shutdown, and malfunction?
 F. What are the testing and initial compliance requirements?
 G. What are the continuous compliance requirements?
 H. What are the notification, recordkeeping and reporting requirements?
 I. Submission of Emissions Test Results to the EPA
 VI. Summary of Significant Changes Since Proposal
 A. Applicability
 B. Subcategories
 C. Emission Limits
 D. Work Practice Standards for Organic
 E. Requirements During Startup, Shutdown, and Malfunction
 F. Testing and Initial Compliance
 G. Continuous Compliance
 H. Emissions Averaging
 I. Notification, Recordkeeping and Reporting
 J. Technical/Editorial Corrections
 VII. HAP Comments and Responses to the Proposed NESHAP
 A. MACT Floor Analysis
 B. Rationale for Subcategories
 C. Surrogacy
 D. Area Sources
 E. Health-Based Emission Limits
 F. Compliance Date and Reliability Issues

Strategic Plan for a Stronger PREPA

Natural Gas and Renewable Energy

- Two Components
 - Convert oil-fired units to dual fuel units that can burn oil or natural gas
 - Renewable projects
- PREPA could expect to see savings of between \$500 million and \$1 billion annually by FY 2016 with implementation of the full LNG plan, including the current plant conversions, Via Verde, and the Off Shore Terminal at Aguirre

Planned Reduction in Dependence on Oil Based Production



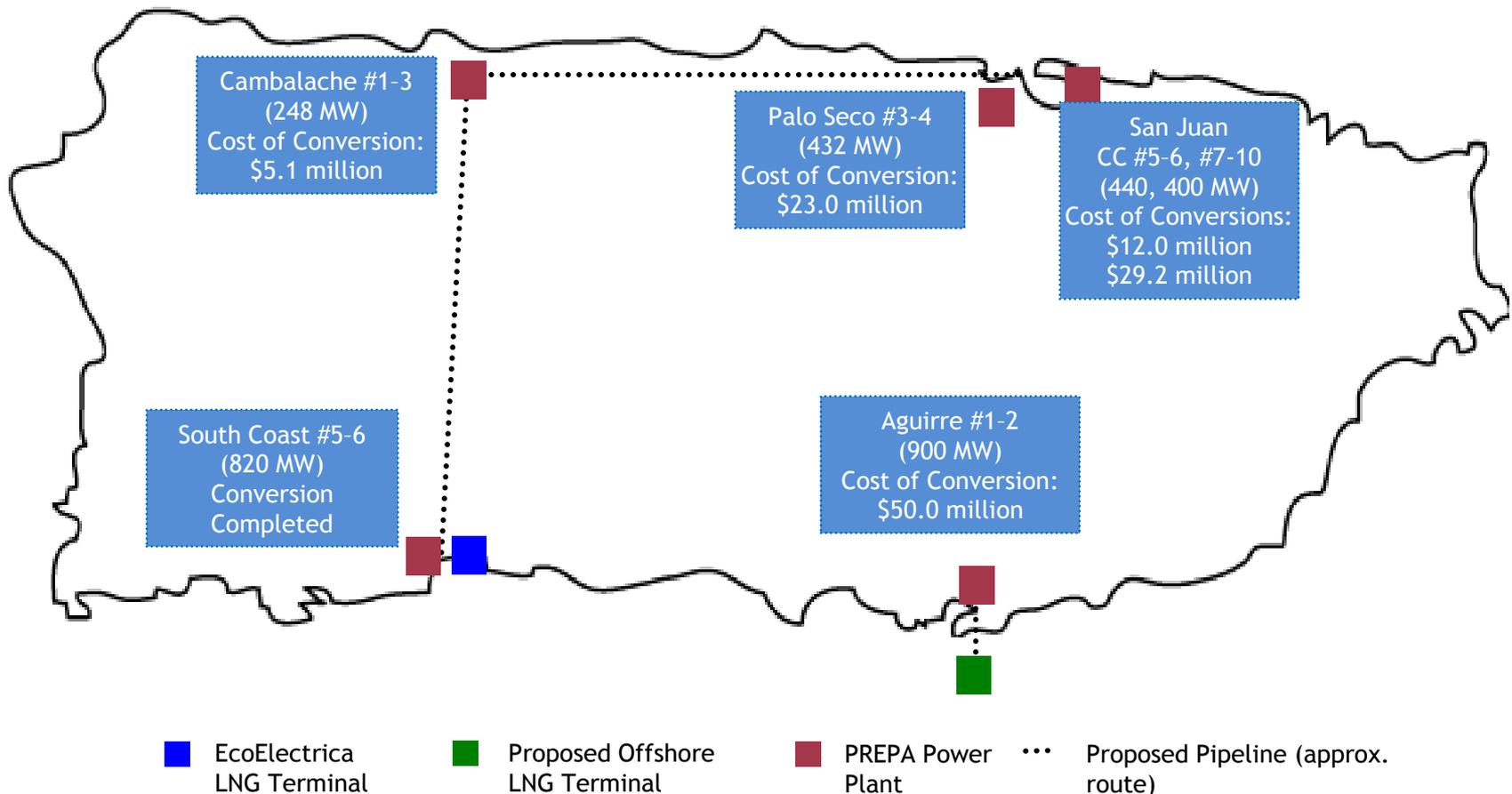
Notes

1. Savings are dependent on future market prices for fuel oil #2 and #6 and LNG, and a number of other assumptions regarding PREPA's ability to secure LNG shipments cost effectively

Strategic Plan for a Stronger PREPA

Natural Gas Infrastructure Development Strategy

Major Components of PREPA's Full LNG Plan



Strategic Plan for a Stronger PREPA

Natural Gas Delivery Infrastructure Update

- The offshore LNG terminal for Aguirre and the Via Verde pipeline are not included in PREPA's CIP
- PREPA and GDB are evaluating various financing structures for these projects, including off-balance sheet project finance and fuel purchase agreements for the delivery of LNG

Off Shore LNG Terminal for Aguirre

- Positive feasibility study
- Permitting process begun
- If negotiations are completed and permits received, terminal would be operational by August 2014

Off Shore LNG Terminal for Aguirre

- Transport natural gas from EcoEléctrica to San Juan, Palo Seco, and Cambalache
- Received required Puerto Rico permits
- Waiting on U.S. Army Corps of Engineers (“USACE”) permit
- Expect USACE will approve the project

Strategic Plan for a Stronger PREPA

New Renewable PPOAs to Provide Lower Cost Power

- PREPA intends to bring several renewable PPOAs online in the near-term future
- Projects with financing commitments:
 - AES, 20 MW, Solar
 - Punta Lima, 39 MW, Wind
 - Pattern Energy, 75 MW, Wind
 - Windmar, 2.1 MW, Solar
- PREPA has signed PPOAs for 33 projects totaling 989 MWs



Renewable Power Purchase Agreements (in GWhr)

	FY 2013	FY 2014	FY 2015	FY 2016
Wind	311	337	536	464
Solar	222	345	538	780
Waste to Energy	-	-	432	670
Landfill Gas	56	112	126	126
Total Renewable PPOA	589	794	1,455	2,040
Total Production	20,751	20,817	21,039	21,360
% Renewable	3%	4%	7%	10%

Strategic Plan for a Stronger PREPA

Strategy 2: Implement New Fuel Procurement Model

New Fuel Oil Procurement Strategy

- Disadvantages of current model
 - Contracts include significant interest and penalties for PREPA
 - Built in premiums exist to reflect inconvenience of payment lags from PREPA
 - PREPA has had to interact with traders and other intermediaries
 - No oil price hedges
- New procurement model
 - GDB to procure fuel on PREPA's behalf
 - Eliminates interest and penalties and allows for more favorable contract terms
 - Began March 2012 with additional plants to be added in July 2012
 - New commodities hedging program
- The recent closure of the Hovensa refinery should have a minimal impact on PREPA, as PREPA can source diesel fuel from other available refineries

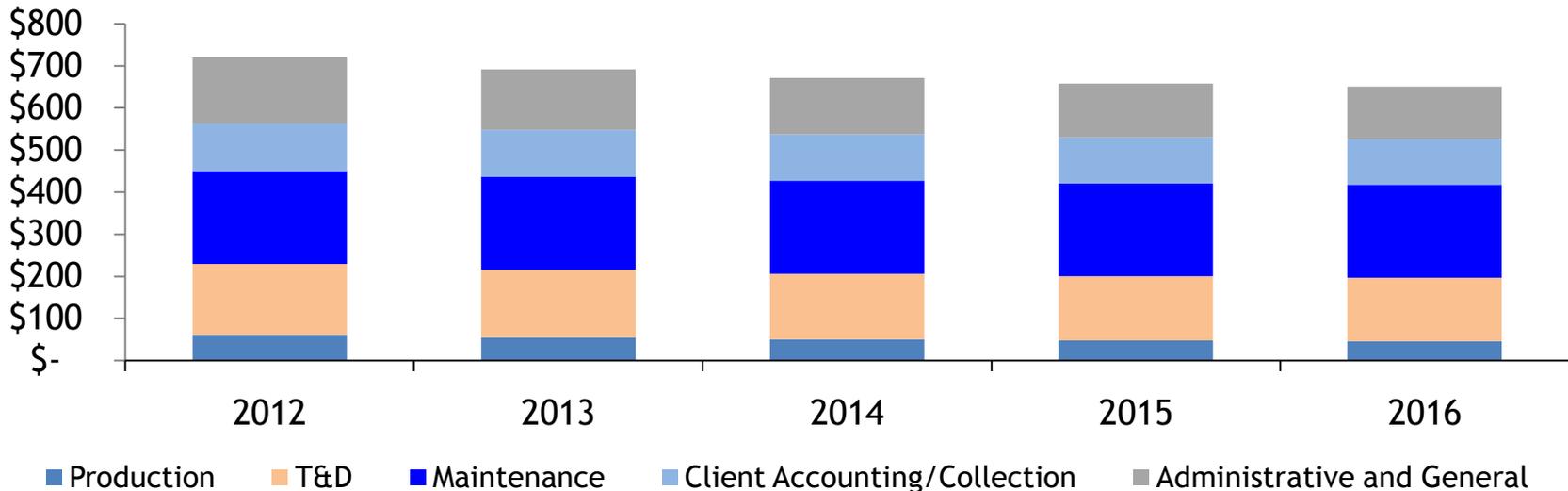
Strategic Plan for a Stronger PREPA

Strategy 3: Continue Re-engineering of Internal Processes

Expense Reduction Plans

- Since 2009, significant progress has already been made on reducing expenses
- GDB, as Fiscal Agent, has hired corporate restructuring and performance improvement consultants, who are providing further suggestions for improving operating efficiency, optimizing significant capital investments and increasing asset productivity
- Expecting to reduce expenses by \$30 million over the next year

Current Expenses - Excludes Fuel and Purchased Power (in thousands \$)



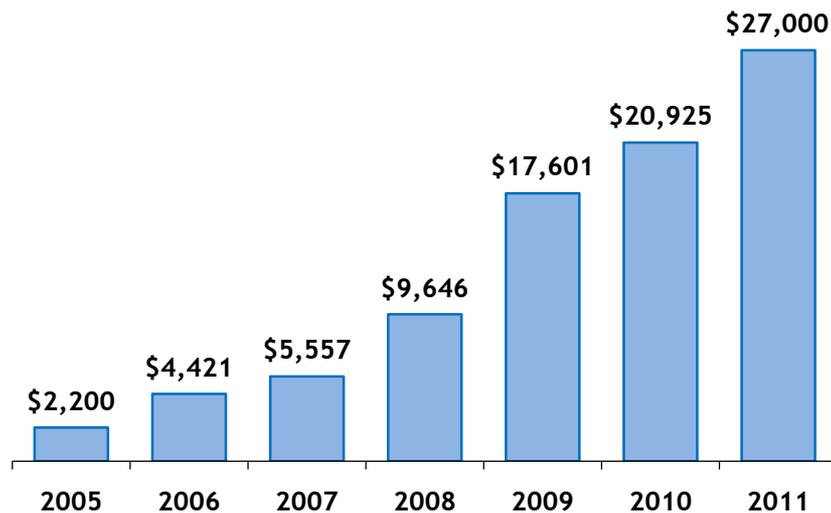
Strategic Plan for a Stronger PREPA

Strategy 4: Aggressive Theft Recovery Plan

- Steady progress in reducing losses due to theft
- Use of new smart meters and monitoring through data systems and technology will allow PREPA to better detect and stop energy theft
- Recently passed Laws 237 and 238 empower PREPA to take more aggressive action against energy theft

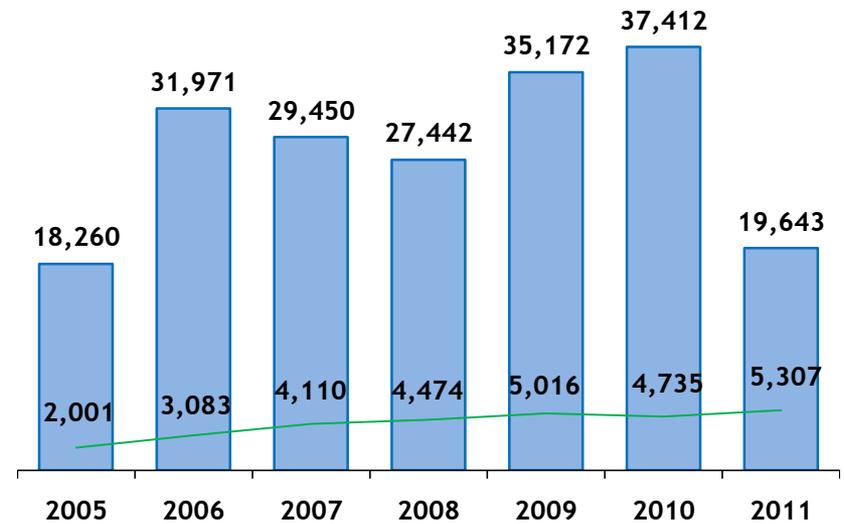
Revenues from Theft Reduction

(\$000's Measured by Calendar Year)



Site Visits

(Units Measured by Calendar Year)

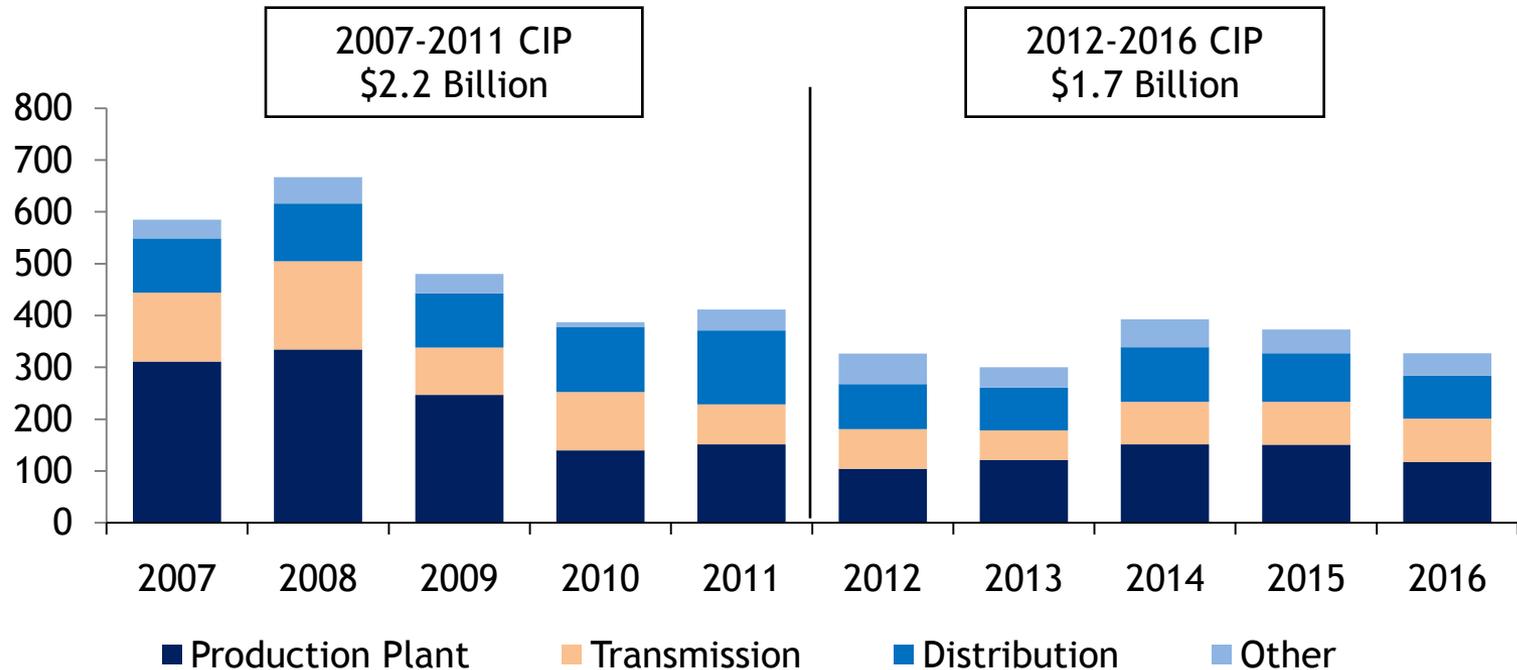


■ Client Visits — Positive Cases

Strategic Plan for a Stronger PREPA

Strategy 5: Ensure Efficient Use of CIP Funds

Historical and Projected Capital Improvement Program Uses (\$MM)



- Projected CIP includes conversion of plants to dual fuel (but does not include capital costs of Via Verde or the Aguirre offshore LNG terminal)
- CIP also includes investment in the improvement and expansion of transmission and distribution facilities

Strategic Plan for a Stronger PREPA

Strategy 6: Reduce Accounts Receivable to Improve Cash on Hand

- Committed to addressing receivables
- Central government receivables dropped 24% during the first six months of FY2012
- In January 2012, Ports Authority made a \$60 million payment to PREPA
- Recently passed Act 239 provides that agency electricity & energy expenses will be retained by the Treasury Department and sent directly to PREPA each month

Accounts Receivable

	Balance as of 6-30-2011	% Past Due as of 6/30/2011	Balance as of 12/31/2011	% Past Due as of 12/31/2011	Reduction
Central Government	54,194,140	69%	41,768,628	58%	12,425,512
Public Corporations	228,113,494	88%	209,679,009	85%	18,434,485
Total	\$282,307,634	84%	\$251,447,637	81%	\$30,859,997

Strategic Plan for a Stronger PREPA

Strategy 7: Reform Municipal CILTs

Contributions in Lieu of Taxes (CILTs)

- Municipalities in Puerto Rico are entitled to collect contributions in lieu of taxes, or CILTs
- Law 233 will reduce the amount of CILTs that the municipalities are entitled to collect by excluding electric energy consumption for properties for which rent/fees are charged
- Expected to reduce amount of CILTS and increase revenues collected by as much as \$30 million annually by 2016

Strategic Plan for a Stronger PREPA

GDB's Partnership with PREPA

Fiscal Oversight Agreement

- Beginning in 2009, GDB and PREPA have entered into a Fiscal Oversight Agreement
 - Goal: To ensure PREPA's self-sufficiency and improve the credit to ensure reliable access to the capital markets to finance its long-term capital plan
- The agreement enhances fiscal oversight and control and commits PREPA to a comprehensive expense reduction and to providing additional financial and operational information to GDB
- Recently, GDB has increased its level of operational support, through Fiscal Agency, to help PREPA tackle multiple initiatives concurrently (fuel procurement, natural gas plan, etc.)

Strategic Plan for a Stronger PREPA

Legislature Has Been Supportive of PREPA

- Because PREPA is vital to the prosperity of Puerto Rico, the Government and Legislature have been very supportive of PREPA reforms
- Several new laws were passed in December 2011 that will strengthen PREPA and improve liquidity
 - Law 233 - Change to CILT formula to reduce CILTs
 - Law 234 - New fuel procurement process
 - Law 235 - Assigns responsibility for energy theft to Department of Justice
 - Law 236 - Allows PREPA to establish its own procedures for procurement of goods and services
 - Law 237 - Makes meter tampering a felony
 - Law 238 - Authorizes more serious penalties and sanctions on meter tampering
 - Law 239 - Treasury Department intercept of Central Government receivables

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Successful Execution Of Strategic Plan To Address Business Issues

- PREPA continues to deliver on its promises and proactively address its challenges
 - Exceeded headcount reduction
 - Strategic shift from fuel oil to natural gas (Costa Sur)
 - Reduction of government receivables
 - Implementation of energy theft reduction measures
- The first six months in FY2012 reflect the successful execution of PREPA's strategic plan and a seamless management transition

Concluding Remarks

Many Strong Credit Features

Summary of PREPA Credit

Business Fundamentals

- Sole provider of an essential service
- Diverse set of customers; no concentration
- Full rate setting authority
- Fuel and purchased power passed through monthly
- Independent of Commonwealth
- Liquidity supported by GDB

Financial Performance

- Strong coverage
- Active implementation of cost reduction initiatives
- Reduced capital improvement program
- Aggressive theft reduction program
- Reducing government receivables and improving liquidity

Resource Mix

- Strong reserve margin
 - Improving reliability
 - Power resource diversification plan
 - Capital program focused on improving efficiency and fuel diversification
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