



CRO Update
December 15, 2014



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References in this presentation to an Integrated Resource Plan (“IRP”) are to an IRP Stage 1. The IRP required by Act 57-2014, Transformation and Energy Relief Act, is a separate document and will be prepared in accordance with Act 57-2014..



Forbearance and Creditor Activities

- PREPA entered into a Forbearance Agreement with its creditors in August 2014
- PREPA has complied with all requirements of the Forbearance Agreements to date
- PREPA has also conducted regular meetings with the Forbearing Creditors (or their representatives) to keep them apprised of work streams and processes
- All discussions with the Forbearing Creditors (and their representatives) are subject to confidentiality agreements

Requirements	Due Date	Delivered Date/Status
Retain Chief Restructuring Officer (“CRO”)	September 8, 2014	September 5, 2014
13 week cash flow budget on a rolling basis	weekly	on-going
CILT, billing and collections reports	November 15, 2014	November 15, 2014
5-year version 1 business plan progress report	December 15, 2014	December 15, 2014



Forbearance Agreements Related Activities

- On a weekly basis PREPA provides to the Forbearing Creditors or their representatives a 13-week cash flow forecast along with prior week's actual cash flow and analysis of budget to actual variances
- PREPA and its advisors developed a preliminary business plan and supporting analysis (together, the "Preliminary Business Plan"), which was presented to the Forbearing Creditors on December 15, 2014
- The Preliminary Business Plan and analysis focuses on the short to medium-term and encompasses initial analysis and options across all of PREPA's operations including generation, transmission, distribution and corporate services, and was developed as follows:
 - Uses historical financial results and forward-looking assumptions of the Integrated Resource Plan Stage 1 developed by Leidos
 - Includes various draft scenarios for PREPA's overall operations with associated costs and assumed timing
 - An opening pro forma balance sheet as of June 30, 2015 and baseline operating statement and free cash flow forecasts from FY16 through FY24
- The Preliminary Business Plan includes PREPA's projections for operations and capital needs on a "status quo" basis to form a baseline for ongoing discussions. It does not propose a capital structure for PREPA, or otherwise propose any changes to PREPA's operations, employee benefits or existing rates.
- The Preliminary Business Plan requires further development in order to finalize it, and it will be used as a basis for ongoing discussions as PREPA continues to work collaboratively with all of its stakeholders



Key Focus Areas

- In addition to meeting the requirements associated with the Forbearance Agreements, PREPA and its advisors have also been focused on improving operational and financial performance. To date our primary focus has been:
 - safety improvements
 - regulatory compliance
 - Customer service improvement initiatives
 - fuel optimization and infrastructure
 - short/medium term financial forecasting
 - business plan development and supporting analysis
- The goal of these activities is to ensure the best outcome for PREPA, its customers, and Puerto Rico, as well as all constituents

Focus	Purpose
Safety	Improve safety processes and procedures to reduce injuries and fatalities
Regulatory Compliance	Comply with Puerto Rico and Federal regulations
Fuel initiatives	Planning, control, forecasting and optimization
Improvement Initiatives	Modify operations to improve customer service, employee efficiency and/or financial performance
Liquidity	Weekly cash management and forecasting to monitor and address liquidity
Business Plan	Medium term model to quantify the impacts of various operational and financial options



Safety Initiatives

- Safety is of critical importance to PREPA, and it is imperative PREPA provides a safe environment for employees as well as customers
 - Activities to Date:
 - PREPA began discussions with prospective safety consultants on 9/15/14
 - PREPA received proposals from four qualified firms
 - After review and assessment of each of the competing proposals, on 10/3/14, PREPA hired DuPont Sustainable Solutions (DSS) to preform a comprehensive safety assessment and make recommendations to PREPA on immediate actions to improve the operating environment
 - DuPont visited generating plants, transmission and distribution sites, interviewed staff and reviewed safety practices and processes during the month of October
 - DuPont delivered a full safety assessment highlighting major issues and areas of concern and suggested improvement opportunities in early December
 - Next Steps:
 - Share DuPont's initial findings with key members of management and Unions' representatives (leaders and the safety council)
 - Jointly develop recommendations for implementation of safety improvements in processes, procedures and policies in conjunction with Unions
 - Working together with DuPont and AlixPartners team members; PREPA and Unions jointly implement safety improvements



Regulatory Compliance

- PREPA is subject to various local and federal environmental regulations, including requirements under Act 57 Energy Relief Act.
 - Activities to Date:
 - Discussions have been held with the newly appointed Energy Commissioner Carbó to discuss the situation and Act 57 requirements
 - Discussions have been held with the US Environmental Protection Agency concerning the situation, MATS compliance and other matters
 - Next Steps:
 - Evaluation of best options to comply with environmental regulations in light of current constraints
 - Ongoing discussions with environmental regulators, including the Energy Commission and the EPA



Improvement Initiatives and Fuel Optimization

- Improvement initiatives underway include:
 - Fuel
 - Evaluation and modification of fuel supply monitoring and forecasting fuel consumption, supply and inventory control processes
 - We have been actively addressing fuel-related challenges through the refinement of fuel forecasting, inventory optimization and the AOGP Project
 - S&OP (fuel, operation, dispatch coordination)
 - AOGP analysis
 - Transportation/Fleet
 - Evaluation of fleet utilization and reliability as well as equipment management and procurement
 - Procurement (non-fuel)
 - Analysis of spend, categorization of vendors, and review of non-fuel procurement processes
 - Inventory controls
 - Review of inventory controls and management across the organization
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Improvement Initiatives and Fuel Optimization

- Improvement initiatives underway include (cont.):
 - Billing, Collections and Customer Service
 - A comprehensive operational improvement program has been launched with the following objectives:
 1. Increase revenue
 2. Increase collections with Government and General clients
 3. Curb electricity theft and increase recovery
 4. Improve customer service levels in commercial offices and the call center
 5. Achieve operational efficiencies, decrease costs and eliminate bureaucracy
 - To achieve these five objectives, PREPA is implementing multiple projects with both short and medium term impact, including:
 1. Process and organizational simplification
 2. Overhaul of its information technology platform supporting billing, payments, collections, customer care, field operations and theft identification and recovery
 3. Training of 1,300 Customer Service employees, supervisors and managers company wide
 4. Rationalization of facilities
 5. Roll-out of improved performance metrics and management reports at every level to increase accountability and the sense of urgency to meet financial, operational and service quality commitments
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Next Steps

- Continued refinement of Business Plan and Analysis
- Rate structure assessment and redesign project, taking into consideration Act 57 and other legal requirements
- Improvement initiatives:
 - Keep driving Billing, Collections, Customer Service, Transportation, Procurement, and Inventory Programs
 - Launch additional improvement programs:
 - General and Administration (Corporate Support Areas)
 - Information Technology
- Fuel contract negotiations
- Additional system options (generation, transmission, fuel infrastructure, etc.)
- Safety Recommendations and Implementation – working with DuPont (DSS)
- Full Integrated Resource Plan
- Capital structure and liquidity options – development, analysis and ultimate implementation strategy