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HOULIHAN LOKEY

# Puerto Rico Electric Power Authority

## Comprehensive PREPA Revitalization Plan

CORPORATE FINANCE  
FINANCIAL ADVISORY SERVICES  
FINANCIAL RESTRUCTURING  
STRATEGIC CONSULTING

HL.com

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## Plan Overview

## Develop a revitalization plan for the Puerto Rico Electric Power Authority (“PREPA”) that accomplishes:

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

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  - Improved air quality and a cost effective means to achieve compliance with the EPA Mercury and Air Toxics Standards (“MATS”)

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  - Achievement of legislatively mandated energy efficiency and renewable energy goals while reducing dependence on oil

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  - A fully financed new \$2 billion capital investment plan leveraging financial support of existing and new PREPA investors

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  - Significant “Green Energy” job creation benefits as early as the second half of 2015

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

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  - 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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  - The plan contains no operating cost reductions beyond PREPA’s consultants’ estimates contained in the April 1, 2015 Public Disclosure

# Plan Development Process

- The plan offers two design options, both of which were developed through on-site diligence and analysis of PREPA’s existing plant assets and operations by industry leading firms with the necessary and relevant skill sets
- The plan design options leveraged work product assembled and provided by PREPA and its professional advisors, including certain identified efficiency improvements and costs saving opportunities, and includes additional analyses performed by other third party professionals
- Greater efficiency and cost saving opportunities may be achievable over the long-run, but the plan design options were developed with a set of conservative cost saving assumptions detailed herein

## Detailed Plan Development by Industry Leading Firms

Components	Actions	Parties Involved
<b>System Assessment</b>	<ul style="list-style-type: none"> <li>■ Diligence of existing generation and distribution infrastructure</li> <li>■ Assessment of deficiencies and regulatory compliance needs</li> <li>■ Assessment of capital expenditure requirements and options</li> <li>■ Intensive status quo and post investment operational modeling</li> </ul>	
<b>Capital Expenditure Financing Options</b>	<ul style="list-style-type: none"> <li>■ Sizing and timing of financing needed</li> <li>■ Assessment of investment structuring options</li> <li>■ Obtaining capital commitments</li> </ul>	 HOULIHAN LOKEY
<b>Engineering, Procurement &amp; Construction</b>	<ul style="list-style-type: none"> <li>■ Identification of General Electric H-Class or F-Class gas turbines for the new Aguirre combined-cycle facility in the PPA Case</li> <li>■ Identification of willing engineering, procurement and construction provider for the new Aguirre combined-cycle facility in the PPA Case</li> </ul>	

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Source: PA Consulting and Houlihan Lokey analysis

Note: All analyses are strictly illustrative in nature

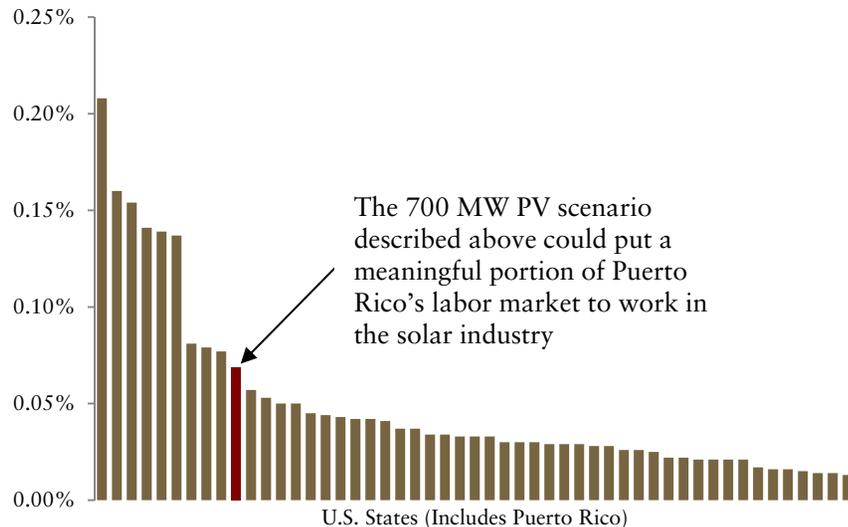


# Immediate & Meaningful Job Creation Benefits

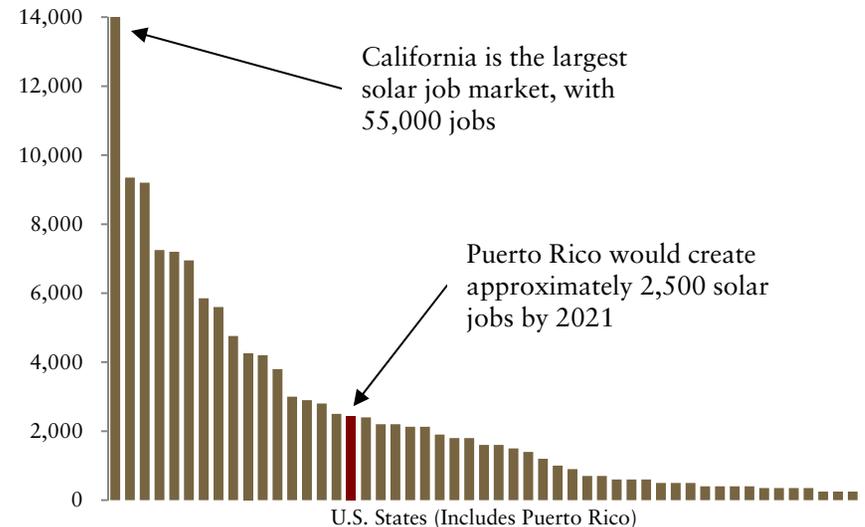
## Investments in thermal generation and renewable energy would help PREPA reduce fuel costs, meet RPS goals and create jobs

- A 700 MW distributed PV program consisting of 25 utility-scale solar facilities and distributed solar generation on roughly 1% of PREPA’s customer base could create approximately 2,300 jobs beginning in the second half of 2015<sup>(1)</sup>
- A newly constructed natural gas-fired combined-cycle power plant could create approximately 545 jobs beginning in 2017<sup>(2)</sup>
- Making energy efficiency investments in parallel could add another 600 installation jobs and lower Puerto Ricans’ energy bills<sup>(3)</sup>
- Combining a new combined-cycle power plant with a distributed generation and energy efficiency program could achieve the employment results shown below and delay the need to build a second combined-cycle facility in the North

Number of PV Jobs per Capita by U.S. State (Includes Puerto Rico)<sup>(4)</sup>



Number of Solar Jobs by U.S. State (Includes Puerto Rico)<sup>(4)</sup>



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Source: PA Consulting and Houlihan Lokey analysis

Note: All analyses are strictly illustrative in nature

(1) Based on PA Consulting analysis using NREL’s JEDI PV Scenario Module

(2) Based on PA Consulting analysis using NREL’s JEDI Natural Gas Module

(3) Based on PA Consulting review of job creation studies in the energy efficiency sector

(4) Jobs in 2014 based in the 50 U.S. states and Puerto Rico per the Solar Foundation and PA Consulting

# PREPA Strategic Options – Base Case or PPA Case

- Two basic system plan design options exist for PREPA:
  - “Base Case” – Minimizes capital expenditures while achieving system technical requirements and MATS compliance
  - “PPA Case” – In addition to the Base Case capital expenditures, an 800 MW combined-cycle facility at Aguirre is constructed and operated by a third party with PREPA buying the power through a long-term power purchase agreement (“PPA”) similar to the existing highly successful agreement with EcoEléctrica

Basic System Cost/Benefit Paradigm			
Benefits		Base Case	PPA Case
Aguirre Offshore Gas Port Construction	Shared Benefits	✓	✓
MATS Compliance		✓	✓
Improved Energy Efficiency		✓	✓
Improved Operational Efficiency		✓	✓
Lower Long-Term Electricity Rates	Distinguishing Features		✓
Aguirre CC Combined-Cycle Facility Construction through PPA			✓
Maximum Economic Benefit & Job Creation			✓

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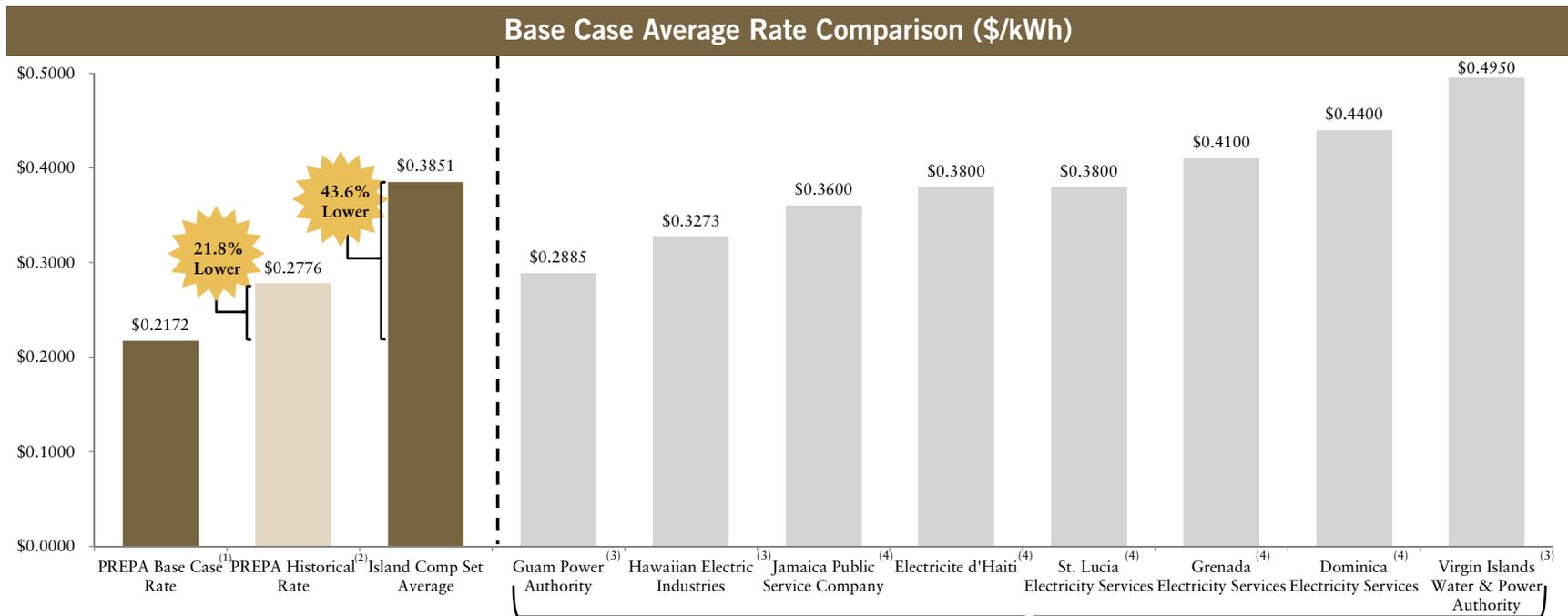
Source: PA Consulting and Houlihan Lokey analysis

Note: All analyses are strictly illustrative in nature



# Base Case Advantages – Lower Cost Electricity

- The Base Case uses an improved annual rate structure consistent with industry standards to cover all operating costs (including operational expenses, debt service and capital expenditures)
- By investing approximately \$725 million in fuel and generation infrastructure, the Base Case scenario generates power at a substantial discount relative to PREPA’s historical electricity costs and to other comparable island utilities
  - The 2016 Base Case electricity rate is approximately 22% lower than PREPA’s August 2014 average electricity rate
  - Base Case achieves MATS, energy efficiency and renewable energy compliance while minimizing new capital requirements



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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 2016 Base Case rate

(2) Based on August 2014 average electricity rate for residential, commercial, industrial and other customers. Without implementation of either the Base Case or PPA Case plan, average rates will likely increase when MATS compliance requires a change in fuel source to fuel oil #2

(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

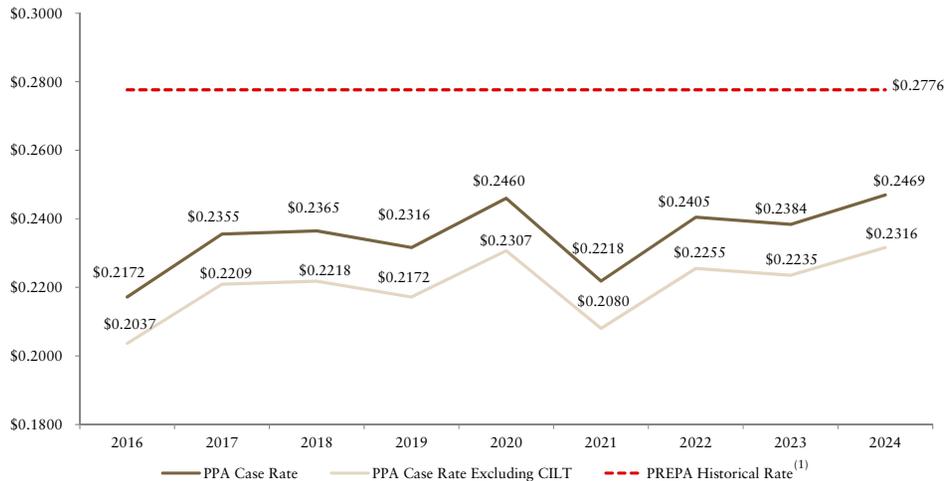
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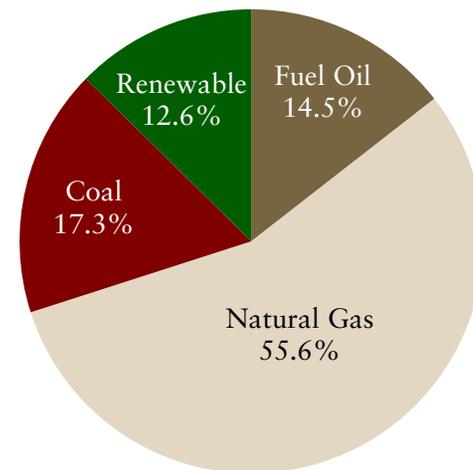
# PPA Case Advantages – Even Lower Cost Electricity & Fuel Diversification

- The PPA Case assumes a third party finances, constructs and operates the 800 MW Aguirre natural gas combined-cycle facility with PREPA buying the power through a long-term PPA similar to the highly successful arrangement with EcoEléctrica
  - Common PPA structure which provides a fixed capacity and O&M payment while passing through fuel costs
- On average the PPA Case delivers 15.4% savings over the next decade compared to the average August 2014 electricity rate
  - In addition, the PPA Case enables greater use of renewable resources through the increased flexibility of the new generation
- 800 MW facility financed with 70% debt and 30% equity at rates in line with comparable project financings
  - General Electric is ready to partner with PREPA if a consensual plan with bondholders can be reached and is willing to provide a substantial portion of the equity commitment
  - General Electric is also willing to provide H-Class or F-Class gas turbines at the new Aguirre facility and manage all phases of the engineering, procurement and construction process

PPA Case Rate Advantage (\$/kWh)



2024 PPA Case Fuel Diversification Benefit



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Source: PA Consulting, Houlihan Lokey analysis and public filings

Note: All analyses are strictly illustrative in nature

(1) Based on August 2014 average electricity rate for residential, commercial, industrial and other customers. Without implementation of either the Base Case or PPA Case plan, average rates will likely increase when MATs compliance requires a change in fuel source to fuel oil #2



Implementation of the PREPA revitalization plan can be accomplished quickly and efficiently in the following steps

PREPA Revitalization Plan Implementation Timeline	
Step	Actions
1. Selection of Strategic Alternative	■ Selection by PREPA of Base Case or PPA Case
2. Commencement of Rate Case	■ Commence PREPA rate case to facilitate selected plan cost assumptions
3. Negotiation and Execution	■ Lay out and agree to all steps including commonwealth and bank debt agreements as necessary
4. Obtain Necessary Financing Commitments	■ Receive executed financing commitments from plan financial sponsors identifying all key terms and commitments
5. Milestone Agreement	■ Identify all key milestone steps and timing considerations required for plan implementation and execution
6. Implementation and Job Creation	■ Begin necessary construction and corporate improvement initiatives to lower electric rates, improve air quality and generate jobs

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*Source: PA Consulting and Houlihan Lokey analysis*

*Note: All analyses are strictly illustrative in nature*