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ENERGY ALERT

PREPA Proposed Recovery Plan

On June 1, 2015, the Puerto Rico Electric Power Authority ("PREPA") announced that it delivered a proposed recovery plan to its forbearing creditors. A summary presentation of the plan, titled *"PREPA's Transformation A Path to Sustainability"* ("the Plan Summary"), also dated June 1, 2015, was published in PREPA's website. The Plan Summary provides a background of the internal and external challenges facing PREPA, which include changing direction and policies of different administrations, business decisions often driven by political priorities, antiquated rate structures, high dependence on fuel oil and inability to diversity fuel mix and outdated systems and information technology, among others.

For example, the Plan Summary shows energy sales since 2008 have reflected an approximate 2% in annual decline at the same time that the debt balance has increased by $1.4 billion since 2010. It also mentions that long-term planning required for key infrastructure projects that would have diversified PREPA's fuel mix and facilitated environmental compliance, such as the North and South Pipelines, have been complicated by instability of board members and management due to political cycles. It projects that the North Pipeline had the potential to save fuel costs on an average of 0.7 to 1.18 cents/kWh. The South Pipeline could have saved fuel costs on an average of 1 to 1.4 cents/kWh.

According to the Plan Summary, PREPA's operational challenges include aging infrastructure, ineffective collections and monitoring and safety underperformance. Among the benefits of the proposed recovery plan are: conversion of plants to burn natural gas as well as fuel oil, open network to third party investors to build new, more efficient generation plants and diversify from fuel oil, evaluate potential third party operators for efficient operation and invest in PREPA's transmission and distribution systems to accelerate integration of renewable energy.

The Plan Summary states that PREPA will need to invest at least $2.3 billion in new infrastructure (excluding maintenance capital expenditures) in two phases over the next 15 years. The first phase includes: construction of the Aguirre Offshore Gas Port to improve fuel diversity and facilitate MATS compliance, installation of new units at Palo Seco and retirement of oil-fired units at Costa Sur, San Juan and Palo Seco. This phase also embraces investment to enhance transmission and distribution infrastructure to improve system reliability and increase capacity to service distributed generation. The second phase includes the upgrading of existing fleet through repowerings for improvement of efficiency at Costa Sur and Aguirre.

For this phase PREPA will pursue investments in the form of public-private partnerships, which may result in alternative build plans. According to the Plan Summary, PREPA will immediately embark on an RFP process to determine the most efficient source of capital for these projects.

The business plan also considers an increase in renewable projects from 207MW – 1,193MW and adding flexible units to the system to allow for continued development of renewable projects. Focusing on clean energy, PREPA plans to revamp approximately 60% of its current energy sources by updating its existing owned plants and increasing its purchases of renewable energy and development of solar projects.

PREPA will also propose to the Energy Commission a new rate structure, which it believes will enable a more effective cost recovery. In an effort to add transparency, the new structure would include the main components of cost structure (fixed costs, transmission and distribution charges, purchased power component, contribution in lieu of taxes, inclusion of net metering charge/credit) and would simplify the fuel and purchased power charge formula, including elimination of mark-up. Fixed components of the rate would be reviewed every three (3) years.

The Plan Summary states that PREPA considered several models for third party involvement in its infrastructure, including privatization, purchased power agreements/long-term concessions, qualified management contracts, and government management with limited ability to adopt private sector expertise and best practices.

The Plan Summary contains a timeline showing several milestones, which include:

June 15 –	Delivery of a final report and recommendations regarding rates by Navigant;
	Delivery by Siemens of final IRP draft;
July 1 –	Payment of principal and interest due under bonds;
	Commencement of the Energy Commission rate review case, which includes public hearings;
August –	Design of a Third Party Operator/Private IPP Contract and Outline;
	Survey and sounding of market for Private Operator/IPP feedback;
	Decision of RFP process, milestones, selection criteria and marketing strategy;
October –	Selection of Qualified Bidders for Operators;
	Commencement of Requests for Proposals from Qualified Bidders for Operators;
December –	Evaluation of bids for Operators.

To access the Plan Summary, please click on the following link:
http://aeepr.com/Docs/RecoveryPlan.pdf

If you have any questions or comments or wish additional information regarding this matter, please contact any of the attorneys listed below, members of our Environmental, Energy & Land Use Practice Group:

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