Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Audited Financial Statements, Required Supplementary Information
and Supplemental Schedules

For the year ended June 30, 2018

(With Independent Auditors’ Report Thereon)
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Independent Auditors’ Report

To the Governing Board of the
Puerto Rico Electric Power Authority:

Report on the Financial Statements
We have audited the accompanying financial statements of the Puerto Rico Electric Power Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of PREPA Holdings, LLC, a blended component unit of the Authority, which represent 0.7 percent and 0.3 percent, respectively, of the total assets and total revenues of the Authority. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for PREPA Holdings, LLC, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of PREPA Holdings, LLC were not audited in accordance with Government Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
**Basis for Qualified Opinion**

We were unable to obtain sufficient appropriate audit evidence regarding an accrual for legal contingencies of approximately $212 million and for accrued compensated absences of approximately $34.2 million.

**Qualified Opinion**

In our opinion, based on our audit, and the report of the other auditors, except for the possible effects of the matters described in the Basis for Qualified Opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico Electric Power Authority, as of June 30, 2018, and the changes in financial position and its cash flow thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

**Emphasis of Matters**

**Uncertainty About Ability to Continue as Going Concern**

The accompanying basic financial statements have been prepared assuming that the Authority will continue as going concern. As discussed in note 3 to the basic financial statements, the Authority has an accumulated deficit of approximately $6.9 billion, does not currently have sufficient funds available to fully repay its various obligations as they come due, and has defaulted on various debt obligations. Also, on July 2, 2017, the Financial Oversight and Management Board, at the request of the Governor, filed a petition on behalf of the Authority for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico. Management’s evaluation of the events and conditions and management’s plans regarding these matters are also described in note 3. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion on the basic financial statements is not modified with respect to this matter.

**Adoption of New Accounting Pronouncement**

As discussed in note 4 to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

**Restatement of Net Position**

As discussed in note 4 to the basic financial statements, the net position as of July 1, 2017 has been restated to correct misstatements. Our opinion is not modified with respect to this matter.

**Other Matters**

**Required Supplementary Information**

U.S. generally accepted accounting principles require that the management’s discussion and analysis on pages 4-22; the schedule of changes in the Authority’s net pension liability and related ratios on page 129; the schedule of employer contributions – pension plan on page 130; and the schedule of changes in the Authority’s total OPEB liability and related ratios on page 131, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We were unable to apply certain limited procedures to the management’s discussion and analysis in accordance with auditing standards generally accepted in the United States of America, due to the matters described in the “Basis for Qualified Opinion”. We do not express an opinion or provide any assurance on the information.
We have applied certain limited procedures to the schedule of changes in the Authority's net pension liability and related ratios; the schedule of employer contributions — pension plan; and the schedule of changes in the Authority’s total OPEB liability and related ratios in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority’s basic financial statements. The supplementary information on pages 133 to 138 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2021 on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority’s internal control over financial reporting and compliance.

San Juan, Puerto Rico
October 6, 2021

Stamp No. E453541 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.
Introduction

This section of the financial report presents the analysis of the Puerto Rico Electric Power Authority’s (the “Authority”) financial performance for the fiscal year ended June 30, 2018. We recommend readers to consider the information herein presented in conjunction with the financial statements and the notes to the financial statements that follow this section.

Required Financial Statements

The basic financial statements provide an indication of the financial health of the Authority. The statement of net position (deficit) presents all the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (deficit) at year-end. The statement of revenues, expenses, and changes in net position (deficit) presents all the revenues and expenses for the year and information as to how the net position or deficit changed during the year. The statement of cash flows shows changes in cash and cash equivalents, resulting from cash received and paid for operating activities, non-capital financing activities, capital financing activities, and investing activities. The notes to the financial statements provide information required and necessary to the understanding of the financial statements.

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Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Management’s Discussion and Analysis (Unaudited) – (continued)
June 30, 2018

Financial Analysis

The Authority’s condensed Statements of Net Position (Deficit) as of June 30, 2018 and 2017, were as follows:

<table>
<thead>
<tr>
<th>Assets and deferred outflows of resources</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$1,638,780</td>
<td>$1,600,658</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>97,372</td>
<td>77,543</td>
</tr>
<tr>
<td>Capital assets</td>
<td>7,669,766</td>
<td>6,296,982</td>
</tr>
<tr>
<td>Total assets</td>
<td>9,405,918</td>
<td>7,975,183</td>
</tr>
<tr>
<td>Deferred outflows of resources</td>
<td>965,496</td>
<td>1,630,869</td>
</tr>
<tr>
<td>Total assets and deferred outflows of resources</td>
<td>$10,371,414</td>
<td>$9,606,052</td>
</tr>
</tbody>
</table>

Liabilities, deferred inflows of resources and net position (deficit)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt</td>
<td>14,488,695</td>
<td>14,628,304</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>2,526,761</td>
<td>1,092,003</td>
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<tr>
<td>Total liabilities</td>
<td>17,015,456</td>
<td>15,720,307</td>
</tr>
<tr>
<td>Deferred inflows of resources</td>
<td>291,972</td>
<td>59,319</td>
</tr>
<tr>
<td>Total liabilities and deferred inflows of resources</td>
<td>17,307,428</td>
<td>15,779,626</td>
</tr>
</tbody>
</table>

Net position (deficit):

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment in capital assets</td>
<td>(700,705)</td>
<td>(2,075,907)</td>
</tr>
<tr>
<td>Restricted</td>
<td>79,220</td>
<td>-</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>(6,314,529)</td>
<td>(4,097,667)</td>
</tr>
<tr>
<td>Total net position (deficit)</td>
<td>(6,936,014)</td>
<td>(6,173,574)</td>
</tr>
<tr>
<td>Total liabilities, deferred inflows of resources and net position (deficit)</td>
<td>$ (6,936,014)</td>
<td>$ (6,173,574)</td>
</tr>
</tbody>
</table>
Assets and Deferred Outflows of Resources

- Deferred outflows of resources: 9%
- Current assets: 16%
- Non-current assets: 1%
- Capital Assets: 74%

Liabilities and Deferred Inflows of Resources

- Other liabilities: 14%
- Deferred inflows of resources: 2%
- Long-term debt: 84%
2018 Compared to 2017

As of June 30, 2018 and 2017, the Authority’s total assets and deferred outflows of resources amounted to approximately $10.4 billion and $9.6 billion, respectively, which reflect an increase of approximately $765 million (8 percent). The net increase in total assets and deferred outflows of resources is mainly due to the net effect of the following:

- A decrease of approximately $188.1 million in unrestricted cash and cash equivalents. During the year ended June 30, 2018, the Authority’s cash decreased by approximately $356 million due to the emergency purchases and repairs necessary after Hurricanes Irma and Maria (“the Hurricanes”) struck Puerto Rico during fiscal year 2018. Revenues from customers were also considerably affected due to power outages in the island. This decrease in cash was offset by proceeds from a revolving loan facility from the Commonwealth of Puerto Rico (the “Commonwealth”) executed in February of 2018, for an aggregate principal amount not to exceed $300 million. The remaining cash from the revolving loan facility was approximately $149 million as of June 30, 2018.

- A net increase on short term receivables of approximately $133.7 million. This increase was directly related to the recording of approximately $419 million in receivables from aid provided by FEMA to cover damages caused by the Hurricanes. The 2018 financial statements present a reduction in municipalities accounts receivable of approximately $373 million due to the right to offset with the contribution in lieu of taxes payable to the same municipalities. Also, an increase in accounts receivables from general clients and agencies from the Commonwealth and its components units of approximately $50 million and $36 million, respectively.

- An increase in capital assets of approximately $1.4 billion caused by the net effect of the corrections to prior year balances due to the reversing of regulatory accounting. (See Note 4). This correction caused a decrease in accumulated depreciation by approximately $1.2 billion. During the fiscal year ended June 30, 2018, the capital assets were impacted by the charge off of approximately $1 billion mainly from property lost when Hurricanes Irma and Maria struck Puerto Rico in September of 2017, net of the capitalization of utility plant acquired for the reconstruction of the Island amounting to approximately $1.5 billion; and an increase in current year accrual in accumulated depreciation of $343 million.

- An increase of approximately $66.6 million in fuel inventory. This is mainly due to an increase in the average price per barrel from $57.02 during fiscal year 2017 to $63.61 during fiscal year 2018. This variance explains the monetary increase of fuel, even though the fuel oil and natural gas purchases during fiscal year 2018 (19.9 million barrels) were lower when compared to purchases made during fiscal year 2017 (21.6 million barrels). Due to outages caused by the Hurricanes, during the months of September and October, fuel and natural gas purchases decreased by 36% and 56% respectively, when compared to the same months from the prior fiscal year. Fuel purchases amounted to 3.8 million barrels in September and October of 2016, when compared to 2.1 million barrels purchased during September and October of 2017. This represented a reduction in purchases of 1.7 million of barrels or approximately
$92 million. Power generation and distribution were also affected due to the damages suffered by the Authority’s infrastructure, causing a reduction in the consumption of barrels of 3.7 million, or $13.9 million when compared to fiscal year 2017.

- Increase in investment held by trustee of approximately $43 million mainly related to proceeds from insurance companies of approximately $50 million in result of Hurricane María. Those insurance proceeds were recorded under the Construction Fund due to the determination of a Resolution by the US District Court which imposed restriction on the use of those funds to repair, replace or reconstruct damaged or destroyed property in compliance with the Trust Agreement.

- Decrease in deferred outflows related to pensions of approximately $665 million mainly related to pension adjustments under Governmental Accounting Standard Board (GASB) Statement No. 68 “Accounting and financial reporting for pensions” of approximately $660 million.

As of June 30, 2018, and 2017, the Authority’s total liabilities and deferred inflows of resources amounted to approximately $17.3 billion and $15.8 billion, respectively, an increase of $1.5 billion (10 percent). The increase in total liabilities and deferred inflows of resources is primarily due to the net effect of the following:

- A net increase of approximately $373.1 million in accounts payable and accrued liabilities, caused by the reduction of approximately $373 million in contributions in lieu of taxes payable to municipalities due to the right to offset with amounts receivable from the same municipalities. During the fiscal year ended June 30, 2018, the Authority had an increase of $753 million payables mainly due to the contracting and subcontracting of services necessary for the restoration and reconstruction of the Authority’s infrastructure after the significant damages incurred because of the Hurricanes.

- An increase in accrued interest of approximately $495.7 million, mainly related to the increase of bond interest payable from approximately $217.5 million in fiscal year 2017 to approximately $649.8 million in fiscal year 2018; and the increase by approximately $57 million in interests related to the fuel line of credit. As disclosed further under the Capital Assets and Debt Administration section, pursuant to Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), interest payments are in temporary stay status.

During the year ended June 30, 2018, a total of approximately $97.9 million of interest payments were settled by the monoline insurance companies for certain insured blocks (See Note 12); however, as the monoline insurers may exercise bondholders’ rights and remedies, and may be entitled to recovery, the interest paid by the monoline insurers continues to be presented as interest due and payable by the Authority.

- An increase of approximately $300 million in long-term notes payable. This increase is due to a new revolving credit loan agreement between the Authority and the Commonwealth (“the Revolving Loan Facility”). The Commonwealth provided the Revolving Loan Facility for expenditures and
disbursements of the Authority’s operations needed because of the cash flow impact caused by the passage of the Hurricanes. These expenses included, without limitation, employee payroll and benefits, and payments for facilities maintenance costs (that were not capital expenditures or infrastructure improvements). On March 8, 2019, the Authority paid off this revolving credit facility.

- A decrease in net pension liability of approximately $321 million, mainly due to changes in actuarial assumptions.

- An increase of long-term liabilities for approximately $233 million in accrued unfunded other post-employment benefit liability due to the implementation of GASB Statement No. 75, “Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions” for which the Authority accrued an actuarially determined liability of approximately $374.6 million as of June 30, 2018, which $17.8 million is presented as current liability.

- An increase of approximately $124 million in current customers' deposits due mainly to overpayments from general and governmental clients.

- An increase of approximately $210 million in claims and judgment amounts due to approximately $182 million in correction of prior year contingency reserves, net of a decrease resulting from settlements.

- Increase in deferred inflows of resources of approximately $233 million related mainly to GASB Statement No. 68 “Accounting and financial reporting for pensions” pension adjustments of $226 million.

The largest portion of the Authority’s net position (deficit) is the deficit of approximately $6.3 billion in unrestricted net position (deficit). An additional portion of the Authority’s net position (deficit) represents $79 million in restricted assets and liabilities for capital projects and other. A deficit in restricted net position occurs when liabilities that relates to restricted assets exceeds those assets. The Authority’s deficit continued to increase due to the recognition of pension-related expenses, combined with the revenue shortfalls and the payment of expenses related to the Hurricanes.

A negative $700 million net investment in capital assets is also a component of the Authority’s net position. This component of net position consists of capital assets such as land, infrastructure, buildings, equipment, among others, less any outstanding related debt used to acquire those assets. This negative balance decreased from a negative balance of approximately $2.1 billion primarily as a result of the corrections to prior year balances due to the reversing of regulatory accounting. (See Note 4). 

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The Authority’s condensed statements of revenues, expenses, and changes in net position (deficit) for the years ended on June 30, 2018 and 2017, were as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating revenues</td>
<td>$2,551,621</td>
<td>$3,264,748</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel and purchase power</td>
<td>1,637,626</td>
<td>1,946,397</td>
</tr>
<tr>
<td>Maintenance and other operating expenses</td>
<td>1,183,298</td>
<td>1,394,350</td>
</tr>
<tr>
<td>Impairment loss due to Hurricane María</td>
<td>1,090,101</td>
<td>-</td>
</tr>
<tr>
<td>Emergency repairs post Hurricane María</td>
<td>290,350</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation</td>
<td>342,714</td>
<td>519,406</td>
</tr>
<tr>
<td>Contribution in lieu of taxes</td>
<td>192,238</td>
<td>177,533</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>4,736,327</td>
<td>4,037,686</td>
</tr>
<tr>
<td><strong>Non-operating revenues and (expenses):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-operating revenues</td>
<td>1,082,266</td>
<td>37,117</td>
</tr>
<tr>
<td>Interest and other expenses</td>
<td>(494,221)</td>
<td>(482,857)</td>
</tr>
<tr>
<td><strong>Non-operating revenues and (expenses), net</strong></td>
<td>588,045</td>
<td>(445,740)</td>
</tr>
<tr>
<td><strong>Loss before capital contributions</strong></td>
<td>(1,596,661)</td>
<td>(1,218,678)</td>
</tr>
<tr>
<td><strong>Capital contributions</strong></td>
<td>35,010</td>
<td>7,317</td>
</tr>
<tr>
<td><strong>Change in net position (deficit)</strong></td>
<td>(1,561,651)</td>
<td>(1,211,361)</td>
</tr>
<tr>
<td><strong>Net position (deficit) at beginning of year</strong></td>
<td>(6,173,574)</td>
<td>(4,838,066)</td>
</tr>
<tr>
<td><strong>GASB 75 implementation and correction of errors</strong></td>
<td>799,212</td>
<td>(124,147)</td>
</tr>
<tr>
<td><strong>Net position (deficit) at beginning of year, as restated</strong></td>
<td>(5,374,362)</td>
<td>(4,962,213)</td>
</tr>
<tr>
<td><strong>Net position (deficit) at end of year</strong></td>
<td>$6,936,013</td>
<td>$6,173,574</td>
</tr>
</tbody>
</table>
Revenues

Operating revenues 70%

Non-operating revenues 30%

- Fuel and purchased power 35%
- Contribution in lieu of taxes 4%
- Depreciation 7%
- Emergency repairs post H. Maria 6%
- Impairment loss due to H. Maria 23%
- Maintenance and other 25%
For the years ended June 30, 2018, and 2017, the Authority’s operating revenues amounted to approximately $2.6 billion and $3.3 billion, respectively, a decrease of approximately $700 million (22 percent).

The increase in operating revenues is the net effect of the following:

- A decrease in operating revenues primarily due to a reduction in electric sales to all consumers (private and government) of approximately $836 million. After the Hurricanes struck Puerto Rico, power outages reached their highest point on September 20, 2017 with 1.4 million (100 percent) of customers without power. These outages extended for a couple of months after the Hurricanes hit, therefore, reducing the availability of the electric services to customers resulting in decreased revenues for the Authority. Energy sold to clients decreased 44%, from 14,831 MkWh to 8,310 MkWh for the fiscal years ended June 30, 2017 and June 30, 2018, respectively.

- An increase in revenue caused by a decrease of approximately $133 million in the bad debt expense when compared to 2017. Bad debt expense is calculated by management based on billings and subsequent collections experience. The balance of the allowance for uncollectible accounts from 2017 was fairly appropriate when compared to the 2018 consumption levels; therefore, a smaller bad debt expense of approximately $29 million was required in 2018, versus an expense of approximately $162 million in 2017.

- An increase in capital contributions of approximately $28 million, mainly due to approximately $33.8 million in donations received from the United States of America Corps of Engineers (USACE).

The Authority’s operating expenses amounted to approximately $4.7 billion and $4.0 billion for the years ended June 30, 2018 and 2017, respectively, representing an increase of approximately $698 million or 17 percent. The increase in operating expenses is mainly due to the net effect of the following:

- A decrease in fuel purchased. During the year ended June 30, 2018, the Authority’s fuel expense was approximately $1,051 million when compared to approximately $1,217 million during the year ended June 30, 2017, representing a decrease of approximately $166 million or 14 percent. The consumption of fuel oil and natural gas barrels during fiscal year 2018 decreased by 18% when compared to fiscal year 2017; 21.1 million barrels were consumed during fiscal year 2017, while 17.3 million barrels were consumed during fiscal year 2018. The biggest decrease in consumption started the day when Hurricane María hit Puerto Rico on September 20, 2017, significantly affecting the power distribution to consumers. During the months of September and October of 2017, the consumption decreased 38% and 67%, respectively when compared with the same months from the prior fiscal year (3.8 million barrels in September and October of 2016 compared to 1.8 million in September and October of 2017). This event caused a reduction of fuel expense for those months of approximately $85.9 million.
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management’s Discussion and Analysis (Unaudited) – (continued)  
June 30, 2018

- A decrease in the Authority’s purchased power. For the year ended June 30, 2018, the Authority’s purchase power expense was approximately $586 million, when compared with the year ended June 30, 2017, which was approximately $729 million, representing a decrease of approximately $143 million or 20 percent. During the year ended June 30, 2018, the Authority purchased power was 2.9 MWh less, when compared to the year ended June 30, 2017, at an average cost of $13.25 per kWh. The reason for the decrease in the purchased power was directly related to the impact caused by the Hurricanes in September of 2017. As mentioned before, the infrastructure throughout the island was significantly damaged and the co-generators and utility-scale renewable energy projects were out of service for about a third of the fiscal year. Once the renewable energy projects started operating, their maximum power output, and resulting energy produced, was limited. To ramp up these services, it was necessary to test and repair all remaining damages caused by the Hurricanes. Consequently, the production was still unstable until the following fiscal year.

- Operating expenses within the maintenance and other operating activities, excluding depreciation, decreased by approximately $211 million or 15%. For the year ended June 30, 2017, the Authority’s expenses within this category were $1.4 billion, while for the year ended June 30, 2018, the expenses were approximately $1.2 billion. Salary expenses within this category decreased when compared to fiscal year 2017, due to the reclassification of expenses within this type to capitalizable project improvements. During the year ended June 30, 2018, most of the effort of the Authority was towards the restoration and reconstruction of its infrastructure due to the impact of the Hurricanes.

- A recording of an impairment loss of capital assets of approximately $1.1 billion due to the passage of the Hurricanes Irma and María in September of 2017. Total impairment loss, net of insurance proceeds of $50 million, were presented in the statement of revenues, expenses, and changes in net position (deficit).

- Additional operating expenses for approximately $290 million were recorded as emergency repairs related to the Hurricanes Irma and María. These were for the purchase of fuel, materials and other non-capitalizable expenses necessary in response to the disaster.

An increase of approximately $1.1 billion in nonoperating revenue in amounts received in federal grants from the Federal Emergency Management Agency (FEMA) in aid for natural disasters Hurricanes Irma and Maria. From the total expenses claimed to FEMA, approximately $1.5 billion were incurred in capitalizable expenses. The Authority entered in a voluntary nonexchange transaction with FEMA where allowable costs were billed for reimbursement based on eligibility requirement. Revenues were recognized once costs were approved.
Capital Assets and Debt Administration

Capital Assets

Capital assets as of June 30, 2018 and 2017, amounted to approximately $7.7 billion and $6.3 billion, respectively. The Authority’s total capital assets increased by approximately $1.4 million or 22 percent, mainly because of the net effect of additions due to correction of errors of approximately $1.2 million, reduced by $1.0 billion due to the impairment loss explained above, additions of approximately $1.5 billion, and depreciation expense of approximately $343 million for the year ended June 30, 2018.

Major capital assets projects undertaken by Authority during the year ended June 30, 2018 included the following:

- After the Hurricanes Irma and María made landfall during September of 2017, the Authority incurred costs related to the damages suffered of approximately $1.7 billion, of which approximately $1.5 billion were capitalized as infrastructure in the areas of transmission and distribution, $14 million in the area of generation and approximately $53 million in general and administrative related efforts. (See Note 16).

- Capital contributions received during the year ended June 30, 2018 amounted to approximately $35 million of which approximately $33.8 million were received from the United States of America Corps of Engineers (USACE). Approximately $15.8 million of these contributions were invested in capitalizable assets in the areas of transmission and distribution, $16 million were used for materials and supplies, as part of the continued repair efforts, and approximately $1.8 million were used for operational expenses.

- Investment at the San Juan Steam Plant and Central San Juan combined cycle units 5 and 6 of approximately $13.5 million for; (1) replacement work of compressors, combustor and turbine main component of the Gas Turbine Units 5 and 6, (2) the installation of the major high pressure pipe section of the superheater, re heater and economizer boiler section at Unit 9 (Capacity of 100 MW), (3) procurement of spares and maintenance components for units 5 and 6, and (4) the procurement and installation of valves, actuators and circulation water pumps for units 5 through 10.

- Investment at Palo Seco Steam Plant of approximately $9.5 million in the power plant for; (1) replacement of the turbine-generator of Unit 4, (2) the repairs and maintenance work of the condenser of Unit 4, (3) improvements to the components of the boiler of Unit 4, (4) the rehabilitation of the main structures that support the main and secondary components of the boilers of Unit 1 through 3, (5) the repairs of the travelling screens used to filter the sea water used to cool down the steam passing through the condensers of units 1 through 4, so it can be re-used on the steam cycle of all 4 units, (6) the repairs to the 50/15 ton overhead crane of the main components of the Units 1 through 4, and (7) the rehabilitation of water tanks at the power plants.

Additional information on the Authority’s capital assets can be found in Note 8 to the financial statements.
Debt Administration

As of June 30, 2018, and 2017, the Authority had total notes and bonds payable outstanding of approximately $9.401 billion and $9.110 billion, respectively. As of the date of the issuance of the financial statements, the Authority’s bonds were rated “Ca” by Moody’s, “NR” by S&P and “D” by Fitch.

The main increase in debt is due to the Revolving Loan Facility between the Authority and the Commonwealth. On February 22, 2018, the Commonwealth agreed to make a revolving loan to the Authority consisting of a superpriority post-petition credit facility in an aggregate principal amount not to exceed $300 million, available to the Authority until June 30, 2018, unless extended by necessary governmental action by the Commonwealth. The proceeds of the Revolving Loan Facility were to be used to make expenditures and disbursements for the Authority’s operations, including, without limitation, employee payroll and benefits, facilities maintenance costs (that were not capital expenditures or infrastructure improvements), and normal operational materials, supplies, fuel and power supplies, vendor, and services payments. Also, such proceeds were to be used for reimbursement of amounts expended for certain eligible uses from September 6, 2017 until the funding of the Revolving Loan Facility. The Revolving Loan Facility shall bear 5% interest, provided that, in the event the Commonwealth funds or refinances the Revolving Credit Loan with the proceeds of a Commonwealth financing, the interest rate on such funded or refinanced Revolving Loan Facility shall automatically accrue interest at the rate equal to the interest rate on the Revolving Credit Loan not funded or refinanced with any Commonwealth financing.

The Authority received approximately $300 million on February 23, 2018 as part of the Revolving Loan Facility. During fiscal year 2018, the Authority made loan repayments totaling approximately $149.1 million. In June 2018, the Authority requested from the Commonwealth an additional $149.1 million from the Revolving Loan Facility; therefore, as of June 30, 2018, the Revolving Loan Facility had approximately $300 million outstanding. The maturity date was defined as the earliest of (1) the 30th anniversary of the Effective Date or (2) the Termination Date. On March 8, 2019, the Revolving Loan Facility was paid off by the Authority.

During fiscal year 2018, the Authority received an additional $1.4 million from a revolving line of credit of approximately $27 million to finance improvements to the Aguirre Power Complex Water Supply and the San Juan Waste Water Treatment Plant, with a maturity date of 20 years after the construction completion date and an effective interest of 2%. This project consists of the design and construction of a system that includes a water storage tank, automatic pumps, piping, ultrafiltration unit, microfiltration unit, reverse osmosis filtration system and a demineralizer plant to be used for the fresh water supply required for the electrical generation. As of the date of these financial statements, this project’s construction completion date is estimated to be December 2022; therefore, its estimated maturity date will likely be around December 2042. The increase in the loan amount resulted from the reimbursement of costs incurred by the Authority during prior and current fiscal years.
As of June 30, 2018, the Authority had not paid approximately $581.9 million in principal amounts due as of July 1, 2017. As disclosed in Notes 3, 11 and 12, notes and bonds payable, and their respective interest payments, are subject to the Authority’s debt restructuring pursuant to Title III of PROMESA; and therefore, these payments are temporarily stayed.

During the year ended June 30, 2018, a total of $132.6 million of principal amount due were settled by the monoline insurance companies of certain insured bonds (See Note 12); however, as the monoline insurers acquired the rights of the bondholders, the amounts paid by the monoline insurers continue to be presented as due and payable by the Authority.

Initial adoption of a GASB Statement No. 75 and correction of errors

During the year ended June 30, 2018, the Authority adopted the provisions of GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. This statement replaced the requirements of GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions”, as amended, and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses. Accordingly, beginning net deficit was restated to retroactively report the beginning OPEB liability and deferred outflows of resources related to contributions made after the measurement date.

The Authority also identified misstatements related to prior year financial statements, which resulted in the restatements of the beginning net deficit of the Authority due to the omission of reserves for certain related legal claims and judgments, misstatements in capital assets in the accumulated depreciation balance, the balances of accounts receivables and in the estimate for the allowance for uncollectible accounts. Also, correcting entries were necessary to reverse regulated accounting effect in the financial statements as it was determined that the Authority does not meet the criteria established in paragraph 476 of the GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” to apply the accounting guidance related to regulated operations. The cumulative effect of the corrections is reflected as a beginning of year adjustment in the accompanying financial statements as a decrease in net deficit of approximately $698.9 million. (See note 4).
Currently Known Facts or Conditions That May Have a Significant Effect on the Puerto Rico Electric Power Authority’s Financial Condition or Results of Operations

The Authority’s Governing Board and Management

On June 26, 2017, the Governor signed into law Act No. 37 of 2017 (“Act 37 2017”) changing the composition of the Authority’s Governing Board (the “Governing Board”), which will consist of seven members, six members are designated by the Governor (three of which require Senate approval) and one member will be an elected consumer representative.

PROMESA

On June 30, 2016, the President of the United States signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”). In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Financial Oversight and Management Board (the “Oversight Board”), whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its component units; (ii) a temporary stay of all creditor lawsuits; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code.

Key Legislation After the Enactment of PROMESA

Act 2 2017 - FAFAA Enabling Act

Act No. 2 of January 18, 2017, the Puerto Rico Fiscal Agency, and Financial Advisory Authority Act (the “FAFAA Enabling Act” or “Act 2 2017”) was enacted to repeal and replace the sections under Act No. 21-2016 (the “Moratorium Act”) that created the Fiscal Agency and Financial Advisory Authority (“FAFAA”) and its powers and responsibilities. Act 2 2017 expanded FAFAA’s powers to provide that FAFAA shall be the only entity authorized to enter into a creditors’ agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to agencies, boards, commissions, instrumentalities, public corporations (including the Authority) or applicable political subdivision. In addition, FAFAA is the entity in charge of the collaboration, communication, and cooperation efforts between the Commonwealth and its instrumentalities and the Oversight Board under PROMESA.
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)

Management’s Discussion and Analysis (Unaudited) – (continued)

June 30, 2018

Act 5 2017 - Puerto Rico Fiscal Responsibility and Financial Emergency Act


The emergency period under Act 5 2017 was set to expire on May 1, 2017 to coincide with the expiration of the temporary stay under PROMESA section 405 (as discussed above), unless extended by an additional three months by executive order.

On April 30, 2017, the Governor issued executive order OE 2017 031, which extended the Act 5 2017 emergency period to August 1, 2017. On July 19, 2017, the Legislative Assembly enacted Act No. 46 2017 (“Act 46 2017”), which further extended the Act 5 2017 emergency period through December 31, 2017. Act 46 2017 allowed the Governor to sign executive orders to extend the emergency period for successive periods of six months as long of the Oversight Board remains established for Puerto Rico under PROMESA.

Oversight Board Commencement of Title III Case

As disclosed in Note 3, on July 2, 2017, the Oversight Board filed a petition for relief under Title III of PROMESA. All the Title III cases of Puerto Rico have been consolidated for procedural purposes only and are being jointly administered in the United States District Court for the District of Puerto Rico. Title III of PROMESA incorporates the automatic stay provisions of U.S. Bankruptcy Code, which are made applicable to the Title III cases pursuant to PROMESA section 301(a).

Act 120 2018   Puerto Rico Electric System Transformation Act

Act 120 2018 authorized the required legal framework for the transformation of the Authority via a series of public private partnerships, to be made in accordance with the framework set forth in the Public Private Partnership Act of 2009 (the “P3 Act” or “Act 120”). The P3 Act allows for the sale of assets related to generation and the transfer or delegation of any of the Authority’s operations, functions, or services. The P3 Act modifies the existing regulatory structure and establishes a working group to design a new regulatory framework and energy public policy for a private sector-based energy system.

Going Concern, Financial Condition, and Liquidity Risk

For a discussion of facts and conditions related to the Authority’s liquidity that will have a significant effect on the Authority’s financial condition and operations, see Note 3 to the financial statements.

The economic and financial condition of the Authority is affected by various legal, financial, social, economic, environmental, governmental, and political factors. Even after filing for Title III protection, the Authority’s operational and financial condition has been further affected by various business challenges that have been
exacerbated by the Commonwealth’s economic situation, the volatility in oil prices, and the fact that the Authority did not increase its customers’ rates to levels sufficient to offset the effects of its rising costs until May 2019. Its principal challenges, some of which are interrelated, are: (i) addressing the decline in electric energy demand; (ii) addressing the volatility of oil costs; (iii) addressing high customer electric power rates; (iv) reducing government accounts receivable; (v) improving its liquidity; (vi) addressing its bond rating downgrade; and (vii) addressing the impact on Puerto Rico’s economy and the Authority’s infrastructure after the passage of the Hurricanes.

**Hurricanes Irma and María**

- The Authority’s electric system and grid sustained significant damage because of the passing of Hurricanes Irma and María during September 2017, both Category 5 hurricanes. As a result of the passing of these hurricanes, power outages affected 1.4 million (100 percent) of the Authority’s customers.

- The Authority is working closely with FEMA to ensure adequate documentation of the costs incurred due to the emergency. After September of 2017, and prior to the issuance of these financial statements the Authority incurred emergency related costs of approximately $2.1 billion. As of June 30, 2018, a total of approximately $1.1 billion has been approved and recognized as revenues in line with guidance from GASB Statement No. 33, “Accounting and Financial Reporting for Non-Exchange Transactions”. As of the date of these financial statements the Authority has collected approximately $1.4 billion related to these claims.

- The Authority had submitted and is currently working on a property insurance claim to its private insurers. As of June 30, 2018, a total of approximately $50 million had been collected from the private insurance companies. After June 30, 2018, up to the date of the issuance of these financial statements an additional $50 million had been collected.

- The Authority incurred and capitalized emergency related costs of approximately $1.5 billion in the areas of transmission and distribution, $14 million in the area of generation and approximately $53 million in general and administrative related efforts. A total asset impairment loss of approximately $1.1 billion was recognized as of June 30, 2018 due to the Hurricanes damages. This impairment loss was reported net of its associated insurance recoveries of approximately $50 million in the accompanying statement of revenues, expenses, and changes in net position (deficit).

- Capital contributions received from the United States of America Corps of Engineers (USACE) amounted to approximately $33.8 million, as mentioned above. These capital contributions are presented as such in the accompanying statement of revenues, expenses, and changes in net position (deficit).
Subsequent Events

The most significant subsequent events are the following:

- On August 14, 2018, the Authority announced it completed the restoration of power to all its clients after Hurricanes Irma and María struck the Island.

- Permanent rate – A provisional rate came into effect in the first billing cycle of August 2016 and was to be effective until the implementation of a Permanent Rate. Through resolution and Order of November 27, 2018, the Puerto Rico Energy Bureau (PREB) has ordered the Authority to implement the Permanent Rate on May 1, 2019.

- 2018 Preliminary Restructuring Support Agreement (RSA) and 2019 RSA – On July 30, 2018, (i) the Authority, (ii) the Fiscal Agency and Financial Advisory Authority (“FAFAA”) in its capacity as fiscal agent and financial advisor to the Authority, (iii) the Oversight Board and (iv) members of the Ad Hoc Group of the Authority’s Bondholders (collectively, the “Ad Hoc Group”), entered into a preliminary restructuring support agreement (the “2018 Preliminary RSA”) and associated term sheet. On May 3, 2019, the Governor of Puerto Rico announced that the Oversight Board, FAFAA, and the Authority, reached a Definitive Restructuring Agreement (“2019 RSA”) with the Ad Hoc Group, Assured Guaranty Corp., and Assured Guaranty Municipal Corp. (collectively, “Assured”), and such other uninsured bondholders that joined the 2019 RSA. Later, on September 9, 2019, the 2019 RSA was amended to allow Syncora Guarantee, Inc., and National Public Finance Guarantee Corporation to become parties. Under the 2019 RSA, the bondholders will exchange all their existing Authority bonds for two types of new securitization bonds. The issuance of the securitization contemplated under the 2019 RSA only becomes effective after confirmation of a plan of adjustment for the Authority and passage of any required legislation. As of this date, the Oversight Board has not filed a plan of adjustment for the Authority and neither the Governor of Puerto Rico, nor any Puerto Rico legislator, has presented to the Puerto Rico Legislature a bill to approve the transactions contemplated by the 2019 RSA.

• Transformation of the Transmission and Distribution ("T&D") and Generation Assets of the Authority – The T&D transformation procurement process was conducted by the Puerto Rico Public Private Partnerships Authority ("P3 Authority") with the purpose of awarding a long-term partnership contract to a qualified Operations & Maintenance ("O&M") service provider for the T&D system. The competitive transaction process was designed and has followed an objective and transparent set of bidding and evaluation procedures, with full Oversight Board engagement and oversight throughout. Bidders were able to perform thorough due diligence and evaluation of the opportunity to serve as Puerto Rico’s T&D system operator, and evaluation of bids was performed by an impartial and unbiased selection committee in accordance with legal requirements under the P3 Authority statute, Act 29-2009, as amended.

On November 25, 2019, the P3 Authority received two competitive proposals from qualified proponents. Between December 6 and 26, 2019, bidders presented proposals to the P3 Authority’s partnership committee (“Partnership Committee”) and provided letters of clarification to their definitive proposals. On January 11, 2020, the Partnership Committee selected a preferred proponent, LUMA, LLC (“LUMA”), to negotiate final terms of a O&M agreement.

LUMA is a Puerto Rico company established by ATCO Ltd. ("ATCO"), and Quanta Services, Inc. ("Quanta"). LUMA is also working in conjunction with Innovative Emergency Management, Inc. ("IEM") for its federal funding expertise. Selected through a competitive bidding process, LUMA and its primary partner, IEM, are comprised of industry leaders in: (1) delivering safe and reliable energy to millions of customers; (2) building reliable, sustainable infrastructure; (3) providing best in class craft skilled workforce training; (4) procuring and implementing federal funds; (4) helping the public and private sectors enhance preparedness, mitigate risks and effectively respond to and recover from disasters; and (5) managing public private partnerships.

On January 17, 2020, the Partnership Committee approved the final O&M agreement proposal of LUMA. On March 3, 2020, the P3 Authority submitted the final O&M agreement to the Oversight Board for approval. After the P3 Authority implemented certain Oversight Board suggestions to the O&M agreement, on April 16, 2020, the Oversight Board voted to approve the updated O&M agreement.

On June 22, 2020, the Governing Board and the Government of Puerto Rico, pursuant to the procedures set forth in Act 29-2009 (as amended), each approved the O&M agreement. Following these approvals, the O&M agreement was then signed by the parties on June 22, 2020.

Over the course of this public private partnership, LUMA will provide the following services and benefits, among others:

  o  increase service reliability to improve customer well-being and foster economic development;
  o  infuse a safety focused culture throughout the entire organization to help ensure the safety of LUMA employees and the public;
  o  deliver a best-in-class customer service organization;
improve operational efficiency and financial stability to help make electric service more affordable to all customers in the long term; and
- leverage the breath of its skilled workforce to meet Puerto Rico’s emergency response needs when called upon.

On June 1, 2021, the Authority and LUMA executed a transition to LUMA of the responsibility for the management, operation, maintenance, repairs, restoration, and replacement of the T&D System.

With regards to the Authority’s power generation operations, the P3 Authority is conducting a competitive process to identify, qualify and select one or more private operators to run the Authority’s legacy generation assets.

- COVID 19 Pandemic – On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (“COVID 19”) as a global pandemic. Given the effects of COVID 19 on the economy, including oil prices, on April 23, 2020, PREB resolved that the current situation warranted a close review of its impact on the Authority’s operational costs, including the fuel charge adjustment (“FCA”) and the power purchase charge adjustment (“PPCA”) riders. As a result, PREB entered an order directing the Authority to submit monthly, instead of quarterly reconciliations of fuel and purchased power costs, starting with the month of April 2020. At this moment, the full extent to which COVID 19 may impact the Authority’s financial condition or results of operations is uncertain.

- In the month of October 2020, FEMA approved approximately $9.6 billion for the Authority to repair damage to its electric grid caused by Hurricane María in 2017. The federal funding is targeted to repair and replace thousands of miles of transmission and distribution lines, electrical substations, power generation systems, and other grid improvements. The FEMA funding will provide the necessary funding to help protect the electrical system and the people of Puerto Rico from future catastrophic events. The FEMA funds will be used to bring the Authority’s electrical system up to standards capable of withstanding a Category 4 hurricane. In December 2020, the Authority released a report that details the projects that will be undertaken using the new FEMA funds.

For a detail discussion of these and other subsequent events that may have a significant effect on the Authority’s financial condition and operations, see Note 19 to the financial statements.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Authority’s Chief Financial Officer. The executive offices of the Authority are located at 1110 Ponce de León Avenue, San Juan, Puerto Rico 00907. Other financial information can be obtained from the Authority’s official web page www.aeepr.com.
Assets and Deferred Outflows of Resources

Current assets:
- Cash and cash equivalents $344,880
- Accounts receivables, net 565,090
- Accounts receivable from insurance companies and FEMA 422,492
- Fuel Inventory 168,236
- Materials and supplies 132,659
- Prepayments and other assets 5,423

Total current assets 1,638,780

Non-current assets:
- Accounts receivable 791
- Restricted cash and cash equivalents 96,581
- Depreciable capital assets 7,390,575
- Non-depreciable capital assets 279,191

Total non-current assets 7,767,138

Total assets 9,405,918

Deferred outflows of resources:
- Related to pensions 881,699
- Related to OPEB 17,785
- Related to debt refunding 34,526
- Related to derivative instruments 31,486

Total deferred outflows of resources 965,496

Total assets and deferred outflows of resources $10,371,414

(Continued)
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  

Statement of Net Position (Deficit) - (continued)  
(In thousands)  
June 30, 2018  

Liabilities, Deferred Inflows of Resources and Net Position (Deficit)  

Current liabilities:  
Accounts payable and accrued liabilities $ 1,458,600  
Current portion of bonds payable 957,976  
Current portion of notes payable 732,498  
Accrued interest 723,950  
Customer's deposits 131,707  
Compensated absences 18,485  
Unearned Revenues 5,588  
Total current liabilities 4,028,804  

Non-current liabilities:  
Compensated absences 15,738  
Customer's deposits and others 191,948  
Unearned Revenues 1,267  
Notes Payable 321,327  
Bonds payable 7,389,188  
Other post-employment benefits liability 356,805  
Claims and judgments 333,332  
Fair value of derivative instruments 31,486  
Net pension liability 4,345,561  
Total non-current liabilities 12,986,652  

Total liabilities 17,015,456  

Deferred inflows of resources:  
Related to pension 274,175  
Related to OPEB 17,797  
Total deferred inflows of resources 291,972  

Net position (deficit):  
Net Investment in capital assets (700,705)  
Restricted 79,220  
Unrestricted (6,314,529)  
Total net position (deficit) (6,936,014)  

Total liabilities, deferred inflows of resources and net position $ 10,371,414  

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Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses, and Changes in Net Position (Deficit)
(In thousands)

For the Year Ended June 30, 2018

Operating revenues
Electric services
   Residential and Commercial  $ 2,107,500
   Government 480,720
   Other (21,008)
   Bad Debt Expense (29,674)
   Telecommunications 10,987
   Irrigation 3,096
Total operating revenues 2,551,621

Operating expenses:
   Fuel 1,051,710
   Purchased power 585,916
   Depreciation 342,714
   Maintenance 327,075
   Administrative and general 307,306
   Transmission and distribution 279,423
   Customer accounting and collection 166,845
   Other production 102,650
   Impairment loss due to Hurricane Maria 1,090,101
   Emergency repairs post Hurricane Maria 290,350
   Contribution in lieu of taxes 192,238
Total operating expenses 4,736,328
Operating loss (2,184,707)

Non-operating revenues and (expenses), net:
   Grants from U.S. Federal Government 1,071,677
   Interest income and other 10,589
   Interest expense and other (494,221)
Total nonoperating revenues and (expenses), net 588,045

Loss before capital contributions (1,596,662)
Capital contributions 35,010
Change in net position (deficit) (1,561,652)
Net position (deficit), at beginning of year, as restated (See Note 4) (5,374,362)
Net position (deficit), at end of year $ (6,936,014)

The accompanying notes are an integral part of these financial statements.
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows  
(In thousands)  
For the Year Ended June 30, 2018

Cash flows from operating activities:
Cash received from customers $ 2,425,452
Cash paid to suppliers (1,358,375)
Cash paid to employees (515,374)
Cash paid to customers (6,902)
Cash received from insurance companies 50,000

Net cash flows provided by operating activities 594,801

Cash flows from noncapital financing activities:
Proceeds received from U.S. Federal Government 652,507
Proceeds from notes payable 450,482
Principal paid on notes payable (149,969)

Net cash flows provided for noncapital financing activities 953,020

Cash flows from capital and related financing activities:
Construction expenditures (mostly natural disaster) (1,692,945)
Proceeds received from contributed capital 488
Interests paid (797)
Power revenue bonds:
Proceeds from insurance companies to pay insured bond series 132,560
Principal paid on revenue bonds maturities on insured series (132,560)
Proceeds from insurance companies to pay interest to revenue bondholders 97,862
Interest paid on revenue bonds on insured series (97,862)

Net cash flows used for capital and related financing activities (1,693,254)

Net decrease in cash and cash equivalents (145,432)
Cash and cash equivalents at beginning of year 586,893

Cash and cash equivalents at end of year $ 441,461

Cash and cash equivalents:
Unrestricted $ 344,880
Restricted 96,581

$ 441,461
Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows - (continued)
(In thousands)
For the Year Ended June 30, 2018

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss $ (2,184,707)

Adjustments to reconcile operating loss to net cash provided by operating activities:

- Depreciation 342,714
- Provision for uncollectible accounts and others 29,674
- Impairment loss due to H.María, net of cash received from insurance companies 1,140,101
- Other miscellaneous 2,560

Changes in operating assets and liabilities:

- Receivables (142,049)
- Fuel inventory (66,602)
- Materials and supplies (5,247)
- Prepayments and other assets (4,545)
- Deferred outflows of resources 660,211
- Accounts payable and other accrued liabilities 790,502
- Net pension liability (320,974)
- Customer’s deposits and others 123,379
- Other post-employment benefits liability (28,265)
- Claims and judgement 27,642
- Compensated absences to be liquidated after one year (9,101)
- Deferred inflow of resources 244,629
- Unearned revenues (5,121)

Total adjustments 2,779,508

Net cash flows provided by operating activities $ 594,801

Supplemental cash flows information:

Noncash transactions:

- Capital contributions $ 32,639
- Contributions in lieu of taxes, billings and offset effect $ 192,238
- Change in fair value of derivative instruments $ 16,646
- Changes in deferred loss resulting from debt refunding $ 6,468

The accompanying notes are an integral part of these financial statements.
Note 1 - Organization

The Puerto Rico Electric Power Authority (the “Authority”) is a public corporation and component unit of the Commonwealth of Puerto Rico (the “Commonwealth”) created on May 2, 1941, pursuant to Act No. 83, as amended, (the “Act”). The Authority produces, buys, transmits, and distributes, substantially, all of the electric power consumed in Puerto Rico. The Authority has broad powers including, among others, to issue bonds for any of its corporate purposes subject to the limitations set forth in a Trust Agreement dated as of January 1, 1974, as amended (the “1974 Agreement”). As a public corporation and an instrumentality of the Commonwealth, the Authority is exempt from the payment of income, property, municipal, and federal taxes.

On May 27, 2014, the Commonwealth approved Act No. 57, which authorizes the Puerto Rico Energy Bureau (the “PREB”) (then known as the Puerto Rico Energy Commission) to approve electric rates proposed by the Authority among other matters. On February 16, 2016, the Commonwealth approved Act No. 4, also known as the Puerto Rico Electric Power Authority Revitalization Act (“Act No. 4”), which modifies the regulatory framework to establish electric rates, code of conduct matters and establishes a legal and judiciary framework for the restructuring of the Authority’s debt. Act No. 4 also created the Puerto Rico Electric Power Authority Revitalization Corporation (“CRAEE”, for its Spanish acronym). The newly created entity has the power to issue securitization bonds to restructure at a discount the Authority’s outstanding long-term debt. Among other activities, as defined by Act No. 4, CRAEE also has the power to present before the PREB a proposed restructuring resolution that creates restructuring property and provides for the collection of transition charges to repay the bonds and to cover other related costs.

As discussed in Notes 3 and 19, on July 2, 2017, the Financial Oversight and Management Board (the “Oversight Board”) filed a petition under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) in the United States District Court for the District of Puerto Rico, commencing a Title III case for the Authority (the “Title III Petition”). The Authority’s petition for relief is still under evaluation by the Court. The accompanying basic financial statements do not include any adjustments that might result from the outcome of the Title III Petition.
Note 2 - **Summary of Significant Accounting Policies**

The following is a summary of the most significant accounting policies followed by the Authority in preparing its financial statements:

**Basis of Accounting**

The financial statements are presented as an enterprise entity using the economic resources measurement focus and the accrual basis of accounting, in accordance with the accounting principles generally accepted in the United States of America (“GAAP”) for governments as prescribed by the Governmental Accounting Standards Board (“GASB”). Accordingly, revenues are recognized when earned and expenses when incurred, regardless of when cash is received or paid. The Authority conducts its activities in a manner similar to private business enterprises; the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**Reporting Entity**

The financial statements of the Authority include, as a blended component unit, the financial position and operations of PREPA Holdings, LLC (“PREPA Holdings”), a fully owned subsidiary, created as a holding company of PREPA Networks, LLC (or HUB Advanced Networks, LLC, see next paragraph), InterAmerican Energy Sources, LLC, Consolidated Telecom of Puerto Rico, LLC, and International Network Operations, LLC. These entities are included as part of the reporting entity of PREPA Holdings, LLC. The basis for the blended presentation is that PREPA Holdings, LLC was created by the Authority’s Governing Board pursuant to Resolution No. 3661 adopted on October 16, 2009. PREPA Holdings, LLC is a single-member limited liability company, and the Authority is the sole member with shared Management representatives. PREPA Holdings, LLC has nine Managers, of which two are members of the Governing Board of the Authority, and two members of the Authority’s management (i.e., the Authority’s Executive Director, and the Authority’s Director of Finance.).

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Note 2 -  Summary of Significant Accounting Policies – (continued)

Reporting Entity – (continued)

Condensed financial information for PREPA Holdings, LLC as of and for the year ended June 30, 2018 is as follows (in thousands):

<table>
<thead>
<tr>
<th>Statement of net position:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets:</td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$9,255</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>791</td>
</tr>
<tr>
<td>Capital assets, net of depreciation</td>
<td>50,693</td>
</tr>
<tr>
<td>Total assets</td>
<td>$60,739</td>
</tr>
</tbody>
</table>

| Liabilities:              |       |
| Current liabilities      | $4,283|
| Non-current liabilities  | 32,313|
| Total liabilities        | 36,596|

Net position

| Net investment in capital assets | 36,534 |
| Unrestricted (deficit)           | (12,391) |
| Net position                     | $24,143 |
Note 2 -  Summary of Significant Accounting Policies – (continued)

Reporting Entity – (continued)

Statement of revenues, expenses and changes in net position:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>$10,987</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>$(12,175)</td>
</tr>
<tr>
<td>Operating loss</td>
<td>$(1,188)</td>
</tr>
<tr>
<td>Non-operating expenses</td>
<td>$(388)</td>
</tr>
<tr>
<td>Change in net position</td>
<td>$(1,576)</td>
</tr>
<tr>
<td>Net position, beginning balance</td>
<td>$25,719</td>
</tr>
<tr>
<td>Net position, ending balance</td>
<td>$24,143</td>
</tr>
</tbody>
</table>

Statement of cash flows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities</td>
<td>$2,589</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>$(245)</td>
</tr>
<tr>
<td>Net cash used in capital and related financing activities</td>
<td>$(2,581)</td>
</tr>
<tr>
<td>Net cash provided from investing activities</td>
<td>$549</td>
</tr>
<tr>
<td>Net increase in cash</td>
<td>312</td>
</tr>
<tr>
<td>Cash, at beginning of year</td>
<td>$3,741</td>
</tr>
<tr>
<td>Cash, at end of year</td>
<td>$4,053</td>
</tr>
</tbody>
</table>

Complete separately issued audited financial statements of PREPA Holdings, LLC can be obtained by contacting their administrative offices: Condominium Aquablue at the Golden Mile, Commercial Building Fourth Floor, 48 Muñoz Rivera Avenue, San Juan, Puerto Rico, 00918.

Estimates

The preparation of the basic financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
Cash and Cash Equivalents (including Restricted)

Cash and cash equivalents include cash on hand, deposits in the commercial bank accounts, money markets investments, certificates of deposits, and instruments with original maturities of three months or less.

Restricted cash and cash equivalents are amounts set aside for construction, debt service payments or other specific purposes which are limited for these purposes by the applicable agreements. (See Note 7)

Accounts receivables

Accounts receivables consist of cycle billings for electric service rendered to customers based on meter reads and the accrual of revenues for electric service rendered to customers not billed at month-end. The Authority accrues unbilled revenues based on an average of unbilled consumption by customer.

Accounts receivable are stated net of estimated allowances for uncollectible amounts, which are determined, after considering subsequent collections and current economic conditions, among other factors. The Authority establishes a general or specific allowance for each group of customers (i.e., residential, commercial, industrial, and governmental). Because of uncertainties inherent in the estimation process, management’s estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

The Authority has significant amounts receivable from the Commonwealth, its components units, and municipalities. There is uncertainty regarding to the collection of such receivables due to the financial challenges that these entities are facing. The Authority has considered this in its estimate of the specific governmental allowance for uncollectible accounts.

Fuel Inventory

Fuel inventory represents the value of low sulfur and other liquid fuel that the Authority had on hand at year end in order to meet the demand requirements of their generating stations. Fuel inventory is valued using the weighted average cost method. At the time of consumption, an expense is recorded at the weighted average cost.
Note 2 - Summary of Significant Accounting Policies – (continued)

Materials and Supplies Inventory

The materials and supplies inventory support the operations and maintenance of the generation, transmission, and distributions system. The inventory is accounted for on an average cost basis of accounting. As of June 30, 2018, a reserve of approximately $47 million for obsolete inventories is included as part of the materials, supplies and prepayments, net in the accompanying statement of net position (deficit).

Capital Assets

Capital Assets are carried at cost, which includes labor, material, services and overhead. Capital expenditures of approximately $1,200 or more and a useful life beyond one year are capitalized at cost at the date of acquisition. Maintenance, repairs, and the cost of renewals of minor items of property units are charged to operating expenses. Composite depreciation assumes that all assets are retired at the end of their useful lives, and therefore no gain or loss is recognized upon retirement. The cost of the retired assets is removed from both the capital asset account and the accumulated depreciation account.

Capital contributions consist principally of infrastructure assets that are constructed by private entities, for residential, commercial, or industrial projects, that are transferred upon completion of the projects, for the Authority to connect the facilities to the electric grid. Capital assets donated by related parties (i.e., the Commonwealth or other component units of the Commonwealth) are recorded at the carrying value existing at the transferor’s records. For the fiscal year ended June 30, 2018, the Authority received approximately $35 million in capital contributions from which approximately $33.8 million were received from the United States of America Corps of Engineers (USACE). See Note 16.

Impairment of Capital Assets

The Authority evaluates significant events or changes in circumstances that may affect its capital assets to determine whether impairment of a capital asset occurred. Such events may include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others, that results in the significant and unexpected decline of the asset’s service utility or capacity. Impaired capital assets that the Authority will no longer use, are reported at the lower of carrying value or fair value, less cost of disposition.
Note 2 -  Summary of Significant Accounting Policies – (continued)

Capital Assets – (continued)

Impairment of Capital Assets – (continued)

The Authority follows GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries”. This statement establishes that restoration or replacement of an impaired capital asset is reported as a separate transaction from the impairment loss and associated insurance recovery. Impairment losses are reported net of the associated insurance recovery when the recovery and loss occur in the same year; subsequent years’ recoveries are reported as nonoperating revenue. Insurance recoveries are recognized when realized or realizable as a reduction to the corresponding loss.

Depreciation and Amortization

The Authority uses the composite depreciation method for all capital assets. Depreciation expense for plant in service results from the application of rates determined by age life studies of assets in service. The rates are applied to groups of depreciable properties. Effective July 1, 2016, the Authority revised its depreciation rates to reflect the adjusted remaining net book value and useful lives of the plant assets resulting in an average composite depreciation rate of approximately 3.20% for June 30, 2018.

Separately, capital lease assets and leasehold improvements are being amortized over the lesser of the life of the assets or the term of the lease, using the straight-line method.

The following are the estimated useful lives by category as determined by the depreciation study:

<table>
<thead>
<tr>
<th>Category</th>
<th>Useful Life (in years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>20 to 80</td>
</tr>
<tr>
<td>Distribution</td>
<td>10 to 50</td>
</tr>
<tr>
<td>Transmission</td>
<td>20 to 55</td>
</tr>
<tr>
<td>General and administrative</td>
<td>10 to 40</td>
</tr>
<tr>
<td>Fiber network</td>
<td>5 to 23</td>
</tr>
<tr>
<td>Irrigation systems</td>
<td>14 to 100</td>
</tr>
</tbody>
</table>
Note 2 - Summary of Significant Accounting Policies – (continued)

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Authority has the following deferred outflows of resources:

- Difference between expected and actual experience, changes in assumptions and employer’s contribution subsequent to the measurement date for both, the pension plan and other post-employment benefits (“OPEB”).
- Unamortized deferred loss from debt refunding.
- Accumulated decrease in the fair value of hedging derivatives instruments.

Deferred inflows of resources represent inflows of resources into a government during a fiscal year related to future periods. Deferral occurs to the recognition of those inflows as revenues. The Authority has the following deferred inflows of resources:

- Difference between expected and actual experience and changes in assumptions for both, the pension plan and OPEB.
- Net difference between projected and actual earnings on pension plan investments.

Debt Issuance Premiums and Discounts

Debt issuance costs are recorded as expenses when they are incurred. Premium and discounts in the issuance of bonds are deferred and amortized using the straight-line method, which approximates the interest method, over the term of the related bonds. Bonds payable are reported net of applicable bond premium or discount.

Customer Deposits and Other

The Authority requires deposits from its customers before an electric service connection is activated. Deposits are recorded as a liability in the statement of net position, until termination of service. At the moment of termination or cancellation of the electric service, the deposit is applied to the account outstanding balance.
Note 2 - Summary of Significant Accounting Policies – (continued)

Any excess between outstanding balance and deposit is refunded to the customer. In addition, customer overpayments are recorded as a liability in the statement of net position if the overpayments cannot be netted against other customer receivables. As of June 30, 2018, the customer deposits and customer overpayments of approximately $202 million and $122 million are presented as liabilities in the statement of net position.

Compensated Absences

Employees earn vacation leave at the rate of 15 days per year up to a maximum permissible accumulation of 60 days for union employees and management personnel.

Vested accumulated vacation benefits to employees are accrued by the Authority as a liability and as an expense. The amount of accrued vacation that is expected to be paid in the next twelve months is classified as current, while amounts expected to be paid after twelve months are classified as noncurrent liabilities (Note 10).

Employees accumulate sick leave at the rate of 18 days per year up to a maximum permissible accumulation of 90 days. However, this benefit is not accrued in books as the law does not allow for liquidation of accrued sick leave upon separation from employment.

Unearned Revenue

Unearned revenue represents a liability that is created when monies are received for services not yet provided. Revenue will be recognized, and the unearned revenue liability eliminated, when the services are rendered. Cash contributions from clients for specific construction projects and prepaid amounts received related to fiber optic communication network not yet amortized are included as part of the Authority’s unearned revenues.

Pensions

The Authority accounts for pension costs under the provisions of GASB Statement No. 68, “Accounting and Financial Reporting for Pensions”, and GASB Statement No. 71, “Pension Transitions for Contributions Made Subsequent to the Measurement Date”.

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Note 2 - Summary of Significant Accounting Policies – (continued)

The Authority recognizes a net pension liability, which represents the excess of the total pension liability over the fiduciary net position of the pension plan, as reflected in the financial statements of the pension plan. The net pension liability is measured as of the beginning of the Authority’s fiscal year. Changes in the net pension liability are recorded during the measurement period as pension expense or as deferred inflows of resources or deferred outflows of resources, depending on the nature of the change.

Other Post-Employment Benefits (OPEB)

Retired employees of the Authority are eligible for post-employment benefits, as defined by the Authority (the “OPEB Plan”). For the purposes of reporting under GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”, the OPEB Plan is a single-employer defined benefit healthcare plan where no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75; therefore, funding is made on a pay-as-you-go basis. Refer to Note 13.

Claims and Judgments

The estimated amount of the liability for claims and judgments is based on the Authority’s evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management’s estimate of the liability for claims and judgments may change in the future. However, most legal claims are currently on stay ordered by the Federal Bankruptcy Court. See Note 3 for additional information regarding Title III PROMESA filing.

Fair Value Measurements

GASB Statement No. 72, “Fair Value Measurement and Application”, establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market based measurement, not an entity specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available.
Note 2 -  **Summary of Significant Accounting Policies – (continued)**

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as described below:

Level 1 – measurements that use quoted prices (unadjusted) for identical assets or liabilities in active markets that the Authority has the ability to access at the measurement date.

Level 2 – measurements other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – measurements that use unobservable inputs for an asset or liability. In some valuations, the inputs used may fall into different levels of hierarchy. In these cases, the financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

See Note 12 for further discussion of the Authority’s fair value of its interest swap agreements. The Authority measures at fair value its interest swap agreements. Donated capital assets are recorded at acquisition value at time of donation.

**Net Position**

The Authority classifies its net position as follows:

Net investment in capital assets – This component of net position consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings attributable to the acquisition, construction, or improvement of those assets, including related deferred outflows.

Restricted net position – Consists primarily of cash restricted for construction purposes, net of its related debt or commitments to pay.

Unrestricted net position – Consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position, as defined above.

When both restricted and unrestricted resources are available for a specific use, it is the Authority’s policy to use restricted resources first, then unrestricted resources, as they are needed. However, after the Authority filed Title III under PROMESA, the Authority had stopped withdrawing funds from its restricted resources.
Note 2 - Summary of Significant Accounting Policies – (continued)

Classification of Operating and Nonoperating Revenues and Expenses

Operating revenues include activities that have the characteristics of an exchange transaction, such as electric services. Operating expenses include activities that have the characteristics of an exchange transaction, such as employee salaries, benefits, and related expense, utilities, supplies, and other services.

Other revenues include charges for customer related to administrative fines or penalties for irregularities in electric energy consumption and late payment penalties.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as federal grants. For the fiscal year ended June 30, 2018, the Authority received federal grants from the Federal Emergency Management Agency (FEMA) in aid for natural disasters Hurricanes Irma and Maria. In response to this event, the Authority applied the provisions of GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", which allows revenues to be recognized when eligibility requirements are met and the resources are available, whichever occurs first.

Nonoperating expenses include interest on bonds and other related expenses that are defined as nonoperating expenses.

Revenue from Electric Services

Revenues from electric services are recorded based on services rendered during each accounting period, including an estimate for unbilled services, net of discounts and allowances. The billing rates for electric services include a fuel and purchased power cost recovery component (“Fuel Adjustment Clause”), which is designed to permit full recovery of the fuel and purchased power costs as ordered by the PREB. Fuel costs and purchased power costs are reflected in operating expenses as the fuel and purchased power are consumed.

Contributions in Lieu of Taxes

The contribution in lieu of taxes (“CILT”) is an amount that represents the electric power service provided by the Authority to the municipalities of Puerto Rico, in exchange of complete exemption from municipal taxes pursuant to the provisions of section 22 of Act 83, approved May 2, 1941, as amended.
Note 2 -  Summary of Significant Accounting Policies – (continued)

Risk Management

The Authority is subject to certain business risks common to the utility industry. The majority of these risks are mitigated by external insurance coverage obtained by the Authority. For other business risks, however, the Authority has elected to be self-insured. See Note 17.

Interest Rate Swap Agreements

The Authority accounts for its interest-rate swap agreements in accordance with GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”. The interest rate swaps are used to take advantage of favorable market interest rates and to limit interest rate risk associated with variable rate debt exposure.

The net amount received or paid under the swap agreements is recorded as an adjustment to interest expense. The interest rate swaps are reported at fair value in the statement of net position (deficit). The changes in fair value for effective hedges are recorded as deferred inflows of outflows of resources in the statement of net position. The changes in fair value for ineffective hedges are reported in investment income.

Accounting Pronouncements Issued But Not Yet Effective

The following new accounting standards have been issued but are not yet effective:

- GASB Statement No. 83, Certain Asset Retirement Obligations. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. The requirements of this statement are effective for reporting periods beginning after June 15, 2018, although postponed due to COVID-19 pandemic. Refer to GASB Statement No. 95 below.

When the Authority adopts the requirements within this GASB statement with an accrual for future asset removal costs; it is expected that some of the impact of the elimination of $1.5B previously included in the accumulated depreciation accounts will be reestablished. See Note 4.
Note 2 -  Summary of Significant Accounting Policies – (continued)

Accounting Pronouncements Issued But Not Yet Effective – (continued)

- GASB Statement No. 84, Fiduciary Activities. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this statement are effective for reporting periods beginning after December 15, 2018, although postponed due to COVID-19 pandemic. Refer to GASB Statement No. 95 below.

- GASB Statement No. 87, Leases. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, although postponed due to COVID-19 pandemic. Refer to GASB Statement No. 95 below.

- GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018, although postponed due to COVID-19 pandemic. Refer to GASB Statement No. 95 below.

- GASB Statement No. 90, Majority Equity Interest. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2018, although postponed due to COVID-19 pandemic. Refer to GASB Statement No. 95 below.
Note 2 - Summary of Significant Accounting Policies – (continued)

Accounting Pronouncements Issued But Not Yet Effective – (continued)

- GASB Statement No. 91, Conduit Debt Obligations. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers’ conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, although postponed due to COVID-19 pandemic. Refer to GASB Statement No. 95 below.

- GASB Statement No. 92, Omnibus 2020. This Statement addresses a variety of topics and includes specific provisions about the following, the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019 3, Leases, for interim financial reports; Reporting of intra entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits; The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in; a government acquisition; Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The portion of this Statement that relate to the effective date of Statement 87 and its associated implementation guidance are effective upon issuance. Provisions related to intra entity transfers of assets and applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020. The remaining requirements related to asset retirement obligations are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020 although postponed due to COVID-19 pandemic. Refer to GASB Statement No. 95 below. Earlier application is encouraged and is permitted by topic.
Accounting Pronouncements Issued But Not Yet Effective – (continued)

• GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of the London Interbank Offered Rate (LIBOR). LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021, although postponed due to COVID-19 pandemic. Refer to GASB Statement No. 95 below. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

• GASB Statement No. 94, *Public-Private and Public-Private Partnerships and Availability Payments Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-private partnership arrangements (PPPs) and providing guidance for accounting and financial reporting for availability payment arrangements (APAs). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

• GASB Statement No. 95, *Postponements of Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID 19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year after the original implementation date:

• GASB Statement No. 83, *Certain Asset Retirement Obligations*
• GASB Statement No. 84, *Fiduciary Activities*
• GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
Note 2 - Summary of Significant Accounting Policies – (continued)

Accounting Pronouncements Issued But Not Yet Effective – (continued)

• GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
• GASB Statement No. 90, Majority Equity Interests
• GASB Statement No. 91, Conduit Debt Obligations
• GASB Statement No. 92, Omnibus 2020
• GASB Statement No. 93, Replacement of Interbank Offered Rates
• GASB Implementation Guide No. 2018 1, Implementation Guidance Update—2018
• GASB Implementation Guide No. 2019 1, Implementation Guidance Update—2019
• GASB Implementation Guide No. 2019 2, Fiduciary Activities.

The effective dates of the following pronouncements are postponed by 18 months after the original implementation date:

• GASB Statement No. 87, Leases

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

• GASB Statement No. 96, Subscription Based Information Technology Arrangements. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right to use a subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Management has not yet determined the impact these statements may have on the Authority’s basic financial statements.
Note 3 - Going Concern Uncertainty

Going Concern Consideration

Management believes that there is substantial doubt about the Authority’s ability to continue as a going concern because of the following:

- The Authority has been operating under a structural financial deficit since 2004 and does not currently have sufficient funds available to fully repay its various obligations as they come due. The Authority has defaulted on various debt obligations.

- As of June 30, 2018, the Authority has an accumulated deficit of approximately $7.0 billion.

- On July 2, 2017, at the request of the Governor, the Oversight Board filed a petition for relief for the Authority under Title III of PROMESA. All the Title III cases of Puerto Rico and its instrumentalities have been consolidated for procedural purposes only and are being jointly administered in the United States District Court for the District of Puerto Rico. Among other things, Title III of PROMESA incorporates the automatic stay provisions of the US Bankruptcy Code, made applicable to the Title III cases pursuant to PROMESA section 301(a).

- On July 6, 2017, Moody’s downgraded its rating for the Authority’s bonds to Ca from Caa3. This latest downgrade reflects the Authority having commenced a proceeding under Title III of PROMESA. On February 9, 2018, S&P withdrew its rating for the Authority’s bonds and is now rated (NR).

- Even after filing for Title III protection, the Authority’s operational and fiscal condition has been further affected by a series of catastrophic events. In September 2017, Hurricanes Irma and Maria caused substantial damages to the Authority’s T&D infrastructure across the entire island. In January 2020, a magnitude 6.4 earthquake located near Puerto Rico’s southwestern coast caused significant damage to the Authority’s Costa Sur power plant and left most of Puerto Rico without electric service for hours. The effects of the earthquake were quickly followed by the emergence of the COVID-19 pandemic which has had a negative effect on the Authority’s collections and revenues, further weakening its liquidity position.
Note 3 - Going Concern Uncertainty – (continued)

Remediation plan

Operational Plan

The Authority’s current focus, as evaluated by its Governing board is on (1) supporting efforts to maximize federal funding allocations in order to invest in the repair and strengthening of energy assets; (2) implementing short-term operational and managerial reforms that will enhance service quality, operational efficiency, and others; (3) supporting the transfer of T&D and generation operating and maintenance responsibilities to professional private operators; and (4) supporting efforts to restructure its legacy debt and pension obligations.

The Authority’s Fiscal Plan

On March 13, 2017, the Authority presented its 10-year fiscal plan to the Oversight Board. The Authority commits to fiscal responsibility and implements infrastructure modernization, public private partnerships, targeted expenditure reductions/efficiencies (operational and other) and specific revenue enhancements.

On April 28, 2017, the Oversight Board approved the 10-year fiscal plan for the Authority, subject to certain amendments. The Oversight Board has certified subsequent Fiscal Plans for the Authority on April 19, 2018, August 1, 2018, June 27, 2019, June 29, 2020, and most recently on May 27, 2021 (the “Certified 2021 Fiscal Plan”). On April 23, 2021, the Oversight Board also certified the 2021 Commonwealth Fiscal Plan (the “Commonwealth Fiscal Plan”).

The Authority’s Certified 2021 Fiscal Plan, the Commonwealth Fiscal Plan, and the energy public policy and legal framework established by the Government of Puerto Rico lay out the transformation roadmap. If successfully implemented, a reformed energy system will lead to a modernized and reliable energy service across the Island. The outcomes, as established in the Authority’s 2021 Fiscal Plan, will benefit the customers and businesses of Puerto Rico through more affordable, reliable, clean, and safe electricity service.

However, there is no certainty that the Certified 2021 Fiscal Plan or Commonwealth Fiscal Plan will be fully implemented, or, if implemented, will ultimately provide the intended results. All these plans and measures, and the Authority’s ability to reduce its deficit depends on a number of factors and risks, some of which are not wholly within the Authority’s control.
Note 4 - Corrections of Errors and Adoption of New Accounting Pronouncement

The impact of correction of errors and adoption of new accounting pronouncements to net position (deficit) were as follows (in thousands):

<table>
<thead>
<tr>
<th>Net Position (Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>As previously reported</td>
</tr>
<tr>
<td>$ (6,173,574)</td>
</tr>
<tr>
<td>Correction of capital assets accounts and accumulated depreciation</td>
</tr>
<tr>
<td>1,146,815</td>
</tr>
<tr>
<td>Correction of accounts receivables and allowance for uncollectible accounts</td>
</tr>
<tr>
<td>(51,061)</td>
</tr>
<tr>
<td>Correction of compensated absences</td>
</tr>
<tr>
<td>100,274</td>
</tr>
<tr>
<td>Correction of customers’ deposits</td>
</tr>
<tr>
<td>46,555</td>
</tr>
<tr>
<td>Correction of claims and judgments</td>
</tr>
<tr>
<td>(182,281)</td>
</tr>
<tr>
<td>Implementation of GASBS 75</td>
</tr>
<tr>
<td>(261,090)</td>
</tr>
</tbody>
</table>

Beginning balances, as restated $ (5,374,362)

During the year ended June 30, 2018, the Authority identified several misstatements related to prior year financial statements and also adopted the provisions of GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. These actions resulted in restatements of the beginning net position of the Authority’s financial statements.

a) Correction of errors

- Capital Assets, net

A number of misstatements were found in the beginning balances of capital assets, that occurred during prior years, which consisted of the following:

- Overstatement of capital assets that were deemed impaired for approximately $16.6 million.
- Understatement of accumulated depreciation of approximately $34.8 million due to assets held as construction in progress that should have been reclassified as depreciable assets.
Note 4 - Corrections of Errors and Adoption of New Accounting Pronouncement – (continued)

- Overstatement of accumulated depreciation for approximately $1.2 billion. Correcting entries were necessary to reverse accumulated costs of future asset removal (negative salvage value) as it was determined that the Authority does not meet the criteria established in paragraph 476 of the GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” to apply the accounting guidance related to regulated operations. Regulatory accounting allows the recognition of asset removal cost as an element of depreciation expense, embedded in utilities accumulated depreciation accounts. The determination to reverse regulatory accounting required the elimination of asset removal costs accrued in the Authority’s accumulated depreciation accounts. When the Authority implements GASB Statement No. 83, “Certain Asset Retirement Obligations”, it will require the recognition of contractual and legally enforceable liabilities associated with the retirement of capital assets. See Note 2.

The net effect of these corrections represents a decrease of approximately $1.1 billion in prior year’s net deficit.

- Accounts receivable, net

Certain misstatements were found in the accounts receivables, as follows:

- Transactions identified after the closing of the period but related to services rendered during the prior year were inadvertently omitted resulting in an overstatement of accounts receivable. The effect of this correction represents an increase of approximately $108.2 million in the prior year net deficit.
- A correction of an overstatement of accounts receivable of approximately $13.1 million. As stated above, it was determined that the Authority does not meet the criteria established in paragraph 476 of the GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” to apply the accounting guidance related to regulated operations. This additional correction represents an increase of approximately $13.1 million in the prior year’s net deficit.
- An overstatement in the determination of the allowance for uncollectible accounts from prior years was found in the beginning balance. The overstatement of accounts receivable explained above and the correction of the report utilized to determine the allowance for uncollectible accounts resulted in a decrease of approximately $70.2 million in the prior year’s net deficit.
Note 4 - Corrections of Errors and Adoption of New Accounting Pronouncement – (continued)

The net effect of these corrections represents an increase of $51.1 million in prior year’s net deficit.

- **Compensated absences**

 Corrections to the balances of compensated absences were necessary to eliminate the balance of sick leave accruals as of the beginning of the year. On April 29, 2017, the Governor signed into law Act No. 26 of 2017, known as the Law of Compliance with the Fiscal Plan (“Act 26 2017”). Act 26 2017, establishes that employee sick leave balances would not be liquidated upon separation from employment. GASB Statement No. 16, “Accounting for Compensated Absences” establishes that liabilities should be accrued as benefits are earned and to the extent it is probable that the employees will be compensated through cash payments or “termination payments”. The impact of Act 26 2017 was not appropriately reflected in the Authority’s 2017 financial statements. The effect of this correction resulted in a decrease of approximately $100 million in net deficit.

- **Customer’s deposits**

 Corrections to the balances of customers’ deposits were necessary to reverse certain balances of regulated operations accounting as it was determined that the Authority does not meet the criteria established in paragraph 476 of the GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” to apply the accounting guidance related to regulated operations. The effect of this and other minor corrections resulted in a decrease of approximately $46.5 million in net deficit.

- **Claims and judgments**

 The beginning balance of legal claims and judgments reserve was corrected to include claims from prior years that were omitted and to update contingency estimates. The effect of this correction resulted in an increase of approximately $182.3 million in net deficit.

b) **Adoption of new accounting pronouncement GASBS No. 75**

This statement replaced the requirements of GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions”, as amended, and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses related to OPEB in the basic financial statements, in addition to requiring more extensive note disclosures and required supplementary information.
Note 5 -  Deposits

As of June 30, 2018, the carrying amount and bank balance of cash deposits held by the Authority in commercial banks is as follows (in thousands):

<table>
<thead>
<tr>
<th>Deposits</th>
<th>Carrying Amount</th>
<th>Bank Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted cash</td>
<td>$ 344,880</td>
<td>$ 346,086</td>
</tr>
<tr>
<td>Restricted cash and time deposits</td>
<td>$ 96,581</td>
<td>$ 96,581</td>
</tr>
</tbody>
</table>

Custodial Credit Risk – Deposits in Commercial Banks

Custodial credit risk is the risk that in the event of a bank failure, the bank’s deposits may not be returned. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized. The Authority’s policy is to deposit funds with institutions that provides insurance or securities as collateral. Such collateral is held by the Department of the Treasury of the Commonwealth.
Note 6 - Accounts Receivable from Services and Accounts Receivable from Insurance Companies and FEMA

Accounts receivables consist of (in thousands):

| Current: Electric and related services: | | |
| Commonwealth agencies and component units | $ 126,923 |
| Residential, industrial, and commercial | 924,376 |
| Unbilled services | 150,403 |
| Municipalities | |
| Accounts receivable | 382,076 |
| Accounts payable offset (See Note 9) | (373,235) |
| Telecommunications and others | 16,619 |
| | 1,227,162 |
| Allowance for uncollectible accounts | (662,072) |
| Total current accounts receivables, net | $ 565,090 |

| Noncurrent: Electric and related services: | | |
| Governmental agencies and municipalities | $ 97,249 |
| Other receivables related to government | 155 |
| | 97,404 |
| Allowance for uncollectible accounts | (97,249) |
| | 155 |
| Other non-current receivable not related to government | | 636 |
| Total non-current accounts receivable, net | $ 791 |

Total accounts receivables from insurance companies and FEMA | $ 422,492 |
Note 6 - Accounts Receivable from Services and Accounts Receivable from Insurance Companies and FEMA – (continued)

As of June 30, 2018, receivables from the municipalities subject to CILT amounted to approximately $373.2 million which the Authority has the right to offset with contribution in lieu of taxes payable to such municipalities. See Note 9.

Accounts receivable from insurance companies of approximately $3.3 million were recorded per amounts deemed realizable as of June 30, 2018. Accounts receivable from U.S. Federal Government Grants of $419.2 million, were recorded per amounts collected after June 30, 2018.

The portion of accounts receivable and other governmental receivables not expected to be collected during the next fiscal year are reflected as other noncurrent receivable. The Authority has recorded an allowance for uncollectible accounts of approximately $97 million for the year ended June 30, 2018, in consideration of the financial difficulties of the Commonwealth, its component units and municipalities.

Note 7 - Restricted Cash and Cash Equivalents

As of June 30, 2018, the Authority had the following restricted cash and cash equivalent held by Trustee consisting primarily of commercial bank deposits, money markets and time deposits:

<table>
<thead>
<tr>
<th>Restricted Cash and Cash Equivalents</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction fund</td>
<td>$57,845</td>
</tr>
<tr>
<td>Reserve maintenance fund</td>
<td>16,364</td>
</tr>
<tr>
<td>Reserve account in the sinking fund</td>
<td>17,199</td>
</tr>
<tr>
<td>PREPA client fund</td>
<td>3,232</td>
</tr>
<tr>
<td>Other restricted funds</td>
<td>1,941</td>
</tr>
<tr>
<td>Total</td>
<td>$96,581</td>
</tr>
</tbody>
</table>
Note 7 - Restricted Cash and Cash Equivalents – (continued)

All moneys deposited with the Trustee or any other depository under and as defined in the 1974 Agreement in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured with a bank or trust company approved by the Authority and by the Trustee as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations (as defined in the 1974 Agreement) or other marketable securities.

Construction Fund – The proceeds of any Power Revenue Bonds issued or insurance proceeds received, as stipulated by the 1974 Agreement, for the purpose of paying the cost of acquiring or constructing improvements, together with the money received from any other source for such purpose, except proceeds which are (i) applied to the repayment of advances, (ii) deposited in the 1974 Reserve Account, (iii) deposited in the Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1974 Construction Fund and held by the Authority subject to a security interest in favor of the Trustee.

For fiscal year ended June 30, 2018, the balances held in this fund represent primarily insurance proceeds restricted for capital asset investment. Those insurance proceeds were recorded under the Construction Fund due to the determination of a Resolution by the US District Court which imposed restriction on the use of those funds to repair, replace or reconstruct damaged or destroyed property in compliance with the Trust Agreement.

Reserve Maintenance Fund – Fund to pay the cost of unusual or extraordinary maintenance or repairs, not recurring, and renewals and replacements, including major items of equipment. The Reserve Maintenance Fund also serves as an additional reserve for the payment of principal and interest on the Power Revenue Bonds and meeting the amortization requirements to the extent that moneys in the 1974 Sinking Fund, including money in the 1974 Reserve Account, are insufficient for such purpose.

Reserve Account in the Sinking Fund – Current year amounts for principal and interest on Power Revenue Bonds.

PREPA Client Fund – Funds received from PREPA Holdings to help stabilize the price of electric power provided to the Authority’s clients.

Other Restricted Funds – Funds deposited under the Land Acquisition Project, a consent decree between the Authority and the U.S. Department of Justice, dated March 19, 1999, where the Authority agreed to deposit approximately $3.4 million into an interest-bearing escrow account to implement an environmental restoration and protection project. The primary purpose of the project is the acquisition and preservation of land in or adjacent to the Cucharillas marsh in Cataño.
Note 8 -  Capital Assets

The Authority had the following activities in capital assets (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Balance</th>
<th>Additions</th>
<th>Retirements and Disposals</th>
<th>Transfers and adjustments</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2017</td>
<td></td>
<td></td>
<td></td>
<td>June 30, 2018</td>
</tr>
<tr>
<td>Non-depreciable capital assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and land improvements</td>
<td>$152,249</td>
<td>$ -</td>
<td>$ -</td>
<td>$ (1,974)</td>
<td>$150,275</td>
</tr>
<tr>
<td>Construction work in process</td>
<td>$46,741</td>
<td>$134,894</td>
<td>$ -</td>
<td>$(52,718)</td>
<td>$128,917</td>
</tr>
<tr>
<td>Total non-depreciable capital assets</td>
<td>$198,990</td>
<td>$134,894</td>
<td>$ -</td>
<td>$(54,692)</td>
<td>$279,192</td>
</tr>
<tr>
<td>Depreciable capital assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>4,811,223</td>
<td>14,031</td>
<td>-</td>
<td>7,734</td>
<td>4,832,988</td>
</tr>
<tr>
<td>Distribution</td>
<td>4,469,804</td>
<td>914,944</td>
<td>$(880,659)</td>
<td>42,985</td>
<td>4,547,074</td>
</tr>
<tr>
<td>Transmission</td>
<td>2,556,604</td>
<td>589,896</td>
<td>$(957,077)</td>
<td>99</td>
<td>2,189,522</td>
</tr>
<tr>
<td>General and administrative</td>
<td>1,494,463</td>
<td>52,642</td>
<td>-</td>
<td>8,121</td>
<td>1,555,226</td>
</tr>
<tr>
<td>Fiber network</td>
<td>71,800</td>
<td>730</td>
<td>$(2,506)</td>
<td>-</td>
<td>70,024</td>
</tr>
<tr>
<td>Irrigation systems</td>
<td>33,874</td>
<td>2,329</td>
<td>-</td>
<td>-</td>
<td>36,203</td>
</tr>
<tr>
<td>Total depreciable capital assets</td>
<td>13,437,768</td>
<td>1,574,572</td>
<td>$(1,840,242)</td>
<td>58,939</td>
<td>13,231,037</td>
</tr>
<tr>
<td>Accumulated depreciation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>$(2,367,681)</td>
<td>$(113,888)</td>
<td>328</td>
<td>$(186)</td>
<td>$(2,481,427)</td>
</tr>
<tr>
<td>Distribution</td>
<td>$(2,015,163)</td>
<td>$(127,594)</td>
<td>369,963</td>
<td>304</td>
<td>$(1,772,490)</td>
</tr>
<tr>
<td>Transmission</td>
<td>$(903,165)</td>
<td>$(42,484)</td>
<td>325,376</td>
<td>$(95)</td>
<td>$(620,368)</td>
</tr>
<tr>
<td>General and administrative</td>
<td>$(859,990)</td>
<td>$(55,530)</td>
<td>$(1,608)</td>
<td>215</td>
<td>$(916,913)</td>
</tr>
<tr>
<td>Irrigation systems</td>
<td>$(22,333)</td>
<td>$(510)</td>
<td>-</td>
<td>$(22,843)</td>
<td></td>
</tr>
<tr>
<td>Fiber network</td>
<td>$(24,630)</td>
<td>$(2,708)</td>
<td>917</td>
<td>-</td>
<td>$(26,421)</td>
</tr>
<tr>
<td>Total accumulated depreciation</td>
<td>$(6,192,962)</td>
<td>$(342,714)</td>
<td>694,976</td>
<td>238</td>
<td>$(5,840,462)</td>
</tr>
<tr>
<td>Total depreciable capital assets, net</td>
<td>7,244,806</td>
<td>1,231,858</td>
<td>$(1,145,266)</td>
<td>59,177</td>
<td>7,390,575</td>
</tr>
<tr>
<td>Total capital assets</td>
<td>$ 7,443,796</td>
<td>$1,366,752</td>
<td>$(1,145,266)</td>
<td>$ 4,485</td>
<td>$ 7,669,767</td>
</tr>
</tbody>
</table>

Construction work in progress on June 30, 2018, consists principally of expansions and upgrades to the electric generation, transmission, and distribution systems.
Note 8 -  Capital Assets – (continued)

Depreciation and amortization expense during fiscal year ended 2018 was approximately $343 million.

As of June 30, 2018, due to the damages caused by the Hurricanes Irma and María, the Authority recorded an impairment loss of approximately $1.1 billion, net of the associated insurance recoveries. This impairment loss was recorded in the statement of revenues, expenses and changes in net position (deficit) under operating expenses. See Note 16.

Note 9 -  Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2018 were as follows (in thousands):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable, accrued expenses, and withholdings</td>
<td>$ 1,274,313</td>
</tr>
<tr>
<td>Contribution in lieu of taxes</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>373,235</td>
</tr>
<tr>
<td>Accounts receivable offset (See Note 6)</td>
<td>(373,235)</td>
</tr>
<tr>
<td>Accrued pension plan contribution and withholding form employees</td>
<td>161,123</td>
</tr>
<tr>
<td>Other post employment benefit obligations</td>
<td>17,785</td>
</tr>
<tr>
<td>Accrued compensation and other</td>
<td>5,379</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 1,458,600</td>
</tr>
</tbody>
</table>

This space is intentionally left in blank
Note 10 - Long-Term Liabilities

Long term debt activity for the year ended June 30, 2018, was as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Balance at June 30, 2017 (as restated)</th>
<th>Increases</th>
<th>Decreases</th>
<th>Balance at June 30, 2018</th>
<th>Due within one year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds payable</td>
<td>$ 8,356,314</td>
<td>$ 132,560</td>
<td>(141,710)</td>
<td>$ 8,347,164</td>
<td>$ 957,976</td>
</tr>
<tr>
<td>Notes payable</td>
<td>753,312</td>
<td>450,480</td>
<td>(149,967)</td>
<td>1,053,825</td>
<td>732,498</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>43,324</td>
<td>13,440</td>
<td>(22,541)</td>
<td>34,223</td>
<td>18,485</td>
</tr>
<tr>
<td>Claims and judgments</td>
<td>305,690</td>
<td>27,642</td>
<td>-</td>
<td>333,332</td>
<td>-</td>
</tr>
<tr>
<td>Net pension liability</td>
<td>4,666,535</td>
<td>264,463</td>
<td>(585,437)</td>
<td>4,345,561</td>
<td>-</td>
</tr>
<tr>
<td>Other postemployment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>benefits liability</td>
<td>402,855</td>
<td>13,909</td>
<td>(42,174)</td>
<td>374,590</td>
<td>17,785</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>$ 14,528,030</td>
<td>$ 902,494</td>
<td>(941,829)</td>
<td>$ 14,488,695</td>
<td>$ 1,726,744</td>
</tr>
</tbody>
</table>

Due to the Authority’s Title III filing under PROMESA, amounts due during fiscal year 2018 and as of the issuance of these financial statements on bonds payable and some notes payables were not paid. As such, the current portion of the long-term liabilities will continue increasing until new terms for the Authority’s long-term debts are negotiated.
Note 11 - Notes Payable

The following is a summary of notes payable as of June 30, 2018 (in thousands):

<table>
<thead>
<tr>
<th>Maturity Date</th>
<th>Effective Interest Rate</th>
<th>Current portion</th>
<th>Long-Term Debt</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable, unrestricted:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revolving line of credit of $150 million to finance working capital</td>
<td>January 2015</td>
<td>7.25% (V)</td>
<td>$146,042</td>
<td>-</td>
</tr>
<tr>
<td>Revolving line of credit of $550 million to finance working capital</td>
<td>August 2014</td>
<td>7.25% (V)</td>
<td>549,950</td>
<td>-</td>
</tr>
<tr>
<td>Line of credit of $25 million with GDB to finance improvements to Isabela Irrigation System</td>
<td>June 2018</td>
<td>7.00% (F)</td>
<td>713</td>
<td>-</td>
</tr>
<tr>
<td>Revolving line of credit of $27 million to finance improvements in Aguirre and San Juan</td>
<td>20 years of construction completion date</td>
<td>2.00% (V)</td>
<td>-</td>
<td>7,168</td>
</tr>
<tr>
<td>Revolving line of credit with GDB of $150 million to fund swap’s collateral posting</td>
<td>December 2014</td>
<td>6.00% (V)</td>
<td>35,133</td>
<td>-</td>
</tr>
<tr>
<td>Revolving Credit Loan Agreement with the Commonwealth consisting of a super-priority post-petition credit facility</td>
<td>February 2048</td>
<td>5.00% (F)</td>
<td>-</td>
<td>300,000</td>
</tr>
<tr>
<td>Note Payable of $16 million (PREPA Holdings) to finance the general working capital and capital expenditures</td>
<td>February 2023</td>
<td>5.80% (V)</td>
<td>660</td>
<td>14,159</td>
</tr>
<tr>
<td>Total notes payable</td>
<td></td>
<td>$732,498</td>
<td>$321,327</td>
<td>$1,053,825</td>
</tr>
</tbody>
</table>

(V) - variable interest rate
(F) - fixed interest rate
The schedule of maturities of notes payable with interest thereon as of June 30, 2018, is as follows (in thousands):

<table>
<thead>
<tr>
<th>Fiscal Year Ending June 30,</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$732,498</td>
<td>$46,386</td>
<td>$778,884</td>
</tr>
<tr>
<td>2020</td>
<td>660</td>
<td>4,268</td>
<td>4,928</td>
</tr>
<tr>
<td>2021</td>
<td>660</td>
<td>4,232</td>
<td>4,892</td>
</tr>
<tr>
<td>2022</td>
<td>660</td>
<td>4,199</td>
<td>4,859</td>
</tr>
<tr>
<td>2023</td>
<td>12,179</td>
<td>3,869</td>
<td>16,048</td>
</tr>
<tr>
<td>2024-2028</td>
<td>-</td>
<td>17,817</td>
<td>17,817</td>
</tr>
<tr>
<td>2029-2033</td>
<td>-</td>
<td>17,817</td>
<td>17,817</td>
</tr>
<tr>
<td>2034-2038</td>
<td>-</td>
<td>17,817</td>
<td>17,817</td>
</tr>
<tr>
<td>2039-2043</td>
<td>7,168</td>
<td>17,817</td>
<td>24,985</td>
</tr>
<tr>
<td>2044-2048</td>
<td>300,000</td>
<td>17,001</td>
<td>317,001</td>
</tr>
</tbody>
</table>

Total notes payable          | 1,053,825 | $151,223 | $1,205,048 |
Less amount due within one year | (732,498) |           |           |
Notes payable, less amount due within one year | $321,327  |           |           |

The above schedule has been presented in accordance with original terms of the notes payable and do not reflect the effects, if any, that may result from the Title III proceedings. The notes payables can be subject to adjustment; accordingly, the effects of these subsequent events may affect the carrying amounts, interest rates and the repayment terms. See Note 3 for additional information on PROMESA Title III proceedings.

On July 11, 2012, GDB approved and authorized the Authority to enter into an agreement for a revolving line of credit with Citibank not to exceed approximately $250 million for the purpose of providing the Authority with funds to (a) purchase power, fuel oil or Construction of liquified natural gas (“LNG”) in connection with the Authority’s business operations, and to pay cost related to the Credit Facility. As of June 30, 2018, the outstanding balance is approximately $146 million.
Note 11 - Notes Payable – (continued)

On April of 2012, GDB approved and authorized the Authority to enter into an agreement for a revolving line of credit with a group of commercial banks, under the lead of Scotiabank, for the amount of approximately $500 million. The purpose of this line of credit was covering the Authority’s operational deficits for fiscal years 2012 and 2013, through the payment of certain existing lines of credit and to comply with the terms and conditions of the contracts held for the purchase of fuel oil. This agreement’s original maturity date was May 3, 2013. Later, GDB authorized various extensions to the maturity date up to August 15, 2014; as well as an increase in the credit line for an additional $50 million. As of June 30, 2018, the outstanding balance is approximately $550 million.

On March 26, 2004, the Authority and GDB entered into an agreement for a line of credit of approximately $25 million to finance improvements to the Isabela Irrigation System. The original maturity was June 30, 2009, but it was later extended through June 30, 2018, along with other changes in its terms and conditions. As of June 30, 2018, the outstanding balance is approximately $713 thousand.

During fiscal year 2018, the Authority received an additional $1.4 million from the revolving line of credit of approximately $27 million to finance improvements to the Aguirre Power Complex Water Supply and the San Juan Waste Water Treatment Plant, with a maturity date 20 years after the construction completion date, and an effective interest of 2%. This project consists of the design and construction of a system that includes a water storage tank, automatic pumps, piping, ultrafiltration unit, microfiltration unit, reverse osmosis filtration system and a demineralizer plant to be used for the fresh water supply required for the electrical generation. As of the date of this financial statements, these projects’ construction completion date is estimated to be December of 2022; the outstanding balance of the revolving line of credit as of June 30, 2018 is approximately $7.2 million and its estimated maturity date is December of 2042. The increase in the loan amount resulted from the reimbursement of costs incurred by the Authority during prior and current fiscal years.

On February 22, 2018, the Authority and the Commonwealth entered into a Revolving Credit Loan Agreement (the “Revolving Loan Facility”), in which the Commonwealth agreed to make a revolving loan to the Authority consisting of a superpriority post-petition credit facility in an aggregate principal amount not to exceed $300 million, available to the Authority until June 30, 2018, unless extended by necessary governmental action by the Commonwealth. The proceeds of the Revolving Loan Facility were to be used to make expenditures and disbursements for the Authority’s operations including, without limitation, employee payroll and benefits, facilities maintenance costs (that are not capital expenditures or infrastructure improvements), and normal operational materials, supplies, fuel and power supplies, vendor, and services payments and for reimbursement of amounts expended for Eligible Uses from September 6, 2017 until the funding of the Revolving Loan Facility.
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  

Notes to the Financial Statements – (continued)  

For the Year Ended June 30, 2018  

Note 11 - Notes Payable – (continued)  

The Revolving Loan Facility shall bear 5% interest, provided that, in the event the Commonwealth funds or refinances the Revolving Loan Facility with the proceeds of a Commonwealth Financing, the interest rate on such funded or refinanced Revolving Loan. The Facility shall automatically accrue interest at the rate equal to the interest rate on the Revolving Credit Loan not funded or refinanced with any Commonwealth Financing.

The Authority received approximately $300 million on February 23, 2018 as part of the above-mentioned Revolving Loan Facility. During fiscal year 2018, the Authority made loan repayments totaling approximately $149 million. In June 2018, the Authority requested from the Commonwealth approximately $149 million of the credit loan. As of June 30, 2018, the Revolving Loan Facility reflects approximately $300 million due and outstanding. The maturity date was defined as the earliest of (1) the 30th anniversary of the Effective Date or (2) the Termination Date. On March 8, 2019, the Revolving Loan Facility was paid off by the Authority.

On December 31, 2015, PREPA Net converted a former non-revolving senior secured construction credit facility to a term loan bearing interest at the higher of 5% per annum or 350 basis points over 3-month LIBOR (5.8117% as of June 30, 2018), and payable in eighty-three (83) monthly principal plus interest payments, and a final balloon payment for the entire outstanding principal plus accrued interest at the maturity date of February 1, 2023. As of June 30, 2018, the outstanding principal amount due is approximately $14.8 million. This note payable is collateralized by a first mortgage on the real property, assignment of all insurance policies, assignment of all material contracts with both related and third parties, pledge of all cash, equipment, receivables, and personal property of the PREPA Net.

Note 12 - Bonds Payable  

Power Revenue Bonds Payable  

The Authority has issued Power Revenue Bonds to finance the cost of improvements and enhancements of its capital assets. Net revenues, solely to the extent they are deposited in the Sinking Fund or certain other designated funds, are subject to a security interest in favor of the Trustee to repay Power Revenue Bonds principal and interest. The Trust Agreement dated as of January 1, 1974, provides for certain affirmative and negative covenants, among other requirements; however, on June 30, 2018, the Authority was not in compliance with some of these debt covenants. On July 2, 2017, the Oversight Board filed a petition seeking protection for the Authority under Title III of PROMESA in the United States District Court for the District of Puerto Rico, commencing a Title III case for the Authority. Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S Bankruptcy Code.
Note 12 - Bonds Payable – (continued)

Power Revenue Bonds Payable – (continued)

On June 30, 2018, power revenue bonds payable consisted of (in thousands):

<table>
<thead>
<tr>
<th>Bond Issues</th>
<th>Date of Issue</th>
<th>Effective Interest Rate</th>
<th>Fiscal Year of Last Scheduled Maturity</th>
<th>Principal Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue of 2002, Series JJ</td>
<td>January 3, 2002</td>
<td>5.4%</td>
<td>(F)</td>
<td>2018</td>
</tr>
<tr>
<td>Issue of 2002, Series LL</td>
<td>July 2, 2002</td>
<td>5.5%</td>
<td>(F)</td>
<td>2019</td>
</tr>
<tr>
<td>Issue of 2002, Series MM</td>
<td>October 3, 2002</td>
<td>5.0%</td>
<td>(F)</td>
<td>2023</td>
</tr>
<tr>
<td>Issue of 2003, Series NN</td>
<td>August 19, 2003</td>
<td>5.2%</td>
<td>(F)</td>
<td>2033</td>
</tr>
<tr>
<td>Issue of 2004, Series PP</td>
<td>August 26, 2004</td>
<td>5.0%</td>
<td>(F)</td>
<td>2025</td>
</tr>
<tr>
<td>Issue of 2005, Series QQ, RR and SS</td>
<td>April 4, 2005</td>
<td>From 5.0% to 5.5%</td>
<td>(F)</td>
<td>From 2018 to 2030</td>
</tr>
<tr>
<td>Issue of 2007, Series TT, UU and VV</td>
<td>May 3, 2007</td>
<td>From 3.9% to 5.3%</td>
<td>(F)(V)</td>
<td>From 2031 to 2037</td>
</tr>
<tr>
<td>Issue of 2008, Series WW</td>
<td>June 26, 2008</td>
<td>5.3%</td>
<td>(F)</td>
<td>2038</td>
</tr>
<tr>
<td>Issue of 2010, Series XX</td>
<td>April 7, 2010</td>
<td>5.3%</td>
<td>(F)</td>
<td>2040</td>
</tr>
<tr>
<td>Issue of 2010, Series YY</td>
<td>April 29, 2010</td>
<td>6.1%</td>
<td>(F)</td>
<td>2040</td>
</tr>
<tr>
<td>Issue of 2010, Series ZZ and AAA</td>
<td>May 5, 2010</td>
<td>From 5.1% to 5.3%</td>
<td>(F)</td>
<td>From 2028 to 2031</td>
</tr>
<tr>
<td>Issue of 2010, Series BBB and CCC</td>
<td>May 26, 2010</td>
<td>From 5.1% to 5.4%</td>
<td>(F)</td>
<td>2028</td>
</tr>
<tr>
<td>Issue of 2010, Series DDD</td>
<td>October 14, 2010</td>
<td>4.5%</td>
<td>(F)</td>
<td>2024</td>
</tr>
<tr>
<td>Issue of 2010, Series EEE</td>
<td>December 29, 2010</td>
<td>6.1%</td>
<td>(F)</td>
<td>2040</td>
</tr>
<tr>
<td>Issue of 2012, Series A</td>
<td>May 1, 2012</td>
<td>5.0%</td>
<td>(F)</td>
<td>2042</td>
</tr>
<tr>
<td>Issue of 2013, Series A</td>
<td>August 21, 2013</td>
<td>6.9%</td>
<td>(F)</td>
<td>2043</td>
</tr>
<tr>
<td>Issue of 2016, Series A</td>
<td>May 19, 2016</td>
<td>10.0%</td>
<td>(F)</td>
<td>2019</td>
</tr>
<tr>
<td>Issue of 2016, Series B</td>
<td>June 22, 2016</td>
<td>10.0%</td>
<td>(F)</td>
<td>2019</td>
</tr>
<tr>
<td>Issue of 2016, Series C, D and E</td>
<td>June 30, 2016</td>
<td>From 5.4% to 10.0%</td>
<td>(F)</td>
<td>From 2020 to 2022</td>
</tr>
</tbody>
</table>

Total principal amount face value

Unamortized premiums and discounts

Power revenue bonds, net

Amount due within one year

Long-term portion of bonds payable

(V) - variable interest rate

(F) - fixed interest rate

- 61 -
Note 12 - Bonds Payable – (continued)

Power Revenue Bonds Payable – (continued)

The schedule of maturities of bonds payable with interest thereon as of June 30, 2018, is as follows (in thousands):

<table>
<thead>
<tr>
<th>Fiscal Year Ending June 30,</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$957,976</td>
<td>$403,724</td>
<td>$1,361,700</td>
</tr>
<tr>
<td>2020</td>
<td>349,251</td>
<td>372,982</td>
<td>722,233</td>
</tr>
<tr>
<td>2021</td>
<td>360,066</td>
<td>354,154</td>
<td>714,220</td>
</tr>
<tr>
<td>2022</td>
<td>327,282</td>
<td>333,679</td>
<td>660,961</td>
</tr>
<tr>
<td>2023</td>
<td>318,965</td>
<td>316,600</td>
<td>635,565</td>
</tr>
<tr>
<td>2024-2028</td>
<td>1,846,480</td>
<td>1,336,219</td>
<td>3,182,699</td>
</tr>
<tr>
<td>2029-2033</td>
<td>1,595,060</td>
<td>909,110</td>
<td>2,504,170</td>
</tr>
<tr>
<td>2034-2038</td>
<td>1,335,465</td>
<td>519,467</td>
<td>1,854,932</td>
</tr>
<tr>
<td>2039-2043</td>
<td>1,168,069</td>
<td>168,095</td>
<td>1,336,164</td>
</tr>
<tr>
<td>Total</td>
<td>8,258,614</td>
<td>$4,714,030</td>
<td>$12,972,644</td>
</tr>
</tbody>
</table>

Plus or less: unamortized discount or premium 88,550
Interest -
Total bonds payable 8,347,164
Total current portion of bonds payable (957,976)
Bonds payable, excluding current portion $7,389,188

The above schedule has been presented in accordance with original terms of the bonds payable and do not reflect the effects, if any, that may result from the Title III proceedings. Accordingly, the effects of the Title III proceedings may affect the carrying amounts, interest rates and the repayment terms. See Note 3 for additional information on the Title III proceedings and status.

From the total of approximately $8.3 billion of bonds outstanding, there are approximately $2.2 billion that are insured by some monoline insurance companies. During fiscal year 2018, these insurance companies made payments of approximately $132.6 million in principal and approximately $97.9 million in interests as the amounts owed became due. As rights from the monoline insurers are those of the original bondholders after the monoline insurers make the insured payments, the Authority presents amounts owed to the insurance companies as Bonds Payable and Accrued Interest until such rights are dissolved by payment or dissolved by the Title
Note 12 - Bonds Payable – (continued)

Power Revenue Bonds Payable – (continued)

III process. As such, payments of principal and interest, made by the monoline insurance companies, are not recorded nor presented as debt service.

Securities and Exchange Commission Investigation

The United States Securities and Exchange Commission (“SEC”) requested the Authority’s information about bond issuances series 2012A, 2012B and 2013A dating back to fiscal years 2012 and 2013. The Authority has cooperated in the inquiry, including providing the SEC with documents and information. As of the date of the financial statements, it cannot be predicted when the SEC’s investigation will conclude or what the ultimate outcome will be.

U.S. Internal Revenue Service Examinations

The United States Internal Revenue Service (the “IRS”) issued several letters dated from February 7, 2019 to September 6, 2019 to the Authority, to inform that the IRS is conducting certain investigations. The investigations are related both (i) to certain Forms 8038CP Return for Credit Payments to Issuers of Qualified Bonds, as defined by the IRS, and Series YY and EEE bond issuances and (ii) to Form 8038B with respect to the Series EEE bond issuance, regarding its qualification as Build America Bonds. The investigations resulted in deficiencies that are accrued in the accompanying financial statements. As of June 30, 2018, the amounts of $8 million received from the IRS have been presented as part of accrued interest in the accompanying financial statements. See Note 19 for further events.

The Authority entered into pay fixed and receive variable interest rate swap agreements as a cash flow hedge of interest rate risk on certain of the Series UU Bonds. On June 30, 2018, the following is the information on the derivative instruments outstanding (in thousands):

<table>
<thead>
<tr>
<th>Item</th>
<th>Effective Date</th>
<th>Maturity Date</th>
<th>Terms</th>
<th>Counterparty Credit Rating</th>
<th>Notional Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>May 3, 2007</td>
<td>July 1, 2029</td>
<td>Pay 4.08%; receive 67% 3M LIBOR + 0.52%</td>
<td>A3/A-/A-/AAL AA</td>
<td>$ 169,532</td>
</tr>
<tr>
<td>B</td>
<td>May 3, 2007</td>
<td>July 1, 2029</td>
<td>Pay 4.08%; receive 67% 3M LIBOR + 0.52%</td>
<td>A-/A+/A</td>
<td>$ 83,343</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ 252,875</td>
</tr>
</tbody>
</table>
Note 12 - Bonds Payable – (continued)

Interest Rate Swap Agreements

Derivative instruments A and B hedge changes in cash flows of the underlying bonds – floating rate notes with coupons based on 5-year SIFMA or 67% of 3-month LIBOR index, and maturities equal to the maturities of the corresponding swaps. As such they are considered hedging derivative instruments. As of June 30, 2018, the negative fair values of the derivative instruments amount to approximately $31.5 million.

The following tables include summary information for the Authority’s effective hedges related to the outstanding interest rate swap agreements for fiscal year ended June 30, 2018 (in thousands):

<table>
<thead>
<tr>
<th>Associate Power Revenue Bonds</th>
<th>Change in Fair Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Classification</td>
<td>Amount</td>
</tr>
<tr>
<td>Libor Bonds, Series UU</td>
<td>Deferred</td>
<td>(10,971) $</td>
</tr>
<tr>
<td>Mini-BMS Bonds, Series UU</td>
<td>Deferred</td>
<td>(5,675) $</td>
</tr>
<tr>
<td></td>
<td>Outflows</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Outflows</td>
<td>(16,646) $</td>
</tr>
</tbody>
</table>

The notional amounts of the swaps match the principal amounts of the associated Power Revenue Bonds.

The valuation methodology used to determine the Fair Value of the interest rate Swap agreements as of June 30, 2018, consist of a present value equivalent using a risk-adjusted discount rate.

- Based the discount rate for each settlement amount on the LIBOR spot rate curve as of the Valuation Date, plus a credit spread, applicable when in a liability position. The credit spread was added to reflect credit risk.

- Estimated the credit spread using the following sources of information: (1) Credit default swaps and (2) LIBOR spreads for comparable bonds.

- Applied the estimated credit spread in the determination of an appropriate discount rate for the settlement amount.
Credit Risk

As of June 30, 2018, the swaps had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative’s fair value. As of the date of the issuance of the financial statements one of the swap counterparties, was rated A2 by Moody’s Investors Service (Moody’s), A- by Standard & Poor’s (S&P), AA- by Fitch Ratings and AAL by DBRS Morningstar. The other counterparty was rated A- by Standard & Poor’s (S&P), A+ by Fitch Ratings and AH by DBRS Morningstar.

Termination Risk

The swap agreement uses the International Swaps and Derivatives Association, Inc. Master Swap Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Authority or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contracts. Also, the swaps may be terminated by the Authority if the counterparties’ credit rating falls below Baa1 as determined by Moody’s or BBB+ as determined by S&P. If at the time of termination, the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap’s fair value.

The Authority used level 2 inputs to determine the fair value of the interest-rate swap instruments.

Basis Risk

During fiscal year 2018, the payments of fixed rate interest from the Authority would have exceeded the amount received as variable interest rate from swap counterparties by approximately $6.2 million. Due to the stay status of Title III, this amount has been accrued in the accompanying financial statements.

Rollover Risk

Using rates as of June 30, 2018, debt service amounts of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term. Currently, the maturity dates of the interest rate swaps and the associated debt are coterminous. As rates vary, variable rate bond interest payments and net swap payments will vary.
Note 12 - Bonds Payable – (continued)

Interest Rate Swap Agreements – (continued)

Rollover Risk (continued)

These debt service amounts are included in the following scheduled maturities of long-term (in thousands):

<table>
<thead>
<tr>
<th>Fiscal Year Ending June 30,</th>
<th>Principal</th>
<th>Interest</th>
<th>Interest-Rate Swap, net</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$</td>
<td>$ 5,272</td>
<td>$ 5,045</td>
<td>$10,317</td>
</tr>
<tr>
<td>2020</td>
<td>-</td>
<td>5,272</td>
<td>5,045</td>
<td>10,317</td>
</tr>
<tr>
<td>2021</td>
<td>-</td>
<td>5,272</td>
<td>5,045</td>
<td>10,317</td>
</tr>
<tr>
<td>2022</td>
<td>-</td>
<td>5,272</td>
<td>5,045</td>
<td>10,317</td>
</tr>
<tr>
<td>2023</td>
<td>-</td>
<td>5,272</td>
<td>5,045</td>
<td>10,317</td>
</tr>
<tr>
<td>2024-2028</td>
<td>-</td>
<td>26,362</td>
<td>25,225</td>
<td>51,587</td>
</tr>
<tr>
<td>2029</td>
<td>252,875</td>
<td>5,272</td>
<td>5,045</td>
<td>263,192</td>
</tr>
<tr>
<td>Total</td>
<td>$ 252,875</td>
<td>$ 57,994</td>
<td>$ 55,495</td>
<td>$ 366,364</td>
</tr>
</tbody>
</table>

The Authority and GDB maintained an agreement for approximately $150 million revolving line of credit (the “GDB revolving line of credit”) to meet collateral posting requirements from the 2008 basis and interest rate swaps. As of June 30, 2018, there was an outstanding balance of approximately $35.1 million in this line of credit, as disclosed in Note 11 above. As discussed in Note 19, as part of the GDB Title VI Qualifying Modification, all claims the Authority had against the GDB, including on account of the GDB revolving lines of credit, were settled as part of the Qualifying Modification and the Authority obtained a claim against the GDB Public Entity Trust (the “PET”) in respect of the Authority deposits at GDB. GDB, as trustee of the PET, transferred approximately $15.3 million to the Authority in partial payment of its PET claims (which included consideration of the amounts owed by the Authority as part of the GDB revolving line of credit). See Note 19.

In prior years, the Authority has refunded in advance certain Power Revenue Bonds and other obligations by placing the proceeds of new debt in an irrevocable trust to provide for future debt service payments on such bonds. Accordingly, the trust accounts, assets, and liabilities for the defeased bonds were not included in the Authority’s financial statements. On July 1, 2017 the Trust paid the balances of defeased bonds reported as of June 30, 2017. As of June 30, 2018, the Authority’s Trustee’s records indicate no defeased bonds.
Note 13 - Employees’ Retirement Benefits

Pension Plan

A. General Information about the Pension Plan

*Plan Description*

All of the Authority’s permanent full-time employees are currently eligible to participate in the Authority’s Pension Plan, a single employer defined benefit pension plan (the “Pension Plan”) administered by the Employees’ Retirement System of the Puerto Rico Electric Power Authority (the “Authority ERS”). The Authority ERS issues a publicly available financial report that includes financial statements and required supplementary information for the Pension Plan. That report can be found in the following link: [https://retiro.aeepr.com/informes_financieros.html](https://retiro.aeepr.com/informes_financieros.html).

If a member’s employment is terminated before he becomes eligible for any other benefits under this Pension Plan, he may receive a refund of his member contribution plus interest compounded annually. The Pension Plan is not subject to the requirements of the Employees Retirement Income Security Act of 1974 (“ERISA”).

*Benefits Provided*

Benefit provisions under the Pension Plan are established and may be amended by the Authority ERS’s Board of Trustees with the ratification from the Authority’s Governing Board.

*Retirement Benefits*

*Service Retirement Allowance*

Any member is eligible for pension benefits of 75% of their final average pay if they retire with 30 years of creditable service. Members hired before January 1, 1993 are eligible for pension benefits from 62.5% to 72.5% of their final average pay if they retire with 25 to 29 years of credited service. Effective January 1, 2015, active members who began working with the Authority on or after January 1, 1993 with age not less than 55 years and 30 years of creditable service, will be eligible for pension benefits from 62.5% to 72.5% of their final average pay if they retire at age of 50 to 54 years.
Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Financial Statements – (continued)

For the Year Ended June 30, 2018

Note 13 - Employees’ Retirement Benefits – (continued)

Pension Plan – (continued)

Disability Retirement Allowance

Any active member that has five years or more of credited service, or ten years or more, if he/she started to work at the Authority as of January 1, 1993, and his/her disability is not related to a labor accident, as certified by the State Insurance Fund Corporation of Puerto Rico, may retire with a disability pension requested by the Authority or by the member.

Cost-of-Living Adjustment

Cost of living increases in pension benefits are provided for retirees as of June 30, 1992, and automatic future cost of living increases every three years for current and future retirees. Increases effective July 1, 1992, to all pensions granted on or before June 30, 1990, are as follows:

- 8% increase for the monthly pension up to $300.
- 4% increase for the monthly pension between $300 and $600.
- 2% increase for the monthly pension in excess of $600.

The minimum monthly increase is $25, and the maximum is $50. Actuarial pensions are granted the minimum increase of $25 per month if they were granted on or before June 30, 1990. These increases are granted automatically every three years beginning July 1, 1992, or from the retirement date for all those who retired after June 30, 1990.

Annual Salary Benefit (Retired or Death Benefit)

A lump sum payment is available, equal to the salary earned during the last year at the time of retirement from active service or death in active service. The lump sum payment may be reduced in certain situations.

Survivor Benefit

The surviving spouses of retired members receiving a pension benefit will receive a life annuity equal to 30% of the annual pension payable to the members at the time of death subject to certain conditions.

Retirees’ Christmas Bonus

Annual Christmas bonus of $400 is payable to all retirees.
Note 13 - Employees’ Retirement Benefits – (continued)

Pension Plan – (continued)

Retirees’ Summer Bonus

A Summer bonus of $100 is payable to all current retirees.

Funeral Benefit

Up to $1,000 in funeral benefit.

The Pension Plans’ provisions and benefits in effect as of June 30, 2018, are summarized as follows:

<table>
<thead>
<tr>
<th>Hire date</th>
<th>Prior to January 1, 1993</th>
<th>On or after January 1, 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit formula</td>
<td>75% @ 30 years of services at full retirement</td>
<td>75% is limited to $50,000 @ 30 years of services at full retirement</td>
</tr>
<tr>
<td>Benefit vesting schedule</td>
<td>10 years’ service</td>
<td>10 years’ service</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>Monthly for life</td>
<td>Monthly for life</td>
</tr>
<tr>
<td>Retirement age</td>
<td>N/A</td>
<td>55</td>
</tr>
<tr>
<td>Monthly benefits, as a % of eligible compensation</td>
<td>Varies by age and years of service</td>
<td>Varies by age and years of service</td>
</tr>
<tr>
<td>Required employee contribution rates</td>
<td>9.06%</td>
<td>11.00%</td>
</tr>
<tr>
<td>Required employer contribution rates</td>
<td>46.60%</td>
<td>46.60%</td>
</tr>
</tbody>
</table>
Note 13 - Employees’ Retirement Benefits – (continued)

Pension Plan – (continued)

Employees Covered

As of the valuation date, the following membership were covered by the benefit terms for the Pension Plan:

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,341</td>
<td>Retired participants and beneficiaries currently receiving benefits</td>
</tr>
<tr>
<td>94</td>
<td>Terminated participants and beneficiaries entitled to benefits but not yet receiving benefits</td>
</tr>
<tr>
<td>6,196</td>
<td>Active participants</td>
</tr>
<tr>
<td>18,631</td>
<td>Total</td>
</tr>
</tbody>
</table>

Contributions

The Authority’s contribution rates are determined on an annual basis by the actuarial valuation and shall be effective on July 1, following notice of a change in the rate. Funding contributions for the Pension Plan are determined annually on an actuarial basis as of June 30 by the Authority ERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority’s contribution is calculated as the difference between the actuarial determined rate and the contribution rate of employees. For the year ended June 30, 2018, the Authority’s annual contribution was $129.7 million.

B. Net Pension Liability

The net pension liability as of June 30, 2018, was measured as of June 30, 2017, and the actuarial valuation date was June 30, 2017.

Actuarial Assumptions

The actuarial assumptions are based on recommended assumptions in the actuarial experience study conducted for the five-year period ended June 30, 2016. A summary of principal assumptions and methods used to determine the net pension liability is shown below.
Note 13 - Employees’ Retirement Benefits – (continued)

Pension Plan – (continued)

The total pension liability was determined using the following actuarial assumptions:

<table>
<thead>
<tr>
<th>Description</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation Date</td>
<td>June 30, 2017</td>
</tr>
<tr>
<td>Measurement Date</td>
<td>June 30, 2017</td>
</tr>
<tr>
<td>Reporting date</td>
<td>June 30, 2018</td>
</tr>
<tr>
<td>Single Equivalent Interest Rate</td>
<td></td>
</tr>
<tr>
<td>Long-term expected rate of return</td>
<td>5.75%</td>
</tr>
<tr>
<td>Municipal Bond Index Rate</td>
<td>3.13%</td>
</tr>
<tr>
<td>Fiscal year in which Pension Plan’s Fiduciary net position is projected to be depleted from future benefits payments for current members</td>
<td>2027</td>
</tr>
<tr>
<td>Actuarial Assumptions:</td>
<td></td>
</tr>
<tr>
<td>Discount Rate</td>
<td>3.40%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.25%</td>
</tr>
<tr>
<td>Payroll Growth</td>
<td>0.25%</td>
</tr>
<tr>
<td>Salary Increase</td>
<td>2.5% to 7.25%, including inflation</td>
</tr>
<tr>
<td>Investment Rate of Return</td>
<td>5.75%, net of expenses, including inflation</td>
</tr>
<tr>
<td>Percentage Married</td>
<td>100% of employees, and wives are assumed to be 4 years younger than their husbands</td>
</tr>
</tbody>
</table>

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future.
Note 13 - Employees’ Retirement Benefits – (continued)

Pension Plan – (continued)

Mortality Assumptions

The mortality rates were based on RP 2014 Employee Mortality Projected to 2018 using Scale BB, set back one year for males for actives and healthy annuitants and RP 2014 Disabled Mortality projected to 2018 using Scale BB for disabled annuitants.

Changes of Benefit Terms

The Pension Plan had no changes in benefit terms since the previous valuation.

Discount Rate

The discount rate used to measure the total pension liability was 3.40%. The projection of cash flows used to determine the discount rate assumed that members contribute the mandatory contribution rate, and the employer will contribute 46.60% of closed group compensation. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the plan year ending June 30, 2027. Therefore, the long term expected rate of return on pension plan investments of 5.75% was applied to all periods of projected benefit payments through June 30, 2027 and the applicable municipal bond index rate of 3.13%, based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2017, was applied to all periods of projected benefit payments after June 30, 2027. The Single Equivalent Interest Rate (“SEIR”) of 3.40% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability as of June 30, 2017.

The long term expected rate of return on the Authority ERS investments was determined using a log normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of the Authority ERS investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.
Note 13 - Employees’ Retirement Benefits – (continued)

Pension Plan – (continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Long-Term Expected Real Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Bonds</td>
<td>30.00%</td>
<td>2.80%</td>
</tr>
<tr>
<td>U.S. Large Cap Equity</td>
<td>22.00%</td>
<td>7.59%</td>
</tr>
<tr>
<td>U.S. Small Cap Equity</td>
<td>10.00%</td>
<td>8.85%</td>
</tr>
<tr>
<td>International Developed Equity</td>
<td>15.00%</td>
<td>8.57%</td>
</tr>
<tr>
<td>Emerging Market Equity</td>
<td>5.00%</td>
<td>9.86%</td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>8.00%</td>
<td>6.33%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>5.00%</td>
<td>10.22%</td>
</tr>
<tr>
<td>Core Real Estate</td>
<td>5.00%</td>
<td>5.97%</td>
</tr>
<tr>
<td>Total</td>
<td>100.00%</td>
<td></td>
</tr>
</tbody>
</table>
Note 13 - Employees’ Retirement Benefits – (continued)

Pension Plan – (continued)

C. Changes in the Net Pension Liability

The changes in the net pension liability for the Pension Plan follows (in thousands):

<table>
<thead>
<tr>
<th>Item</th>
<th>Total Pension Liability</th>
<th>Pension Plan Fiduciary Net Position</th>
<th>Net Pension Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of reporting period June 30, 2017</td>
<td>$ 5,882,289</td>
<td>$ 1,215,754</td>
<td>$ 4,666,535</td>
</tr>
<tr>
<td>Changes for the year:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment to beginning pension plan net position</td>
<td>-</td>
<td>(58)</td>
<td>58</td>
</tr>
<tr>
<td>Service cost</td>
<td>95,768</td>
<td>-</td>
<td>95,768</td>
</tr>
<tr>
<td>Interest</td>
<td>168,407</td>
<td>-</td>
<td>168,407</td>
</tr>
<tr>
<td>Differences between expected and actual experience</td>
<td>(21,443)</td>
<td>-</td>
<td>(21,443)</td>
</tr>
<tr>
<td>Changes in assumptions</td>
<td>(284,071)</td>
<td>-</td>
<td>(284,071)</td>
</tr>
<tr>
<td>Contributions - employer</td>
<td>-</td>
<td>120,326</td>
<td>(120,326)</td>
</tr>
<tr>
<td>Contributions - employee</td>
<td>-</td>
<td>24,871</td>
<td>(24,871)</td>
</tr>
<tr>
<td>Net investment income</td>
<td>-</td>
<td>134,564</td>
<td>(134,564)</td>
</tr>
<tr>
<td>Benefit payments, including refunds of employee contributions</td>
<td>(269,178)</td>
<td>(269,178)</td>
<td>-</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>-</td>
<td>(230)</td>
<td>230</td>
</tr>
<tr>
<td>Other changes</td>
<td>-</td>
<td>162</td>
<td>(162)</td>
</tr>
<tr>
<td>Net changes</td>
<td>(310,517)</td>
<td>10,457</td>
<td>(320,974)</td>
</tr>
<tr>
<td>Balance as of reporting period June 30, 2018</td>
<td>$ 5,571,772</td>
<td>$ 1,226,211</td>
<td>$ 4,345,561</td>
</tr>
</tbody>
</table>

This space was intentionally left in blank
Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Pension Plan, calculated using the discount rate of 3.40 percent, as well as what the Authority’s Pension Plan’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.40 percent) or 1 percentage point higher (4.40 percent) than the current rate (in thousands):

<table>
<thead>
<tr>
<th>Discount Rate</th>
<th>1% Decrease</th>
<th>Current</th>
<th>1% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Pension Liability</td>
<td>$5,144,348</td>
<td>$4,345,561</td>
<td>$3,694,281</td>
</tr>
</tbody>
</table>

Pension Plan Fiduciary Net Position – Detailed information about pension plan’s fiduciary net position is available in the separately issued financial report of the Authority ERS.

D. Changes in Assumptions

The following were the changes in assumptions for the period ending June 30, 2017 (the Measurement Date):

- The discount rate used to determine the total pension liability was increased from 2.93% to 3.40% since the prior measurement date.

For any change in total pension liability due to changes in actuarial assumptions, recognition of the change would be spread over the remaining life of the Pension Plan’s membership.
Note 13 - Employees’ Retirement Benefits – (continued)

Pension Plan – (continued)

E. Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the Authority recognized pension expense of approximately $695.6 million. On June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

Deferred outflows of resources:
- Differences between expected and actual experience: $10,647
- Employer contributions subsequent to the measurement date: $129,673
- Changes of assumptions: $741,379

Total deferred outflows of resources: $881,699

Deferred inflows of resources:
- Changes in assumptions: $227,321
- Differences between expected and actual experience: $25,662
- Net difference between projected and actual earnings on pension plan investments: $21,192

Total deferred inflows of resources: $274,175

Contributions of approximately $129.7 million were reported as deferred outflows of resources resulting from a contribution subsequent to the June 30, 2017 measurement date.

The amounts reported as deferred outflows of resources (other than the contributions after the measurement date and before year end) and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$ 404,833</td>
</tr>
<tr>
<td>2020</td>
<td>151,991</td>
</tr>
<tr>
<td>2021</td>
<td>(65,328)</td>
</tr>
<tr>
<td>2022</td>
<td>(13,645)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 477,851</strong></td>
</tr>
</tbody>
</table>
Note 13 - Employees’ Retirement Benefits – (continued)

Other Post-Employment Benefits (“OPEB”)

A. General Information about the OPEB Plan

OPEB Plan Description

The Authority Retired Employees Healthcare Plan (“OPEB Plan”) is a single employer defined benefit healthcare plan where no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” (GASB 75) and which is administered by the Authority.

Benefits Provided

Benefit provisions under the OPEB Plan are established and may be amended by the Authority’s Governing Board. The OPEB Plan for all retirees is capped at $300 per member per month for retirees under age 65 and $200 per member per month for retirees age 65 and over. In the event the retiree dies, the OPEB Plan will revert to contributing $300 per month for surviving spouses under age 65 and $200 per month for surviving spouses age 65 and over. The effective contribution made for surviving spouses under and over age 65 is effectively $0, since the OPEB Plan is reimbursed for its contribution to spouse coverage from the retiree’s pension.

Membership

Employees retiring on or after September 1, 2009, having accumulated at least 30 years of services and all retired employees that retired before September 1, 2009, are eligible to participate in the OPEB Plan. To remain eligible for participation, Medicare eligible retired participants and their spouses must enroll in Medicare Part B at age 65, or whenever eligible, at their own expenses. The benefit provisions to retired employees are established and may be amended by the Authority.

As of the valuation date, the following membership were covered by the benefit terms:

<table>
<thead>
<tr>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inactive members or beneficiaries currently receiving benefits</td>
</tr>
<tr>
<td>Inactive members entitled to but not yet receiving benefits</td>
</tr>
<tr>
<td>Active members</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  

Notes to the Financial Statements – (continued)  

For the Year Ended June 30, 2018  

Note 13 - Employees’ Retirement Benefits – (continued)  

Other Post- Employment Benefits (“OPEB”) – (continued)  

Funding Policy and Annual OPEB Cost  

The required contribution is based on projected pay as you go financing requirements. The contribution requirements of OPEB Plan members and the Authority are established and may be amended by the Authority.  

B. Total OPEB Liability  

The Authority’s total OPEB liability (“TOL”) as of June 30, 2018, was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.  

Actuarial Assumptions and other inputs  

The total OPEB liability was determined using the following actuarial assumptions and other inputs:  

<table>
<thead>
<tr>
<th>Actuarial Assumptions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation Date</td>
<td>June 30, 2017</td>
</tr>
<tr>
<td>Measurement Date</td>
<td>June 30, 2017</td>
</tr>
<tr>
<td>Reporting date</td>
<td>June 30, 2018</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.25%</td>
</tr>
<tr>
<td>Real wage growth</td>
<td>0.25%</td>
</tr>
<tr>
<td>Wage inflation</td>
<td>2.50%</td>
</tr>
<tr>
<td>Salary Increase</td>
<td>2.5% to 7.25%, including inflation</td>
</tr>
<tr>
<td>Discount rate: Municipal Bond Index rate at MD</td>
<td>3.13%</td>
</tr>
<tr>
<td>Percentage Married</td>
<td>100% of employees, and wives are assumed to be 4 years younger than their husbands</td>
</tr>
<tr>
<td>Future participation and coverage elections</td>
<td>All future retirees are assumed to participate in the OPEB Plan</td>
</tr>
<tr>
<td>Future retirees spouse coverage after death</td>
<td>75%</td>
</tr>
</tbody>
</table>
Note 13 - Employees’ Retirement Benefits – (continued)

Other Post-Employment Benefits (“OPEB”) – (continued)

The discount rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2017.

Mortality rates were based on the RP-2014 Mortality projected to 2018 using Scale BB, set back one year for males for actives and healthy annuitants and RP-2014 Disabled Mortality projected to 2018 using Scale BB for disabled annuitants.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study conducted for the five-year period ended June 30, 2016.

The OPEB Plan had no changes in benefit terms since the previous valuation.

C. Changes in the Total OPEB liability

The changes in the total liability for the OPEB Plan follows (in thousands):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total OPEB liability as of reporting period June 30, 2017, as restated</td>
<td>$ 402,855</td>
</tr>
<tr>
<td>Changes for the year:</td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>3,235</td>
</tr>
<tr>
<td>Interest</td>
<td>10,674</td>
</tr>
<tr>
<td>Difference between expected and actual experience</td>
<td>(5,274)</td>
</tr>
<tr>
<td>Changes of assumptions or other inputs</td>
<td>(18,948)</td>
</tr>
<tr>
<td>Benefits payments</td>
<td>(17,952)</td>
</tr>
<tr>
<td>Net changes</td>
<td>(28,265)</td>
</tr>
<tr>
<td>Total OPEB liability as of reporting period June 30, 2018</td>
<td>$ 374,590</td>
</tr>
</tbody>
</table>

Changes of assumptions and other inputs reflects a change in the discount rate from 2.71% to 3.13% since the prior measurement date. There were no changes in the benefits terms. The TOL of the OPEB Plan does not change depending on trend rates, due to the Authority’s OPEB Plan having no health care cost trend.

*This space was intentionally left in blank*
Note 13 - Employees' Retirement Benefits – (continued)

Other Post-Employment Benefits (“OPEB”) – (continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the TOL of the OPEB Plan, calculated using the discount rate of 3.13 percent, as well as what the OPEB Plan’s TOL would be if it were calculated using a discount rate that is 1 percentage point lower (2.13 percent) or 1 percentage point higher (4.13 percent) than the current rate (in thousands):

<table>
<thead>
<tr>
<th>Discount Rate</th>
<th>1% Decrease</th>
<th>Current</th>
<th>1% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.13%</td>
<td>3.13%</td>
<td>4.13%</td>
</tr>
<tr>
<td>Total OPEB Liability</td>
<td>$422,418</td>
<td>$374,590</td>
<td>$335,117</td>
</tr>
</tbody>
</table>

D. OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Authority recognized an OPEB credit of approximately $10.3 million, mainly due to GASB 75. On June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

Deferred outflows of resources:
- Benefit payments made subsequent to the measurement date $17,785
- Total deferred outflows of resources $17,785

Deferred inflows of resources:
- Differences between expected and actual experience $3,875
- Changes of assumptions $13,922
- Total deferred inflows of resources $17,797
Note 13 - Employees’ Retirement Benefits – (continued)

Other Post-Employment Benefits (“OPEB”) – (continued)

For the implementation period, it was not practical for the Authority to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources. Nevertheless, the Authority computed a beginning deferred outflow of resources equal to the amount of benefits paid subsequent to the measurement date of the actuarial report which was June 30, 2017. Those payments totaled approximately $17.9 million and became the beginning balance of deferred outflows for OPEB.

Contributions of approximately $17.8 million were reported as deferred outflows of resources resulting from contributions made subsequent to June 30, 2017, the measurement date.

The amounts reported as deferred outflows of resources (other than the contributions after the measurement date and before year end) and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

<table>
<thead>
<tr>
<th>Year ended June 30,</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>(6,425)</td>
</tr>
<tr>
<td>2020</td>
<td>(6,425)</td>
</tr>
<tr>
<td>2021</td>
<td>(4,947)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(17,797)</strong></td>
</tr>
</tbody>
</table>

Note 14 - Revenues

Puerto Rico Energy Bureau (“PREB”) Orders

On May 27, 2014, the Commonwealth approved Act No. 57, which authorizes the PREB to approve electric rates proposed by the Authority, among other matters. The Authority has the obligation to maintain balancing accounts to record differences between certain costs incurred and amounts billed through certain rates and riders approved to recover such costs. These balancing accounts are later reviewed and evaluated by the PREB to adjust the current rates with balancing adjustments that will allow to collect or reimburse clients for such overages/shortages. See Note 19.
Note 14 -  Revenues – (continued)

Major Clients and Related Parties

Net operating revenues from major clients and related parties during the year ended June 30, 2018 are as follows (in thousands):

| Commonwealth of Puerto Rico and components units | $ 288,482 |
| Municipalties                                      | 192,238   |
| **Total**                                         | **$ 480,720** |

Note 15 -  Leases

Operating Lease Agreement

On April 8, 2016, PREPA Networks, LLC entered into a lease agreement covering certain space of one of the buildings owned by PREPA Networks, LLC for a term of 20 years. The lease agreement calls for monthly rental installments of approximately $27.9 thousands. The agreement provides for a rent-free period of 150 days, commencing on the date of tenant shall accept the possession of the premises. Effective date of the operating lease is November 4, 2016.

PREPA Net and the Authority had other lease agreements for periods of less than one year. Rental income for the fiscal year ended June 30, 2018, amounted to approximately $1.3 million.

The schedule of the future minimum annual rentals thereon as of June 30, 2018, are as follows (in thousands):

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$ 336</td>
</tr>
<tr>
<td>2020</td>
<td>336</td>
</tr>
<tr>
<td>2021</td>
<td>336</td>
</tr>
<tr>
<td>2022</td>
<td>336</td>
</tr>
<tr>
<td>2023</td>
<td>336</td>
</tr>
<tr>
<td>2024-2028</td>
<td>1,680</td>
</tr>
<tr>
<td>2029-2033</td>
<td>1,680</td>
</tr>
<tr>
<td>2034-2036</td>
<td>1,201</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 6,241</strong></td>
</tr>
</tbody>
</table>
Note 15 - Leases – (continued)

Operating Lease Commitments

The Authority has entered into rental lease commitments for the use of local buildings and land. These agreements are scheduled to expire from 2019 to 2023. The Authority also has a long-term terminal service agreement for the rental of nine (9) tanks for fuel and diesel storage. The tanks are for the use of the Authority and for the use of the Authority’s fuel suppliers under cancelable subleases. The main contract is a noncancelable lease with future minimum lease payments and contingent payments based on all item’s category of the Consumer Price Index for all urban consumers as published by the Bureau of Labor Statistics of the U.S. Department of Labor. The sublease contracts are cancelable contracts with maximum terms of 2 year, but with the option to limit it to one year and with an option to renew.

PREPA Net leases a communication station under a non-cancelable lease agreement payable in monthly installments of approximately $42 thousand, through December 31, 2018. The future minimum lease payments all of which are due during for the fiscal year ending June 30, 2019 is approximately $251 thousand.

For the year ended June 30, 2018, rent expense amounted to approximately $5.0 million, and is included as general and administrative expenses in the accompanying statement of revenues, expenses, and changes in net position (deficit).

Minimum annual rentals for the five years subsequent to June 30, 2018, are as follows (in thousands):

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$10,881</td>
</tr>
<tr>
<td>2020</td>
<td>6,207</td>
</tr>
<tr>
<td>2021</td>
<td>768</td>
</tr>
<tr>
<td>2022</td>
<td>253</td>
</tr>
<tr>
<td>2023</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>$18,113</td>
</tr>
</tbody>
</table>
Note 16 - Significant Event Related to Hurricanes Irma and Maria

On September 20, 2017, Hurricane María made landfall in Puerto Rico, bringing sustained winds of 155 miles per hour and significant rainfall over a 30-hour period. Hurricane María crossed Puerto Rico diagonally, entering through the Southeast and exiting through the Northwest. The hurricane caused catastrophic destruction in Puerto Rico, including severe damage to the electric power system, and left the island completely without power. Only two weeks prior to Hurricane María, Hurricane Irma - one of the strongest hurricanes ever recorded in the Atlantic - passed by Puerto Rico’s north coast, substantially impairing an already weak infrastructure.

These hurricanes caused significant infrastructure damages and losses to the Authority’s assets and operations. Hurricane Maria severely impacted the Authority’s power grid, resulting in power outages affecting at its highest point, on September 20, 2017, 1.4 million (100%) customers. Additionally, the Authority’s electric system and grid sustained significant damage because of the hurricanes. The total impairment loss recorded by the Authority for damages associated with Hurricane María amounted to approximately $1,140 million for the fiscal year that ended June 30, 2018. This impairment loss, net of an associated insurance recovery as of June 30, 2018 of $50 million, was recorded as the Impairment loss due to Hurricane María, in the accompanying statement of revenues, expenses and changes in net position (deficit). As of the issuance date of these financial statements, an additional $50 million has been received from private insurance companies.

As of June 30, 2018, approximately $1.1 billion were recognized as revenues associated to costs incurred in the recuperation of Hurricanes Irma and Maria based on the approved grant awards from FEMA as of June 30, 2018 in accordance with guidance established by GASB Statement No. 33, “Accounting and Financial Reporting for Non-Exchange Transactions”. From the total amount claimed as of June 30, 2018, approximately $653 million had been collected as of that date, and approximately $419 million are presented as accounts receivables in the accompanying statement of net position. From the total costs incurred by the Authority as of June 30, 2018 in relation to the passage of Hurricanes Irma and Maria, the Authority capitalized approximately $1.5 billion related to infrastructure in the areas of transmission and distribution, approximately $14 million in the areas of generation, and approximately $53 million as general and administrative related efforts.

In addition, the Authority received capital contributions of approximately $35 million of which approximately $33.8 million were received from the United States of America Corps of Engineers (USACE); of these contributions approximately $15.8 million were capitalized in the areas of transmission and distribution, approximately $16 million were utilized for the acquisition of materials and approximately $1.8 million were utilized for operational expenses. These capital contributions were presented as such in the statement of revenues, expenses, and changes in net position (deficit) during the year ended June 30, 2018.
Note 16 - Significant Event Related to Hurricanes Irma and Maria – (continued)

Additional operating expenses of approximately $290 million were recorded as Emergency repairs post Hurricane Maria in the accompanying statement of revenues, expenses, and changes in net position (deficit). These were used for the purchase of fuel, materials and other non-capitalizable expenses necessary in response to the disaster. As of the issuance of these financial statements, the Authority incurred costs related to damages caused by Hurricanes Irma and Maria are of approximately $2.1 billion.

Note 17 - Risk Management

General

The Authority purchases commercial insurance covering all risk property (including catastrophic risks), business interruption and extra expense (excluding transmission and distribution lines), boiler and machinery, general liability, aviation, and financial lines programs. The Authority retains the risk regarding damages related to its transmission and distribution lines. The insurance program structure and coverage for the fiscal year 2018 remain similar to those from prior years for the major categories of risk. Subsequent to 2018, during fiscal year 2021, the Authority’s property policy structure and coverage had significant changes consisting of a sixty percent indemnity and forty percent parametric insurance program. The Authority will also have a higher retention in the upper tier limits of the property program.

Self-Insurance Health Program

The self-funded health care program provides benefits coverage for all active Authority’s employees regarding dental, pharmacy, and physical/mental health care needs. Changes in the balances of the health insurance program (self-insurance risk) incurred but not recorded were as follows (in thousands):

<table>
<thead>
<tr>
<th>Year Ended June 30</th>
<th>Beginning Balance</th>
<th>Expense</th>
<th>Payments</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$4,116</td>
<td>$50,582</td>
<td>$(50,577)</td>
<td>$4,121</td>
</tr>
<tr>
<td>2018</td>
<td>$4,121</td>
<td>$42,481</td>
<td>$(42,950)</td>
<td>$3,652</td>
</tr>
</tbody>
</table>

This amount is included in accounts payable and accrued liabilities in the statement of net position (deficit).
Note 18 - Commitments and Contingencies

Commitments

Power Purchase Agreements

Power purchase agreements as of June 30, 2018, were as follows (in thousands):

<table>
<thead>
<tr>
<th>Authority</th>
<th>Shares</th>
<th>Type</th>
<th>Capacity (MWs)</th>
<th>Outstanding Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>AES Puerto Rico</td>
<td>100%</td>
<td>Coal</td>
<td>454.3</td>
<td>$2,810,203</td>
</tr>
<tr>
<td>EcoEléctrica</td>
<td>100%</td>
<td>Gas</td>
<td>507</td>
<td>1,318,745</td>
</tr>
<tr>
<td>Humacao Solar Project, LLC</td>
<td>100%</td>
<td>Renewable</td>
<td>40</td>
<td>458,065</td>
</tr>
<tr>
<td>Pattern Santa Isabel, LLC</td>
<td>100%</td>
<td>Renewable</td>
<td>95</td>
<td>407,782</td>
</tr>
<tr>
<td>Oriana Energy, LLC (Yarotek)</td>
<td>100%</td>
<td>Renewable</td>
<td>45</td>
<td>371,814</td>
</tr>
<tr>
<td>San Fermín Solar Farm, LLC</td>
<td>100%</td>
<td>Renewable</td>
<td>20</td>
<td>143,617</td>
</tr>
<tr>
<td>AES Ilumina, LLC</td>
<td>100%</td>
<td>Renewable</td>
<td>20</td>
<td>129,843</td>
</tr>
<tr>
<td>Punta Lima Wind Farm, LLC</td>
<td>100%</td>
<td>Renewable</td>
<td>26</td>
<td>119,948</td>
</tr>
<tr>
<td>Horizon Energy, LLC</td>
<td>100%</td>
<td>Renewable</td>
<td>10</td>
<td>114,806</td>
</tr>
<tr>
<td>Coto Laurel Solar Farm, Inc.</td>
<td>100%</td>
<td>Renewable</td>
<td>10</td>
<td>104,166</td>
</tr>
<tr>
<td>Landfill Gas Technologies of Fajardo, LLC (Toa Baja)</td>
<td>100%</td>
<td>Renewable</td>
<td>2</td>
<td>27,514</td>
</tr>
<tr>
<td>Windmar Renewable Energy, Inc.</td>
<td>100%</td>
<td>Renewable</td>
<td>2</td>
<td>14,794</td>
</tr>
<tr>
<td>Landfill Gas Technologies of Fajardo, LLC (Fajardo)</td>
<td>100%</td>
<td>Renewable</td>
<td>2</td>
<td>14,785</td>
</tr>
</tbody>
</table>

Total                                          $ 6,036,082

The Authority does not have ownership of any assets related to these agreements. As costs are incurred each year, they are recorded as purchase power expense in the statement of revenue, expenses, and changes in net position. As of June 30, 2018, the Authority recorded as expense of approximately $586 million for the purchase power commitments. Renewable Energy projects usually include a pricing component related to the energy exported to the grid, and a pricing component related to the renewable energy credits (“RECs”) associated with the exported energy. Only the two Landfill Gas projects include the REC transfer without an additional charge. These agreements are scheduled to expire from 2022 to 2045. The outstanding commitment above is a projected cost based on the different variables included in the agreed upon terms throughout the remaining duration of the power purchase agreements.
Note 18 - Commitments and Contingencies – (continued)

Commitments – (continued)

Construction and Other Commitments

The Authority renegotiated several power purchased operating agreements to procure a reduction in their current prices and has the ability to assume or reject agreements in the Authority’s Title III cases. For a further discussion, see note 19.

As of June 30, 2018, the Authority has commitments of approximately $986 million in active construction, maintenance, and engineering services contracts.

Contingencies

Environmental Matters

Facilities and operations of the Authority are subject to regulation under numerous Federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act ("OPAV"), Resource Conservation Recovery Act ("RCRA"), Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and Underground Storage Tanks, among others. The Authority monitors its compliance with laws and regulations and reviews its remediation obligations on an ongoing basis.

1999 Consent Decree

In February 1992, the Environmental Protection Agency ("EPA") conducted a multimedia inspection of the Authority’s facilities and identified several alleged instances of noncompliance. The Authority and the United States Department of Justice ("DOJ") on behalf of the EPA negotiated and signed a consent decree (the “Consent Decree”), to resolve the issues regarding the deficiencies observed during the inspection and to ensure future compliance with all applicable laws and regulations. The Consent Decree requires that the Authority improve and implement compliance programs and operations to ensure compliance with environmental laws and regulations.

In 2004, the United States federal court approved a modification to the Consent Decree in which the Authority reduced the sulfur content in the No. 6 fuel oil used in certain generating units of its Costa Sur, Aguirre, Palo Seco, and San Juan Power Plants. Additionally, the Authority has completed a nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

1999 Consent Decree – (continued)
The Authority believes to be in substantial compliance with the Consent Decree programs. On July 22, 2014, representatives from the Authority, DOJ, and EPA, met to discuss towards the termination of some of the Programs. As a result, DOJ and the EPA requested the Authority to submit information regarding the Authority’s compliance with the Programs for their review and evaluation. On September 25, 2014, the Authority met again with DOJ and EPA representatives and submitted the information requested, along with a letter where the Authority formally requested the DOJ and EPA to review and approve the termination of those programs/provisions of the Consent Decree and its Modification of 2004 presented, as well as begin the process toward jointly filing in the Court a stipulation for Partial Termination of such programs.

To accomplish this goal, the Authority appointed a task force. The Authority representatives met with EPA to address the details. As of May 2018, task force meetings between the Authority and EPA have been held. As of the issuance of the financial statements, a draft of the document is being reviewed by the EPA and DOJ. Once the document is final it must go through a public process for its final approval. The Authority has not been informed about any related costs that would be considered accruable as a contingent liability, therefore there is no amount recorded in the accompanying financial statements.

Air and Water Quality Compliance
The Authority is required to maintain compliance within stack opacity requirements and water quality conditions. For those cases where deviations are observed, the Authority is subject to stipulated penalties. The Authority had paid approximately $42 thousands in fiscal year 2018.

In 1997, as a result of an inspection by the EPA and the Puerto Rico Environmental Quality Board (the “EQB”) at the Authority’s Palo Seco Power Plant, the EPA issued an Administrative Order for the investigation and possible remediation of seven areas identified by the EPA at the Palo Seco Power Plant and the Palo Seco General Warehouse (“Depot”).

On July 10, 2017, the Settlement Agreement was signed requiring the Authority to pay to EPA Hazardous Substance Superfund the principal sum of $1 million, plus interest in three annual installments. First installment was paid on August 9, 2017 for the amount of approximately $333,333.33. Second installment was paid on May 29, 2018 for the amount of approximately $337,838.01. The third and final installment was paid on July 19, 2019 for the amount of approximately $339,779.36, which amount was accrued as of June 30, 2018. All amounts were settled and there are no additional financial commitments with respect to this case.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Other Proceedings

PROTECO

In March 2019, the Authority received from EPA, a notice of potential liability and request for information under CERCLA in relation to PROTECO site in Peñuelas where the Authority used for waste disposal between 1981 and 1999. On June 28, 2019 the Authority received from EPA a special notice procedure to facilitate a settlement between the Authority, other special notice letter recipients and EPA for performance of a remedial investigation and feasibility study (“RI/FS”) at the site.

The Administrative Settlement Agreement and Order on Consent for RI/FS required a payment from the Special Notice letter recipients to EPA in the amount of approximately $444,708 for past response costs. Also, the agreement required that the special notice letter recipients shall secure financial assurance, initially in the amount of approximately $5 million (estimated cost of work), that benefits EPA. The Authority has entered into a “Joint Defense Agreement (JDA)” with other special notice letter recipients, identified as potentially responsible parties (“PRP”) by EPA, in order to respond to EPA’s June 28, 2019 Special Notice Letter issued by EPA regarding PROTECO.

As of the date of the issuance of the financial statements, negotiations between the Joint Defense Agreement group and EPA are still in progress. Pursuant to the Authority’s Governing Board Resolution 4744, the Governing Board authorized an initial expenditure of up to approximately $1.5 million (included as part of the legal contingency claims), to pay for the Authority’s share to conducting the RI/FS, reimbursing EPA for past response costs, and other remediation activities. As a result, the Authority’s responsibility and its participation in this case was estimated at 21%.

The above-mentioned portion must be awarded to any contribution to be made by the Authority, either as payment of RI/FS work to be carried out at the landfill and considered part of the fine, as well as to pay and absorb any future fines that may be imposed for non-compliance with the Agreement.

The PRP notified the EPA of the selection of Geosyntec Corporation, as the company that would perform RI/FS work. For the payment of this work, the PRPs agreed to allocate funds under the terms and conditions of JDA. As of the date of issuance of the financial statements, a damage assessment is being conducted as requested by the EPA. Management’s estimate of loss contingency has been accrued in the accompanying financial statements.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Vega Baja Solid Waste Disposal Superfund Site

In 2002, the Authority received a Special Notice Concerning Remedial Investigation/Feasibility Study for Soil at the Vega Baja Solid Waste Disposal Superfund Site. The EPA has identified the Authority and six other entities as “potentially responsible parties,” as defined in the CERCLA.

On April 25, 2013, the Consent Decree civil action (No. 12 1988 (ADC)) was filed in the U.S. Court for the District of Puerto Rico. An Environmental Escrow Agreement (“EEA”) was entered into by and among the GDB, as the escrow agent, the Puerto Rico Land Authority (“PRLA”), the Puerto Rico Housing Department (“PRHD”), and the Authority and the EPA. The EEA was created to serve as financial assurance for the performance of the obligation under the Consent Decree. On June 24, 2013, the Authority deposited approximately $400 thousand into GDB escrow account as provided in the Consent Decree. Accounts and payments in GDB are retained due to the restructuring process. The escrow account is now deposited in a commercial bank. If the escrow account balance is reduced below $250 thousand, the Authority, PRLA, and PRHD must establish and maintain a performance guarantee for the benefit of EPA equal to the difference of the escrow account balance and $250 thousand. Public agencies may elect to satisfy this performance guarantee requirement either individually, by providing separate performance guarantees which total the amount required to be maintained as set forth above, or collectively.

The Authority, on behalf of PRLA and PRHD, has requested disbursements charged against this account and payments have been processed. All payments required to be charged against this account are to cover projects required by the Consent Decree. If payments are not fulfilled, services can be suspended by the contractors resulting in the application of fines for noncompliance as agreed by the parties.

The Authority shall pay EPA all future response costs not inconsistent with the National Oil and Hazardous Substances Pollution Contingency Plan. The Authority has not identified any contingent losses that would be considered probable of occurrence, therefore there is no amount recorded in the accompanying financial statements.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Vega Baja Solid Waste Disposal Superfund Site – (continued)

This Consent Decree can be terminated upon motion by any party, provided that all public defendants have satisfied their obligations of payments of certain “Response Cost and Stipulated Penalties.” Termination of the Consent Decree shall not affect certain “Covenants Not to Sue” including all reservations pertaining to those covenants and shall not affect any continuing obligation of the Authority, PRLA and the PRDH (all referred in the Consent Decree as the Settling Defendants).

Currently, the appointment of a Supervisory Contractor is in progress. The inspection and reporting work required in the Agreement is being carried out by a project coordinator appointed by the Authority, in coordination with the representatives appointed by the PRLA and the PRDH. In September 2020, the EPA started a re-evaluation of the Preliminary Operation and Maintenance Plan (the Plan) implemented, as required by the AOC. As part of this review, the EPA contractor, inspected a number of properties that were not remedied because the lead concentration detected in the field was below 450 ppm. The information collected will be evaluated by the EPA and changes to the Plan or new remediation actions could be ordered by the EPA. The Authority may be required to pay additional costs incurred by the EPA. The Authority has not been informed about any related costs and is unable to estimate a loss, therefore there is no amount recorded in the accompanying financial statements.

Compliance Programs
The Authority continues to develop and implement a comprehensive program to improve environmental compliance. These programs have been and continue to be updated to conform to new regulatory requirements.

This space was intentionally left in blank
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Mercury and Air Toxics Standards (MATS)

The Mercury and Air Toxics Standard (“MATS”) establishes national emission standards for hazardous air pollutants (“NESHAP”) limits and work practice standards for pollutants emitted from coal and oil fired electric utility steam generating units (“EGU”). The MATS apply to new, reconstructed, or existing coal and oil fired EGUs in continental and non-continental areas (from industry, federal government, state, and tribal government). In the case of Puerto Rico, there are fourteen (14) oil fired EGUs affected by the regulation, which are operated and maintained by the Authority.

Since MATS went into effect on April 16, 2015 (for Aguirre, April 16, 2016), the Authority’s units have experienced various noncompliance with the standard. While the Costa Sur units have largely been in compliance with MATS, various deviations have occurred at Aguirre, San Juan, and Palo Seco since MATS. At a high level, San Juan Unit 9, Palo Seco Unit 3, and Palo Seco Unit 4 have not consistently met the MATS PM emission limit. Moreover, San Juan Units 7-8 and Palo Seco Units 1-2 were designated by the Authority as limited use units, however, they did not meet the 8% heat-input limit applicable to limited use units during the 24-month block periods that have occurred since MATS went into effect. Moreover, the Authority has also not met various deadlines with respect to audits and testing required under MATS, particularly with regards to PM emissions performance testing at Aguirre. Aguirre has also not consistently followed the startup work practice standard requiring the use of clean fuels.

The Authority has been negotiating with the EPA to enter into a consent decree to address its noncompliance with MATS since 2015. However, in September 2016, negotiations were put on hold when the Puerto Rico Energy Commission (now the Puerto Rico Energy Bureau) disapproved of core elements of the Authority’s Integrated Resource Plan (“IRP”)—which had been anticipated to form the basis of the Authority’s MATS compliance plan. On May 10, 2018, the Authority and the government engaged in preliminary discussions regarding the IRP process and MATS. However, further negotiations were again put on hold pending the results of the IRP process. The Authority has not identified any contingent losses that would be considered probable of occurrence, therefore there is no amount recorded in accompanying the financial statements.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Compliance Programs – (continued)

Mercury and Air Toxics Standards (MATS) – (continued)

Because the five-year statute of limitations will soon lapse for various of the EPA’s claims related to alleged MATS violations, DOJ has requested that the Authority execute a tolling agreement to exclude the time between March 20, 2020 and March 19, 2021, in calculating the statute of limitations. Effectively, the tolling agreement extends the statute of limitations by one year.

Reaching a settlement with the EPA would allow for the Authority to seek reduced civil penalties for MATS noncompliance and avoid the filing of an enforcement lawsuit. In the case of the Authority’s noncompliance with MATS, the potential maximum statutory penalties are significant, however, the EPA has discretion in determining a penalty amount and may settle for significantly less than the statutory maximum amounts. Without a tolling agreement in place, the EPA would be incentivized to bring an enforcement action against the Authority in the near future, so as not to forfeit its claims regarding MATS compliance due to the running of the statute of limitations.

Execution of the tolling agreement will not itself require the Authority to outlay funds. However, if the Authority reaches a settlement with the EPA, the resulting consent decree with the EPA will almost certainly require the Authority to make various expenditures. In particular, a potential future MATS consent decree with the EPA is expected to include civil penalties for the Authority’s noncompliance with MATS. This will likely include a negotiated amount of civil penalties. Such decree will also likely require capital expenditures by the Authority to remedy various MATS violations at its power plants, as well as injunctive relief.

On August 24, 2020, the Puerto Rico Energy Bureau (PREB) issued its final order on the IRP, approving in part of what was proposed by the Authority, which constitutes an amended version. This approved IRP will address the Authority’s MATS compliance needs and it is expected to form the basis of a potential MATS consent decree with the EPA. Negotiations with the EPA on the MATS Consent for Compliance Decree are expected to resume now that the IRP has been approved. The Authority expects the EPA to work to develop an IRP-based compliance program, including the adoption of provisional terms for compliance. The Authority has not identified any contingent losses that would be considered probable of occurrence, therefore there is no amount recorded in the accompanying financial statements.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Compliance Programs – (continued)

NAAQS SO2 Compliance
On January 9, 2018, the EPA published the third round of final area designations under the 2010 SO2 NAAQS. In this round, EPA identified two (2) Non-attainment areas located in Puerto Rico, the San Juan Area, and the Guayama Salinas Area. The Clean Air Act of 1970 requires air agencies to take steps to control pollution in SO2 Non-attainment areas.

Those steps may include stricter controls on industrial facilities. State and local governments detail these steps in plans that demonstrate how they will meet the SO2 standard. Those plans are known as state implementation plans (“SIPs”). States have 18 months after the effective date of final designations to develop and submit their plans to EPA. Puerto Rico’s SIP was due to EPA by October 9, 2019. These plans were to show how affected areas would meet the standard as expeditiously as practicable but no later than April 9, 2023, when EPA must determine whether the area has attained the standard.

According to DNER and EPA, the Authority is the main cause of non-compliance in the identified areas. The Authority’s affected facilities in the PR Non-attainment areas are: San Juan, Palo Seco and Aguirre. Since the designation, the Authority and DNER have been in communication so that the approved SIP considers the Authority’s IRP plan and projects, which was approved by PREB in August 2020. The approved IRP represents a big shift of the system while providing reliability to the system. Negotiations with the EPA and DNER resumed now that the IRP has been approved. The Authority expects the EPA and DNER to work to develop an IRP-based compliance SIP, including the adoption of provisional terms for compliance. The Authority has not identified any contingent losses that would be considered probable of occurrence, therefore there is no amount recorded in the accompanying financial statements.

Water Discharge
San Juan Power Plant has continuous exceedances related to the National Pollutants Discharge Elimination System (“NPDES”) Discharge Permit. The issuance of a new NPDES permit for San Juan Power Plant in 2007 and a Water Quality Standards Regulation revision from the EQB in 2003 imposed more restrictive permit limits, which eventually led to the issuance of an Administrative Order (“AO”) by the EPA. As a control measure, the Authority developed the San Juan Waste Water Treatment Plant Improvement project approved by the State Revolving Fund, that currently is under construction. The main purpose of this project is the reuse of the Outfalls 002 and 003 to process wastewaters, leaving these discharges as storm water only.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Compliance Programs – (continued)

Water Discharge (continued)

The Authority’s power generation, especially steam power plants, requires high volumes of water. In the case of the Aguirre Power Complex (“APC”), this water comes from a water well system owned and operated by the Authority. These water wells’ supply capacity has been reduced throughout the years due to urban expansion in the Municipality of Salinas, causing saltwater intrusion to the aquifer. Due to this intrusion, the Authority decided to develop and construct the necessary infrastructure to supply raw water from the Patillas Irrigation Channel to the APC, keeping the current well water supply as backup. The raw water will then be treated in the APC using ultrafiltration, reverse osmosis, and demineralization methods. Also, the project provides for the reuse of condenser cooling water that is currently discharged through the APC Outfalls, under the National Pollutant Discharge Elimination System Permit Program (“NPDES Permit Program”).

The Authority completed the Phase II (Filtration System Building) in March 2015 of the Water Supply Project from the Patillas Irrigation Channel. Phase III (Retention Ponds Construction) of this project was also completed on February 2017 and Phase I (Pipeline Construction from the Irrigation Channel) was completed on September 2018. Phase IV (Pipeline interconnections inside the plant and water treatment equipment acquisition) is in a bid process. Phase V includes the rehabilitation of the holding tank and the final effluent tank, improvements to the water transfer pipes, controls, design, and construction of a pumping station. Phase V-B includes the replacement of the multimedia filter system of the process water treatment plant of the Aguirre Complex. Construction is expected to begin in June 2020 and conclude in May 2021.

For the financing of the San Juan Waste Water Treatment Plant Improvement and the Water Supply Project from Patillas Lake Irrigation Channel Projects, the Authority signed two Loan Agreements at 2% interest rate, pursuant to the Commonwealth of Puerto Rico Water Pollution Control State Revolving Fund Program (“SRF Program”). The first one was signed on September 6, 2012 for approximately $17.6 million and the second one on September 27, 2013 for the amount of approximately $9.5 million. The September 27, 2013 agreement included a Grant for approximately $1.5 million. The combined outstanding balance of the Authority’s revolving credit line to finance improvements in Aguirre totaled approximately $7.2 million as of June 30, 2018 and it is presented as non-current notes payable in the accompanying financial statements.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Legal Contingencies

General

The Authority is a defendant or codefendant in numerous legal proceedings, including labor related claims, claims for damages due to electrified wires, failure to supply power and fluctuations in the power supply. The Authority has an estimated accrual liability of approximately $311 million, to cover such exposure, which is included in the accompanying statement of net position (deficit).

As disclosed in Note 3, on July 2, 2017, the Authority filed a petition for relief under Title III of PROMESA. Accordingly, all claims against the Authority have been stayed until the Title III stay is lifted pursuant to PROMESA.

Under certain circumstances, as provided in Act No. 104 of June 29, 1955, as amended (”Act No. 104”), the Commonwealth may provide its officers and employees, including directors, executive directors, and employees of public corporations and government component units and mayors of the municipalities of the Commonwealth, with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the amount of the judgment that may be paid under the provisions of Act No. 104 in cases before federal court, but in all other cases the Secretary of Justice of the Commonwealth may determine whether, and to what extent, the Commonwealth will assume payment of such judgment. Although the Authority’s directors, executive director, and employees are covered by the provisions of Act No. 104, Article 19 of Act No. 104 requires the Authority to cover the costs associated with judgments, expenses, and attorneys’ fees incurred by the Commonwealth in the legal representation of its directors, executive director, and employees. To the extent the Authority is unable to cover these costs and expenses, the Authority would be required to reimburse the Commonwealth from future revenues, as provided by the Secretary of the Treasury of the Commonwealth in consultation with the Authority’s board of directors.

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Contingencies – (continued)

Legal Contingencies – (continued)

Labor Related Claims

• Excess Vacation License Claim
  In 1999, the “Unión de Trabajadores de la Industria Eléctrica y Riego” (“UTIER”) filed a claim on the Bureau of Conciliation and Arbitrage of the Puerto Rico Department of Labor and Human Resources (“PRDLHR”), against the Authority, for the accrued vacation balances over 450 hours based on the last ten years since July 24, 1989. On September 26, 2012, a PRDLHR arbitrator resolved that the claim was applicable to all of UTIER’s membership and that the Authority has to pay from 1995 through 2015. On April 17, 2015, the Arbitrator issued a judgment which determined that the Authority has been in noncompliance and ordered the Authority to pay claimants the following:

  a) Two times the corresponding salary for the balances in excess of 60 days that the union employees had or have since August 1, 1995 until the date of the decision based on Act No. 84 of 1995 and Act 180 of 1998.

  b) Should pay to each employee the same amount for the concept of the penalty plus the legal interest since the day of the decision in accordance with Act No. 180 of 1998.

  c) 10% of the amount for attorney’s fees

Act No. 17 of April 17, 1931, Sec. 8, as amended, establishes that the penalty to the claim amount should be the same as the amount owed. In addition, since the plaintiff had to file the case in Court, the total amount owed will be double of the sum of the claim amount, plus the aforementioned penalty.

On May 18, 2015, the Authority filed a suit to vacate PRDLHR’s arbitration award in the San Juan Court of First Instance. On April 18, 2016, the Court determined that the Arbitrator’s decision was justified based on the facts and documents submitted to the PRDLHR, and therefore, dismissed the Authority’s case. On May 20, 2016, the Authority appealed the dismissal to the Puerto Rico Court of Appeals. The appeal was automatically stayed as a result of the filing of the Authority’s Title III petition and on November 17, 2017, the Court of Appeals issued a ruling confirming the stay of the proceedings. Management’s estimate of loss contingency has been accrued in the accompanying financial statements.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

*Labor Related Claims – (continued)*

- **Christmas Bonus**

On December 17, 2014, UTIER filed a claim against the Authority with the Puerto Rico Labor Relations Board due to the Authority’s decision to reduce employee Christmas bonuses due in December 2014 to approximately $600, in accordance with Article 11 of Act 66 of June 14, 2014. UTIER claimed that, as of June 30, 2014, the December 2014 Christmas bonus was already earned. On May 31, 2017, the Hearing Officer issued a recommendation to the Board that the Authority should be ordered to pay the remaining amount of the Christmas bonus paid in December 2014.

On July 31, 2017, the Authority informed the Puerto Rico Labor Relations Board that the Title III stay was in effect due to the Authority’s Title III petition. Thereafter, the Puerto Rico Supreme Court ordered the Puerto Rico Labor Relations Board to evaluate, on a case by case basis, all monetary claims where the Authority is the defendant, to determine whether or not the cases are stayed under PROMESA. After the Title III stay is lifted, should the Authority not succeed in its defense, management has estimated a probable loss including penalties, which is recorded as a liability in the statement of net position (deficit).

In addition, in 2014, a group of the Authority’s management employees presented to the Public Service Appeals Commission a claim against the Authority related to the December 2014 Christmas bonus, which was reduced to $600, in accordance with Article 11 of Act 66 of June 14, 2014. The Commission has not issued a resolution with regard to this matter. The case has been stayed as a result of the filing of the Authority’s Title III petition.

- **Re Employment Bargaining Agreement Violations**

In May 2010, UTIER submitted to the PRDLHR a total of 171 claims against the Authority, for violations of the collective bargaining agreement. Around this time, the Authority recruited new employees, and previously displaced emergency employees were not considered for these roles, pursuant to the collective bargain agreement entered into with UTIER. The Arbitration hearing
Contingencies – (continued)

Legal Contingencies – (continued)

Labor Related Claims – (continued)

was held on May 14, 2010. On June 18, 2013, the Arbitrator concluded that the Authority violated the collective bargain agreement, since it did not give priority to displaced employees before hiring new employees. The Authority was ordered to pay all of the salaries that would have been earned by the previously displaced employees since the date the new employees were hired. Management’s estimate of loss contingency has been accrued in the accompanying financial statements.

On August 24, 2015, the Authority began the process of paying the amounts owed, but UTIER requested that double the penalty be applied pursuant to Puerto Rico law, because the claims are salary related. The Authority did not accept UTIER’s double penalty claim. After the PRDLHR considered the new claim, on August 10, 2017, an Arbitrator concluded that UTIER’s double penalty claims did not apply. The case was stayed due to the Authority’s Title III filing.

• Mealtime Penalty Claim

In 1999, the “Unión Insular de Trabajadores Industriales y Construcciones Eléctricas” (“UITICE”) filed a claim with the PRDLHR against the Authority for payment of salaries for work performed during the period established for mealtime (i.e., outside the regular work schedule) over certain years. On December 31, 1997, UITICE and the Authority signed a stipulation in accordance with Act 41 of 1990. Through this stipulation, the Authority would pay a penalty for work performed during an agreed upon mealtime period from the time Act 41 of 1990 became effective until the date of the stipulation. After the agreement, the Puerto Rico Supreme Court resolved another case in which it stated that workers’ right to a mealtime period existed since 1974. Thereafter, UITICE requested an Arbitrator with jurisdiction over the case provide retroactive relief in accordance with the Supreme Court’s decision. On July 7, 2000, the PRDLHR issued a new decision in which it determined that the stipulation signed on December 31, 1997 was not final, and determined that the payment should be retroactive, as per Supreme Court’s decision. On January 24, 2014, the parties signed a new stipulation. This payment was halted due to Act 66 of 2014. On December 19, 2014, the San Juan Superior Court approved the stipulation and ordered payment pursuant to the stipulation’s terms. The Authority appealed this ruling, and on February 21, 2017, the Court of Appeals rejected the Authority’s appeal. On June 30, 2017, the parties signed a new stipulation to comply with the court order. The case has
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Notes to the Financial Statements – (continued)  

For the Year Ended June 30, 2018  

Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Labor Related Claims – (continued)

been stayed as a result of the filing of the Authority’s Title III petition. Management’s estimate of loss contingency has been accrued in the accompanying financial statements.

• Other Cases Related to Collective Bargaining Agreement Matters

In 2007, UTIER filed with the Puerto Rico Labor Relations Board a claim against the Authority because of multiple violations to collective bargaining agreement provisions that the Authority did not comply with from December 11, 2006 through August 23, 2008. These violations include issues regarding work schedules, daily relief for on-duty employees, and publication of available job positions within the Authority.

On April 23, 2014, the Puerto Rico Labor Relations Board resolved that the relevant collective bargain agreement provisions at issue should have been implemented during the period at issue. On July 16, 2014, the Authority appealed this decision to Puerto Rico Court of Appeals. The process to determine payment amount was stayed as a result of the filing of the Authority’s Title III petition. Management’s estimate of loss contingency has been accrued in the accompanying financial statements.

CAPECO Litigation

In 2009, a large fire at an industrial facility for the storage of fuel and diesel products owned by CAPECO caused major damage to surrounding areas. The Authority stored some of its fuel at this facility. In the aftermath of the fire, numerous claims were filed against CAPECO. Some of the plaintiffs included the Authority as a defendant in these suits, alleging that the Authority failed in its duty (as the owner of fuel stored at the site) to properly monitor CAPECO’s operations in the storage facility. On August 12, 2010, CAPECO filed for bankruptcy. As a result, all proceedings against CAPECO were stayed. Subsequently, CAPECO’S bankruptcy proceeding ended, though the Authority began its Title III proceeding. Claims against the Authority are stayed due to the Authority having filed its Title III petition. Since this contingency does not meet the probable criteria, no liability was recorded in the accompanying statement of net position (deficit) related to this contingency.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Consumer Billing Litigation

• Ismael Marrero, ET AL. V. The Authority, ET AL.

This is a class action lawsuit against the Authority, William A. Clark, Edwin Rodríguez, and César Torres, as well as several laboratories, and oil supply companies. The plaintiffs claim that the defendants entered into a RICO conspiracy whereby the Authority paid for noncompliant fuel oil at compliant fuel oil price, in exchange for kickbacks from the individual defendants. Plaintiffs further alleged that they were overcharged under monthly electricity invoices as a result of the alleged RICO conspiracy. The District Court bifurcated the case and, subsequently, certified the class. Defendants appealed the decision but class certification was affirmed by the U.S Court of Appeals for the First Circuit.

The Authority was litigating the case vigorously, defending the merits phase of the case and denying all allegations. Plaintiffs are not claiming at this time a specific amount of damages. In the unlikely event that plaintiffs were to prevail on the merits, the amount of damages to be awarded would depend on expert testimony. At present, the case is stayed as a result of the Authority filing for protection under Title III of PROMESA. Management’s estimate of loss contingency has been accrued in the accompanying financial statements.

• Pedro Santiago V. AEE, ET AL.

The case of Pedro Santiago v. AEE, et al., Civil No. KPE20160618, is a consumer class action against the Authority under 32 L.P.R.A. § 3341, also claiming unjust enrichment, damages of up to approximately $600 million, antitrust violations, and requesting permanent injunction. A proposed class of plaintiffs, all of whom are residential energy consumers, are challenging the fuel adjustment charge and the purchase of energy charge on various grounds, including breach of contract claims. The Authority answered the complaint, which was thereafter amended. The case is stayed as a result of the Authority filing for protection under Title III of PROMESA. Once the stay is lifted, the Authority will vigorously defend the case and maintains that there is no cause of action against the Authority. Management’s estimate of loss contingency has been accrued in the accompanying financial statements.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

PREPA v. Vitol Inc.

In 2009, the Authority filed suit in the San Juan Court of First Instance against Vitol, Inc. and Vitol S.A. (collectively, “Vitol”) seeking declaratory judgment as to the nullity of two fuel supply agreements due to the Vitol’s failure to disclose (a) certain corruption criminal charges to which Vitol S.A. pled guilty and (b) various other investigations. The Vitol removed this suit to the U.S. District Court for the District of Puerto Rico (“District Court”) and presented a counterclaim alleging that the Authority owed Vitol, Inc. approximately $45 million, consisting of approximately $28 million in fuel that was delivered to, and used by, the Authority and approximately $17 million for reimbursement of excise taxes, plus interests, costs, and attorney’s fees. The Authority requested remand of the case back to the Court of First Instance.

On November 28, 2012, the Authority filed a second complaint against Vitol in the Court of First Instance seeking essentially the same remedies sought in the first action but as to four other contracts, after discovery revealed the date in which Vitol learned of the investigations in the corruption cases. Vitol also removed this action to the District Court. The Authority requested remand back to the Court of First Instance.

The two cases were consolidated by the District Court. The Authority claims approximately $3.89 billion in the aggregate. Vitol, Inc. has resolved the claim for approximately $17 million in excise taxes and has stated that it will amend its counterclaim to dismiss that claim. Discovery in the case was closed.

The case was remanded to the Court of First Instance and that forum set November 15, 2019 as the date for the Authority and Vitol to file simultaneous motions for summary judgment. On November 14, 2019, Vitol removed the case again to the District Court in the Title III proceedings, due to the Special Claims Committee in the Title III Proceedings having filed an amended complaint in an adversary proceeding alleging claims against Vitol under the contracts in question in the Court of First Instance proceedings. The Authority moved for remand to the Court of First Instance once again, but the District Court denied the Authority’s motion for remand on March 13, 2020. The case is currently before the District Court as an adversary proceeding in the Title III proceedings.
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Notes to the Financial Statements – (continued)  
For the Year Ended June 30, 2018  

Note 18 - Commitments and Contingencies – (continued)  

Contingencies – (continued)  

Legal Contingencies – (continued)  

Since the contingency related to the counterclaim in this case does not meet the probable criteria, no liability was recorded in the accompanying statement net position (deficit) related to this contingency.  

Tradewinds Energy Barceloneta LLC and Tradewinds Energy Vega Baja Arbitration  

The Authority and Tradewinds Energy LLC entered into two Power Purchase and Operating Agreements (“Tradewinds PPOAs”) to develop aeolic (wind) energy facilities, which were assigned to Tradewinds Energy Barceloneta and Tradewinds Energy Vega Baja (collectively Tradewinds). On January 18, 2016, Tradewinds filed a demand for arbitration under the two Tradewinds PPOAs claiming approximately $30 million in damages. The parties have already selected the arbitrator but have yet to execute the arbitration submission agreement so that the Authority may proceed to answer the claim for arbitration. The Authority will deny any and all liability to Tradewinds and denies having breached any obligations under the Tradewinds PPOAs. The case has been stayed as a result of the filing of the Authority’s Title III petition. Since this contingency does not meet the probable criteria, no liability was recorded in the accompanying statement of net position (deficit) related to this contingency.  

ReSun (Barceloneta) LLC Litigation and Arbitration  

ReSun (Barceloneta) LLC (“ReSun”) and the Authority entered into a Power Purchase and Operating Agreement (“ReSun PPOA”). ReSun claims that the Authority breached its obligations under the ReSun PPOA and demanded arbitration. The Authority asserted that it did not have to submit to arbitration yet and, on December 30, 2015, ReSun filed a complaint before the San Juan Court of First Instance to compel the Authority to submit to arbitration. Thereafter, the Authority filed a motion for summary judgment, and, on April 20, 2016, the State Court granted the Authority’s motion and dismissed the complaint to compel arbitration. On June 23, 2016, ReSun appealed the judgment of dismissal. The Authority filed its responsive brief. The Court of Appeals affirmed the summary judgment of dismissal. ReSun filed a petition for certiorari before the Puerto Rico Supreme Court, which was stayed as a result of the filing of the Authority’s Title III petition. Management believes that the case has no merit and no accrual has been made. Since this contingency does not meet the probable criteria, no liability was recorded in the accompanying statement of net position (deficit) related to this contingency.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

PBJL Energy Corporation Litigation v. The Authority

On December 20, 2011, the Authority and PBJL Energy Corporation (“PBJL”) entered into a Master Renewable Power Purchase and Operating Agreement (“PBJL MPPOA”) pursuant to which PBJL, in its discretion, could propose to the Authority solar photovoltaic energy projects pursuant to which, if the Authority’s system could interconnect the proposed projects, and the Authority accepted a proposed site and interconnection point, the Authority and PBJL could enter into a Power Purchase and Operating Agreement (“PBJL PPOA”). On May 5, 2015, PBJL filed a complaint against the Authority and various employees in their official and personal capacities, claiming that the Authority had an obligation to award PBJL PPOAs to PBJL and that the Authority breached its obligations under the PBJL MPPOA by refusing to award PBJL PPOAs to PBJL under the PBJL MPPOA. On June 2, 2015, PBJL filed a complaint against the Authority and various employees in their official and personal capacities, claiming that the Authority had an obligation to award PBJL PPOAs to PBJL and that the Authority breached its obligations under the PBJL MPPOA by refusing to award PBJL PPOAs to PBJL under the PBJL MPPOA. On June 2, 2015, PBJL filed an amended complaint. On July 30, 2015, the Authority’s defendant employees filed a motion to dismiss the complaint against them in their personal capacities, which was granted by the court. On August 10, 2015, the Authority answered the amended complaint.

PBJL claims damages in the amount of approximately $210 million. The Authority has denied any liability to PBJL and has asserted that the Authority did not have the obligation to award a PBJL PPOA to PBJL under the PBJL MPPOA because the same is not a contract, and that, to the extent that the PBJL MPPOA is a contract, the same is null and void for lack of consideration and due to PBJL’s failure to provide the Authority the sworn statement required by Act 458 of 2000, as amended, among other defenses raised by the Authority in its answer to the complaint. The case was in the stage of discovery proceedings, however, on August 30, 2017 the Puerto Rico Court of First Instance stayed this case due to the Title III filing under PROMESA by the Authority. Since this contingency does not meet the probable criteria, no liability was recorded in the accompanying statement of net position (deficit) related to this contingency.

CMA Builders

This is a cash collection action related to a bid bond furnished with the proposal forfeited in favor of the Authority. It was furnished after CMA Builders was awarded the bid for supplying fuel oil but later failed to enter into a contract with the Authority. A motion to reconsider was filed before the Puerto Rico Court of Appeals. This was denied by such court on May 19, 2017. On June 26, 2017, the Authority filed a petition for writ of certiorari with the Puerto Rico Supreme Court. The Supreme Court issued a resolution staying the case due to the Title III stay of PROMESA by the Authority. Since this contingency does not meet the probable criteria, no liability was recorded in the accompanying statement of net position (deficit) related to this contingency.
Note 18 - Commitments and Contingencies – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

The case continued and the judgment was affirmed by the Puerto Rico Supreme Court. The Authority paid a bid bond of approximately $2.1 million, which is included in the accompanying statement of net position (deficit), on March 3, 2020. This case is now closed.

Bodily Injuries Claims

The Authority is a defendant in several legal claims arising from different separate individuals, claiming physical bodily injuries suffered by coming into contact with wires and similar accidents and events. Aggregate claims amount to approximately $150 million.

The Authority has accrued approximately $6 million in the accompanying statement of net position (deficit) as a contingent liability to settle these legal claims but intends to continue to defend the cases vigorously. These claims are stayed as a result of the filing of the Authority’s Title III petition.

Tec General Contractors v. The Authority

Judgment was entered against the Authority and CSA jointly for approximately $1.2 million. The Authority was also found liable for administrative expenses and retainer fee for a total of approximately $174 thousand. The case was appealed by the Authority and CSA. On July 19, 2017 the Authority filed Notice of Stay, having filed for bankruptcy under PROMESA on July 2, 2017. The case was stayed. Plaintiffs moved for reconsideration for stay as to CSA to be lifted. Both the Authority and CSA opposed the petition for reconsideration and the same was denied. Thereafter, the parties prepared a Stipulation to modify the stay so as to continue the case against CSA exclusively. On January 26, 2021, the Puerto Rico Court of Appeals issued a judgment, notified on January 29, 2021 where it partially reversed the trial court’s judgment. In particular, it reversed the trial court’s determination that plaintiff TEC was to be reimbursed all additional costs caused by the implicit change in construction material and affirmed payment to TEC of all amounts withheld or retained. TEC filed a Motion for Reconsideration on February 8, 2021, thereby tolling the 30 days term to file an appeal before the Puerto Rico Supreme Court. However, the Court of Appeals denied Motion for Reconsideration and TEC has filed an appeal before the Supreme Court. Management’s estimate of loss contingency has been accrued in the accompanying financial statements.
Note 19 - Subsequent Events

Subsequent events were evaluated through October 6, 2021 to determine if any such events should either be recognized or disclosed in the 2018 basic financial statements.

The Authority’s Fiscal Plan

On May 27, 2021, the Oversight Board approved the most recent version of the Fiscal Plan for the Authority. On April 23, 2021, Oversight Board certified the 2020 Commonwealth Fiscal Plan (the “Commonwealth Fiscal Plan”). Even though the Authority has its own Fiscal Plan, the Commonwealth Fiscal Plan dedicates an entire subpart to energy reform, which is led by the Authority’s transformation. The Commonwealth Fiscal Plan provides that, over the next five years, the power sector in Puerto Rico must continue its transformation and modernization to support the delivery of reliable, clean, and affordable power. The Commonwealth must continue to implement a comprehensive energy sector reform to enable a successful transformation and unlock the resulting growth from Fiscal Plan projects. Pursuant to the Commonwealth Fiscal Plan, the successful transformation of Puerto Rico’s power sector depends on: (1) implementing regulatory reform and supporting by the Puerto Rico Energy Bureau (“PREB”), (2) transition the Authority’s electricity grid operation and generation assets to private operators through private public partnerships, while moving the energy system to 100% renewables, and (3) restructuring legacy debt obligations to be able to access capital markets and support the modernization of the power grid.

Restructuring Support Agreement

After the Authority’s Title III filing on July 30, 2018, the Authority, FAFAA, the Oversight Board and members of an ad hoc group of bondholders (the “Ad Hoc Group”), entered into a preliminary restructuring support agreement (the “2018 Preliminary RSA”) and associated term sheet. On May 3, 2019, the Oversight Board, FAFAA, and the Authority, reached a Definitive Restructuring Agreement with the Ad Hoc Group and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. (together with the annexes, exhibits and schedules attached thereto, the “2019 RSA”). On September 9, 2019, the 2019 RSA was amended to allow Syncora Guarantee, Inc. and National Public Finance Guarantee Corporation to become parties.

The 2019 RSA contemplates the issuance of new securitization bonds in a plan of adjustment for the Authority, which securitization bonds would be payable from a transition charge imposed on Authority’s customers and certain other electricity users, through a special purpose issuer in order to restructure at a discount the Authority’s outstanding long-term debt. Under the 2019 RSA, the bondholders would exchange their existing Authority bonds for two types of new securitization bonds. The Series A bonds would be exchanged for approximately 67.5% of the face amount of the existing bonds. The Series B bonds would be exchanged for 10% of the face amount of the existing bonds.
Note 19 - Subsequent Events – (continued)

Restructuring Support Agreement – (continued)

The repayment of the Series B bonds is contingent on the demand for electricity and the repayment of the Series A bonds. It is possible that the Series B bonds would not receive any repayment if the electricity demand is lower than projected in the fiscal plan and said bonds could be paid in full if the electricity demand is higher than projected. Certain settlements under the 2019 RSA are subject to approval of the Title III Court, discussed below under the Motion to Approve Settlements Embodied in the 2019 RSA. The parties under the 2019 RSA have certain termination rights, which may be exercisable.

The issuance of securitization contemplated under the 2019 RSA only becomes effective after confirmation of a plan of adjustment for the Authority and passage of any required legislation. As of this date, the Oversight Board has not filed a plan of adjustment for the Authority and neither the Governor of Puerto Rico, nor any Puerto Rico legislator, has presented to the Puerto Rico Legislature a bill to approve the transactions contemplated by the 2019 RSA.

Key Contested Motions and Adversary Proceedings in the Title III Cases

• Motion to Approve Settlements Embodied in the 2019 RSA

On May 10, 2019, the Oversight Board and FAFAA filed a motion seeking approval of certain settlements embodied in the 2019 RSA (the “9019 Motion”). Certain parties filed objections on October 30, 2019. However, in response to the spread of COVID-19 and its effects on the people and economy of Puerto Rico, on March 27, 2020, the Oversight Board and FAFAA asked the Title III Court to adjourn all hearing and briefing deadlines in connection with the 9019 Motion. The Court granted the motion, and the 9019 Motion is currently stayed.

• Stay Relief Motion

On July 18, 2017, certain financial creditors and insurers of bonds filed a motion seeking to lift the automatic stay in the Authority’s Title III case in order to file an action in the Commonwealth court seeking the appointment of a receiver for the Authority to oversee certain of its operations, and to seek an increase in rates.

On September 14, 2017, the Title III Court denied the requested relief to lift PROMESA’s automatic stay, but, on August 8, 2018, the U.S. Court of Appeals for the First Circuit vacated the District Court’s order.
Key Contested Motions and Adversary Proceedings in the Title III Cases – (continued)

• Renewed Stay Relief Motion

On October 3, 2018, certain monoline insurers of the Authority’s bonds filed a renewed motion to lift the automatic stay in order to initiate local court proceedings seeking to appoint a receiver (the “Renewed Lift Stay Motion”). The monoline insurers sought relief to install a receiver over management at the Authority but did not seek authority for a receiver to increase rates or exert control over energy planning or budgets. On May 3, 2019, the Oversight Board, FAFAA, and the Authority, entered into the 2019 RSA with a substantial portion of the Authority’s bondholders and with Assured Guaranty Corp. and Assured Guaranty Municipal Corp., who were parties to the Renewed Lift Stay Motion. On September 9, 2019, the remaining parties to the Renewed Lift Stay Motion, National Public Finance Corporation, and Syncora Guarantee Inc., joined the 2019 RSA.

Litigation on the Renewed Lift Stay Motion is currently stayed pending a ruling on the 9019 Motion. If the Court grants the 9019 Motion, the Renewed Lift Stay Motion will be dismissed.

• UTIER’s Challenge to Local Fiscal Laws

On August 7, 2017, UTIER filed an adversary proceeding within the Title III case in the District Court challenging several laws of the Commonwealth of Puerto Rico enacted to deal with the fiscal crisis. The laws challenged by UTIER are: Act 66 of 2014, Act 3 of 2017, Act 8 of 2017, and Act 26 of 2017. On April 30, 2021, the Title III Court entered amended scheduling orders with regard to motions to dismiss UTIER’s amended complaint and dispositive motions, in general, through September 27, 2021.

• Current Expense Litigation

a. Fuel Line Lenders

On July 9, 2019, the successor administrative agent for Authority lenders under the Credit Agreement, dated as of May 4, 2012, and certain lenders to the Authority under the “Trade Finance Facility Agreement,” dated as of July 20, 2012, (collectively, the “Fuel Line Lenders”) filed a complaint against the Authority and other parties.
Note 19 - Subsequent Events – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Cases – (continued)

The Fuel Line Lenders requested the Title III Court to enter judgment declaring that all amounts allegedly owed to them are current expenses under the 1974 Trust Agreement and assert they must be paid before any further payments are made to the “Bond Trustee” or bondholders. The Authority, Oversight Board, and FAFAA filed motions to dismiss the amended complaint on November 11, 2019, and, on December 5, 2019, Plaintiffs replied. However, due to the COVID-19 pandemic, all the deadlines and the hearings have been adjourned.

b. PREPA ERS

On October 30, 2019, the Employees’ Retirement System of the Puerto Rico Electric Power Authority (the “PREPA ERS”) filed an amended complaint against the Authority and other parties. PREPA ERS requested the Title III Court determine that all amounts owed to the PREPA ERS are “Current Expenses” under the trust agreement because contributions made to pensions and the retirement system allegedly qualify as “Current Expenses” under the 1974 Trust Agreement. The PREPA ERS asserts these “Current Expenses” must be paid before any further payments are made to the Bond Trustee or the Authority’s bondholders.

The Authority, Oversight Board, and FAFAA jointly filed a motion to dismiss the amended complaint, which the PREPA ERS opposed. Thereafter, due to the COVID-19 pandemic, the Title III Court adjourned all the deadlines and hearings on this matter.

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Note 19 - Subsequent Events – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Cases – (continued)

• Lien Challenge

On July 1, 2019, the Authority, the Oversight Board, and FAFAA filed a complaint against U.S. Bank National Association (the “Trustee”) asking the Title III Court to (a)(i) declare that the Trustee’s security interest in the Authority’s property is limited to funds deposited to the credit of the “Sinking Fund” and “Subordinate Funds”; (ii) declare the Trustee has not perfected any security interest in any of the Authority’s property other than cash deposited to the credit of the Sinking Fund; (iii) avoid any security interest granted to the Trustee in any of the Authority’s property other than cash deposited to the credit of the Sinking Fund; preserving all avoided liens for the benefit of the Authority; (b)(i) declare contractual covenants and remedies set forth in the Trust Agreement are obligations of the Authority, not the Authority’s property, and do not and cannot constitute collateral in which the Authority has granted a security interest to secure the Authority’s bond debt; (ii) declare the Trustee has not perfected any security interest in any such covenants and remedies and that the Authority’s interest in such is entitled to priority over any interest of the Trustee under Puerto Rico law; (iii) avoid any security interest in such covenants and remedies, preserving all avoided liens for the benefit of the Authority; and (c) disallow all claims asserting security interests either not granted under the Trust Agreement or that are unperfected.

On July 16, 2019, the Title III Court entered an order staying the adversary proceeding until the earlier of: (i) 60 days after the Court denies the 9019 Motion; (ii) the consummation of a plan of adjustment; (iii) 60 days after plaintiffs file a notice to resume litigation; or (iv) a further Court order.

Superpriority Post Petition Revolving Credit Loan Agreement

As mentioned in Note 11, on February 22, 2018, the Authority and the Commonwealth entered into a Revolving Credit Loan Agreement (the “Revolving Loan Facility”). On March 8, 2019, the revolving credit facility was paid off by the Authority and terminated pursuant to its terms.

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Note 19 - Subsequent Events – (continued)

Transformation of the Authority

On January 22, 2018, then-Governor Rossello announced that the government would begin the transformation of the Authority. On June 20, 2018, then-Governor Rossello signed Act 120-2018, which establishes a legal framework for the disposition, transfer and sale of the Authority’s assets, operations, functions, and services. On April 11, 2019, then-Governor Rossello signed Act 17-2019 to establish public policy and the regulatory framework for Puerto Rico’s energy sector and sets the path for its transformation.

The Transformation of the Transmission and Distribution System ("T&D System") of the Authority

On October 31, 2018, the Governor announced the request for qualifications from interested entities in managing and operating the Authority’s electric power transmission and distribution system, pursuant to a long-term public private partnership agreement. After a robust and competitive procurement process that lasted more than 18 months, the Partnership Committee (the “Partnership Committee”) established by the Puerto Rico Public-Private Partnership Authority (the “P3 Authority”) pursuant to Section 5 of Act 120, as amended, determined to recommend to the board of directors of the P3 Authority (the “P3 Authority Board”) that the contract (the “T&D Contract”) for the management, operation, maintenance, repair, restoration, and replacement of the Puerto Rico electric power transmission and distribution system (the “Project”) be awarded to a consortium composed of: (i) ATCO Ltd. ("ATCO"), Quanta Services, Inc. ("Quanta") and Innovative Emergency Management, Inc. ("IEM"), which consortium has been incorporated as LUMA ("LUMA").

On June 22, 2020, the Governing Board and the Government of Puerto Rico, pursuant to the procedures set forth in Act 29-2009 (as amended), each approved the T&D Contract. Following these approvals, the T&D Contract was then signed by the parties on June 22, 2020.

On July 7, 2020, the Oversight Board, the Authority and FAFAA filed a motion seeking administrative expense status for all compensation related to the front-end transition services (the “LUMA Administrative Expense Motion”). Numerous parties objected to the LUMA Administrative Expense Motion.

On October 19, 2020, the Title III Court issued an opinion and order finding that the front-end transition obligations incurred and payable under the T&D Contract, other than late fees, are reasonable and necessary expenses of preserving the Authority under section 503(b)(1)(A) of the Bankruptcy Code and thus are entitled to administrative expense priority (the “LUMA Administrative Expense Decision”).
Note 19 - Subsequent Events – (continued)

Transformation of the Authority – (continued)

• Transformation of the Transmission and Distribution System (“T&D System”) of the Authority – (continued)

With respect to the late fees, the Title III Court found insufficient evidence to determine at this point that such fees are reasonable and necessary, so denied an administrative expense priority for such late fees, without prejudice to a further application at a later date. On October 26, 2020, UTIER, and ERS appealed the LUMA Administrative Expense Decision to the First Circuit where the case is currently pending.

On March 26, 2021, the Authority, FAFAA, and the Oversight Board filed a second motion for order allowing administrative expense claim for certain amounts owed to LUMA on account of a supplemental agreement related to the T&D Contract. UTIER, Whitefish Energy Holdings, LLC, PREPA ERS, Cobra Acquisitions, LLC, and the Committee all filed objections to the motion. On May 3, 2021, the Court issued an order granting the motion, and on May 13, 2021, UTIER and PREPA ERS appealed such order. The matter is pending before the First Circuit.

On April 20, 2021, UTIER filed an adversary proceeding against the Authority challenging the implementation of the T&D Contract with LUMA. In its complaint, UTIER asserts multiple causes of action with the ultimate goal of enjoining the Authority’s transition of management, operation, maintenance, repairs, and restoration responsibilities to LUMA and LUMA’s replacement of the T&D System. On April 26, 2021, UTIER filed a motion for a preliminary injunction to enjoin LUMA from taking over operations of the Authority’s T&D System. The Authority and other defendants opposed UTIER’s preliminary objection motion on May 5, 2021. After a hearing on the matter, on May 21, 2021, the Court issued an order denying UTIER’s motion for preliminary injunction. Responses to UTIER’s complaint are due July 19, 2021.

On May 6, 2021, PREPA ERS filed a complaint against the Authority with substantially similar causes of action as in the UTIER adversary proceeding. Responses to PREPA ERS’s complaint are due July 19, 2021.

On June 1, 2021, pursuant to the T&D Contract, LUMA took over the management and operation of the Authority’s electric power transmission and distribution system.
Note 19 - Subsequent Events – (continued)

Transformation of the Authority – (continued)

- Transformation of the Authority’s Generation

On April 16, 2019, the P3 Authority, in collaboration with the Authority, requested statements of qualifications (“SOQs”) from companies and consortia interested in developing, constructing, managing and operating new mobile or fixed (or a combination thereof) flexible distributed generation units to be located at various locations across Puerto Rico (the “Generation Units”), pursuant to a twenty-five year power purchase and operating agreement.

In addition, on July 12, 2019, P3 Authority, in collaboration with Authority solicited SOQs from companies and consortia interested in providing generation capacity to replace existing generation through a new facility to be located in northern Puerto Rico at a location on the grounds of or adjacent to the existing Palo Seco power plant, pursuant to a long-term public-private partnership contract.

On June 10, 2020, the P3 Authority selected the shortlisted respondents qualified to participate as proponents in the request for proposals.

On August 10, 2020, the P3 Authority, in collaboration with the Authority, issued a Request for Qualifications to identify, qualify and select one or more private operators to manage, operate and maintain the Authority’s legacy generation assets in order to achieve the following objectives: (i) introduce private sector operational expertise; (ii) increase the safety, reliability, resiliency and efficiency of legacy generation asset operations; (iii) increase cost efficiency in coordination with the T&D operator; and (iv) implement industry best practices and operational excellence, including compliance with environmental requirements. On October 22, 2020, the P3 Authority selected the shortlisted respondents qualified to participate as proponents in the request for proposals process.

Approval of $9.6 Billion to Repair Grid

In the month of October 2020, FEMA approved approximately $9.6 billion for the Authority to repair damage to its electric grid caused by Hurricane Maria in 2017. The federal funding is targeted to repair and replace thousands of miles of transmission and distribution lines, electrical substations, power generation systems, and other grid improvements. The FEMA funding will provide the necessary funding to help protect the electrical system and the people of Puerto Rico from future catastrophic events.
Note 19 - Subsequent Events – (continued)

Approval of $9.6 Billion to Repair Grid – (continued)

The FEMA funds will be used to bring the Authority’s electrical system up to standards capable of
withstanding a Category 4 hurricane. In December 2020, the Authority released a report that details
the projects that will be undertaken using the new FEMA funds. The Authority’s top priorities
include protecting critical infrastructure loads, transmission and distribution lines, and large
industrial loads that are essential to Puerto Rico’s economy the Authority expects to begin receiving
the FEMA funding in 2021. To that end, five investment focus areas were designated to meet the
Authority’s top priorities: (i) reliability and system resiliency; (ii) renewable integration; (iii) codes,
standards, and regulatory compliance; (iv) automation and modernization; and (v) hazard
mitigation. The initial funding will be allocated for the design process and then to procurement for
initial projects.

Supply of Natural Gas and Conversion of Units 5 and 6 of the San Juan Combined Cycle Power
Plant

On March 5, 2019, after a competitive RFP bid process, the Authority announced that it entered into
a contract with NFEnergía LLC, the Puerto Rico subsidiary of New Fortress Energy LLC, for the
supply of natural gas and conversion of Units 5 and 6 of the San Juan Power Plant. Construction of
liquified natural gas (“LNG”) receiving and vaporization facilities at Wharves A and B opposite the
San Juan Power Plant commenced in early summer 2019, and conversion of San Juan Units 5 and 6
to dual fuel (natural gas and diesel) capability commenced during fall 2019. The construction and
conversion project was substantially completed during the first quarter of 2020, both elements of
the project having been delayed by permitting issues, adverse weather conditions and the 2020
earthquakes. LNG has now been received into the NFEnergía LLC facility from vessels calling upon
San Juan Harbor, and natural gas has been made available for commissioning both Units 5 and 6 on
natural gas. The NFEnergía LLC LNG receiving and vaporization facilities and San Juan Units 5 and 6
became capable of supporting sustained full load operation of the Units on natural gas in June
2020. San Juan Units 5 and 6 have run primarily on natural gas since that time.

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Note 19 - Subsequent Events – (continued)

Supply of Natural Gas and Conversion of Units 5 and 6 of the San Juan Combined Cycle Power Plant – (continued)

On June 18, 2020, the U.S. Federal Energy Regulatory Commission (“FERC”) issued an “Order to Show Cause” directing New Fortress Energy LLC to show cause why the NF Energía LLC LNG handling facility is not subject to FERC’s jurisdiction under section 3 of the Natural Gas Act. The Authority entered into its agreement with NF Energía LLC on the assumption that FERC approval for the siting and construction of the LNG handling facility would not be required. New Fortress Energy LLC and the Authority have separately responded to the FERC order with arguments as to why the NF Energía LLC LNG handling facility should not be deemed to be subject to the Commission’s jurisdiction and stressing the environmental and economic benefits associated with the use of natural gas in place of diesel fuel in San Juan Units 5 and 6. The matter is currently before FERC, and the Authority cannot predict when FERC may act or what FERC action may entail.

On November 11, 2020, environmental advocacy organizations the Sierra Club and El Puente de Williamsburg Inc. (the “Environmental Groups”) filed a complaint against the Authority in the Court of First Instance in San Juan seeking preliminary and permanent injunctions and a declaratory judgment. In their complaint, the environmental groups assert that the NF Energía LNG handling facility was constructed unlawfully. The Environmental Groups seek preliminary and permanent injunctions suspending the operation of the NF Energía LNG handling facility.

OGPe filed a response to the Environmental Groups’ complaint on November 25, 2020. NF Energía filed a motion to dismiss the complaint on November 27, 2020 and filed an opposition to the requests for preliminary and permanent injunctions on December 1, 2020. The Court of First Instance held a preliminary hearing on December 1 and took the arguments under advisement. On December 2, 2020, the Court of First Instance dismissed the action for lack of standing.

On December 16, 2020, the Environmental Group’s moved for reconsideration of the judgment dismissing the case. The Court denied the motion. On February 1, 2021, the Environmental Groups appealed the judgment dismissing the case with the Puerto Rico Court of Appeals. On May 20, 2021, the Court of Appeals affirmed the Court of First Instance’s judgment.

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Note 19 - Subsequent Events – (continued)

Partial payment to the Authority from GDB Public Entity Trust

On November 29, 2018, the Government Development Bank for Puerto Rico (the “GDB”) completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the “GDB Qualifying Modification”). Under the GDB Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by a newly created public instrumentality—the GDB Debt Recovery Authority—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. In addition, pursuant to Act No. 109-2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the “GDB Restructuring Act”), claims on account of deposits held by the Commonwealth and other public entities were exchanged for interest in a newly formed trust created pursuant to the GDB Restructuring Act, titled the Public Entity Trust (the “PET”).

Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a “Non-Municipal Government Entity”) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity’s name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB after giving effect to the foregoing adjustment, including the Authority, received their pro rata share of interests in the PET, which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB. In accordance with the GDB Restructuring Act, and the Deed of Constitution of Trust, notarized deed no. 56, executed on November 29, 2018, by the GDB and the Department of Treasury of the Commonwealth of Puerto Rico, the Authority obtained a PET claim totaling approximately $107.5 million.

On February 12, 2019, GDB, as trustee of the PET, transferred approximately $15.3 million to the Authority, on account of its claim against the PET. The remaining assets of the assets of the PET (the “PET Assets”) consist of among other items, an unsecured claim against the Commonwealth of approximately $580 million, which is the subject of a proof of claim filed in the Commonwealth’s Title III case. The revenues to be generated by the PET Assets, if any, are uncertain at this time and, therefore, no assurances can be provided that the Authority will be able to collect on its remaining claim against the PET.
Note 19 - Subsequent Events – (continued)

Cobra and Whitefish Administrative Claims Against the Authority

Whitefish Energy Holdings, LLC (“Whitefish”) and Cobra Acquisitions, LLC (“Cobra”) filed motions with the Title III Court requesting administrative expense status for certain amounts contemplated under the Authority’s contracts with them for work performed to restore the electric system as a result of damages caused by Hurricane Maria. The motions are currently stayed or adjourned. If the motions are ultimately heard and the Court finds that either Cobra or Whitefish are entitled to administrative expense claims above amounts obligated by FEMA, there could be an adverse impact on the Authority’s liquidity.

U.S. Internal Revenue Service Examinations

The United States Internal Revenue Service (“IRS”) issued several letters dated from February 7, 2019 to September 6, 2019 to the Authority, to inform that the IRS is conducting certain investigations. The investigations are related both (i) to certain Forms 8038-CP Return for Credit Payments to Issuers of Qualified Bonds, as defined by the IRS, and Series YY and EEE bond issuances and (ii) the Form 8038-B with respect to the Series EEE bond issuance, regarding its qualification as Build America Bonds.

On July 14, 2020, the IRS also issued “30-day” letters to the Authority, requesting disgorgement of BAB Subsidy Payments received on and after July 1, 2017 and denying the Authority’s request for BAB Subsidy Payments for subsequent periods.

On August 14, 2020, the Authority appealed the IRS determination in the “30-day” letters and argued the following:

• **EEE Paid Subsidies:** The IRS improperly adjusted the credits under section 6431 resulting in a total exam adjustment deficiency of approximately $10 million, including interest.

• **EEE Unpaid Subsidies:** The IRS improperly denied the Issuer’s claim for the section 6431 credit claimed on Form 8038-CP for the interest payment dates through April 1, 2020, for a total of approximately $12.4 million. On March 2021, the Authority filed Form 8038 CP to claim subsidy payment for the quarterly periods from July 2020 through April 2021 for approximately $7.1 million.

YY Paid Subsidies: the IRS improperly adjusted the credits under section 6431 resulting in a total exam adjustment deficiency of approximately $9 million, including interest.
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  

Notes to the Financial Statements – (continued)  

For the Year Ended June 30, 2018  

Note 19 - Subsequent Events – (continued)  

U.S. Internal Revenue Service Examinations – (continued)  

- YY Unpaid Subsidies: The IRS improperly denied the Authority’s claim for the section 6431 credit claimed on Forms 8038-CP for the interest payment dates through April 1, 2020, for a total of approximately $11.3 million. On March 2021, the Authority filed Form 8038 CP to claim subsidy payment for the quarterly periods from July 2020 through April 2021 for approximately $6.5 million. Since such date the Authority has not filed for any subsidy payments.  

On August 11, 2020, the Authority received a letter closing the examination of the Form 8038-B and Build America Bond qualification of the Series EEE bond issuance without change. With regards the examinations relating to the Series YY and Series EEE Bond subsidies under the forms 8038-CP, as of June of 2021, these examinations are still open at the IRS office of appeals.  

Puerto Rico Energy Bureau (“PREB”) Orders  

On June 27, 2019, the PREB ordered the Authority to prospectively implement a total of approximately $15.3 million, net in several rider adjustments, related to charges collected from its clients during each of the years ended June 2017, 2018 and 2019, to be recovered/paid during fiscal year 2020. This order included, among other reconciling charges, the differential between the Provisional Rate of $1.299 cents/kWh approved on June 24, 2016, and the Permanent Rate of $0.9948 cents/kWh to be implemented starting May 1, 2019 as part of the new tariff structure. In addition to the implementation of the Permanent Rate, this new tariff structure includes the implementation of new riders to recover the cost of several subsidies and the CILT. These amounts receivable/payable are recognized when billed.  


On December 28, 2019, the first of many earthquakes shook Puerto Rico and its people. On January 8, 2020 President Trump issued an Emergency Declaration for Puerto Rico, wherein direct federal assistance was granted to aid Puerto Rico in the preliminary damage assessments after Puerto Rico experienced an earthquake with magnitude of 5.8 on the Richter scale on January 6, 2020 and the next day was hit by the most destructive earthquake in a century with a magnitude of 6.4 on January 7, 2020.  

This increase in seismic activity collapsed homes and schools and knocked out power. Since then, there have been more than 500 earthquakes of magnitude 2 or greater, primarily in the southern region of the Island. Thousands have been forced into “refugee camps” as they are afraid to sleep in homes that could collapse in an aftershock.

The disaster declaration was issued on January 16, 2020, wherein 6 municipalities were approved for the Individual Assistance (“IA”) Program (Guánica, Guayanilla, Peñuelas, Ponce, Utuado and Yauco) and 6 municipalities were approved for the Public Assistance Program, for Category A and Category B work (Guánica, Guayanilla, Peñuelas, Ponce, San Germán and Yauco). Since that time, 9 municipalities have been added to the IA Program and 8 municipalities to the Public Assistance Program.

The damage claims are currently being prepared with the support of the insurance company. In addition to the structural damage, the psychological impact of an additional and ongoing wave of natural disasters while Puerto Rico is still in the preliminary stages of rebuilding from Hurricanes Irma and Maria cannot be understated, yet it is too early to quantify the psychological impact on outmigration.

The Costa Sur power plant in the southern town of Guayanilla, experienced significant damages to Costa Sur units # 5 (410 megawatts (MW) and # 6 (410MW), and to ancillary equipment serving those units. The damaged units provide approximately 25% of the baseload generated electricity used by homes and businesses on the Island.

On March 12, 2020, the Authority published the request for proposals 102750: RFP for Temporary Emergency Generation (“RFP 102750”). Through RFP 102750 the Authority intended to acquire temporary capacity and energy to replace the loss of 820 MW of the Costa Sur base load until the facility is repaired.

Later, the Authority’s management decided to embark in the process of repairing Costa Sur Unit no. 5 and on May 22, 2020, the PREB entered a resolution and order approving a budget of approximately $25.2 million to repair the Costa Sur power plant’s units 5 and 6. PREB also allowed the Authority to obligate an additional $15 million for the repairs. In addition, the PREB ordered the Authority to submit a biweekly report on the status of the repairs and budget utilization. Due to the restoration process the Authority entered into, on May 30, 2020, a cancellation letter for the Request for Proposal was sent out to all participants, after it had been determined it was in the Authority’s best interest.

In August 2020, the Costa Sur power plant Unit 5 was returned to service; while the Costa Sur power plant unit 6 was placed back in service on January 2021. As of June 2021, the Authority has received approximately $238 million from FEMA and approximately $52 million from several insurance companies.
Order by PREB to Monitor the Fuel and Power Purchase Charge Adjustment Clauses

After a period of monthly review of the Authority’s operational costs due to oil price declines and market uncertainty, on July 28, 2020, PREB determined that the oil prices have stabilized. Therefore, the process to reconcile the Authority’s power purchase charge adjustment riders, fuel charge adjustment, and fuel oil subsidy adjustment clauses and calculate the rider’s factors will return to the regular process of quarterly revisions.

Renegotiation of Power Purchase Operating Agreements

To better align the Authority’s finances with the objectives of the Authority’s operating Fiscal Plan pursuant to the Title III process, the Authority’s management carried out direct negotiations with nine (9) counterparties to existing PPOAs relating to operating renewables projects beginning in late 2019, to amend their agreements to provide a targeted 10% savings over the remainder of the contracts. The Authority reached agreement with seven (7) of the nine (9) counterparties to the Operating PPOAs. The Authority obtained approval for the execution of PPOA Amendment from the (i) FOMB on September 30, 2020; (ii) PREB on October 16, 2020 and October 19, 2020; and (iii) P3A on November 5, 2020. Given the foregoing, the Authority proceeded with the execution of the PPOA’s Amendment between January and February 2021.

a. EcoEléctrica and Naturgy Amended Power Purchase Operating Agreements

EcoEléctrica, L.P. (“ECO”) and the Authority are parties to a PPOA executed on March 10, 1995. Naturgy Aprovisionamientos S.A. (“Naturgy”) and the Authority are parties to a tolling service agreement and a natural gas sale and purchase agreements (“GSPAs”) dated October 31, 1997 and March 10, 2014, respectively.

The ECO PPOA and Naturgy GSPA provided the contractual basis for a program (the “LNG-to-Power Program”) under which (i) Naturgy imported LNG into Puerto Rico at a LNG terminal facility, owned by ECO and located in Peñuelas (the “ECO LNG Terminal”), converted the LNG to natural gas and sells such natural gas to the Authority for supply to Costa Sur Generation Facility under the terms of the Pre-Restatement GSPA, and (ii) ECO imported LNG into Puerto Rico, converted the LNG into natural gas at the ECO LNG Terminal for supply to the ECO Generation Facility and sold the power generation capacity and energy of such facility to the Authority under the terms of the Pre-Restatement PPOA. The Naturgy GSPA was set to expire on December 2020 and the Naturgy PPOA was set to expire on March 2022.
Note 19 - Subsequent Events – (continued)

Renegotiation of Power Purchase Operating Agreements – (continued)

a. EcoEléctrica and Naturgy Amended Power Purchase Operating Agreements – (continued)

Maintaining the ECO and Naturgy contractual relationships and the LNG-to-Power program was of critical importance to the Authority. Thus, the Authority entered into separate renegotiations of the contracts with Naturgy and ECO on a bilateral basis to extend their term and realize cost savings. By July 2019, the parties had agreed to proposed amendments, which (i) extend the LNG-to-Power Program until September 2032, (ii) restructure the fuel supply arrangements such that (a) Naturgy imports LNG, converts such LNG into natural gas through the ECO LNG Terminal and sells this natural gas to the Authority for delivery to each of the Generation Facilities, and (b) the Authority supplies (but does not sell) natural gas to the ECO Generation Facility, (iii) restructure the Pre-Restatement PPOA such that ECO makes available power generation capacity from the ECO Generation Facility for dispatch, utilizing the natural gas supplied by the Authority, in exchange for a monthly payment by the Authority (as further defined in the ECO PPOA, the “Capacity Payment”), and (iv) will reduce the Authority’s purchase costs of power and fuel.

Under the ECO PPOA, the Authority negotiated a reduction in the Capacity Payment. The Capacity Payment savings are partially offset by increased fuel costs, the net reduction still corresponds to approximately $35 million annually in savings, which will be passed along to ratepayers. Further, the renegotiated Naturgy GSPA removed a mechanism that acted as a built-in pricing hedge to oil. The Authority projects that removing the hedge to oil and reducing the adder fee will result in average savings for the Costa Sur Facility. These savings are based upon fuel commodity price forecasts, which predict that natural gas prices will remain much lower than oil prices over the next decade.

The Authority determined that the renegotiated contracts provide the Authority with significant cost savings, which will be critical to its operations and ability to meet its debt service obligations while it proceeds through its Title III case, ensuring the utility a reliable and continuous source of power and natural gas on reasonable terms.

In accordance with the Authority’s operating Fiscal Plan, the Authority renegotiated the power purchase operating agreements (“PPOAs”) to procure a reduction in their current prices. On March 27, 2020, the Authority and EcoEléctrica (the parties) entered into an Amended & Restated PPOA. The Parties signed a Conditions Precedent Certificate on October 22, 2020, signaling its full effectiveness. The term of the Amended & Restated PPOA runs through September 30, 2032 and has an estimated contract amount of approximately $2.0 billion.
b.  **Freepoint Fuel Supply Contract**

The Authority uses Fuel Oil No. 6 (i.e., heavy fuel oil referred to as “F6”) for the operation of the Authority’s steam plants in Aguirre, Costa Sur, San Juan, and Palo Saco (the “Power Plants”). In 2015, the Authority entered into the “Fuel Supply Contract” with Freepoint for the supply of F6 pursuant to a competitive RFP process.

Under the Fuel Supply Contract, the Authority is provided a $200 million credit line with 42-day payment terms. Freepoint may provide the Authority an additional thirty (30) days on the credit line if the Authority submits certain certifications in connection with each of Freepoint’s fuel deliveries, thereby extending the Authority’s payment terms to 72 days from delivery. Generally, such a certification attests to the Authority’s financial conditions and warrants that the Authority will provide for payment of the Freepoint fuel. Freepoint may assign receivables to a receivables assignee that is a beneficiary of the Fuel Supply Contract.

The Fuel Supply Contract has been amended several times, most recently on September 4, 2019, when the Court entered an order approving the fourth amendment of the Fuel Supply Contract (the “2019 Amendment”) pursuant to the 2019 Amendment Motion. The 2019 Amendment extended the term of the Fuel Supply Contract through and including October 31, 2020, with one automatic extension of one year unless either party indicated its intention not to carry out the automatic extension. The 2019 Amendment also altered the fixed-price adders to reflect transportation and other variable costs, reduced the line of credit from $250 million to $200 million, and added a covenant that if the Authority were to sell any of its plants, any new owner or operator would be bound by the terms of the Fuel Supply Contract until its expiration.

Beginning in March 2020, the COVID-19 pandemic and geo-political tension between major oil producing nations have had a significant impact on global markets and the price of fossil fuels. As a result, the price of oil has dropped more than 60% since January of 2020, which has translated into a reduction in prices of petroleum derivatives.

In order to receive an advantage of the current low market price of bunker fuel oil, the Authority approached Freepoint and inquired about ways to secure low long-term bunker fuel oil pricing. On May 5, 2020, Freepoint proposed an amendment to the Authority, which includes: (i) a one-year contract extension from the current expiration date of October 30, 2020 and (ii) an amendment to a fixed price. This fixed price will apply from the execution of this amendment until December 31, 2020. Any Fixed Price Volume not delivered to the Authority
Note 19 - Subsequent Events – (continued)

Renegotiation of Power Purchase Operating Agreements – (continued)

b. Freepoint Fuel Supply Contract – (continued)

in a given month may be added to the Fixed Price Volume for the following month, and any oil purchased in excess of the Fixed Price Volume or after December 31, 2020 will be priced according to the fourth amendment of the Fuel Supply Contract.

The proposed Amendment alters the pricing mechanism from a market price escalator plus price differential to a low fixed price, allowing the Authority to take advantage of the fall in market price of fuel oil due to the COVID-19 pandemic during the Fixed Price Period. This will reduce the Authority’s purchase costs of fuel through the end of 2020.

On May 28, 2020, the Authority’s Governing Board through Resolution 4788, approved the entry into the above-mentioned fixed price formula with Freepoint through December 31, 2020, for a volume of 250,000 barrels per month, while the balance of Bunker fuel per month will continue to be purchase with the price adder mechanism (market price + adder) established in the fourth amendment of Contract 902-02-15. Further, the Governing Board approved the one-year extension of the contract, in order to implement the fixed price formula.

On October 30, 2020, the Authority approved the fifth amendment for an additional year which was already contemplated in the original Fuel Supply Contract. Accordingly, the assumption order of the original Fuel Supply Contract applies for the additional year and the Fuel Supply Contract is currently extended pursuant its terms until October 31, 2021.

c. Renegotiation and Assumption of Operational PPOAs

In accordance with the Authority’s operating Fiscal Plan, the Authority also renegotiated several power purchase operating agreements (‘PPOAs’), for Renewable PPOAs, to procure a reduction in their current prices.

The Authority reached agreement on amendments with six of the eleven operating renewable energy projects. The effective dates and revised cost estimates (inclusive of savings) for the six amended contracts include:
Note 19 - Subsequent Events – (continued)

Renegotiation of Power Purchase Operating Agreements – (continued)

c. Renegotiation and Assumption of Operational PPOAs – (continued)

• January 29, 2021:
  - AES Ilumina, LLC with a cost estimate of approximately $90 million;
  - Pattern Santa Isabel, LLC with a cost estimate of approximately $490 million;
  - San Fermín Solar Farm, LLC with a cost estimate of approximately $110 million;
  - Horizon Energy, LLC with a cost estimate of approximately $70 million; and
  - Humacao Solar Project, LLC with a cost estimate of approximately $310 million; and

• March 25, 2021: Oriana Energy, LLC with a cost estimate of approximately $290 million.

Most of these transactions include both modest term extensions and possible increases in the amount of renewable energy generating capacity at the plants covered by the PPOAs, and therefore are expected to further support the Authority’s efforts toward meeting the renewable energy portfolio requirements placed on it by Act 17-2019 and the operative IRP.

COVID-19 Pandemic

Executive Orders

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (“COVID-19”) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor issued executive order OE-2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The executive order authorizes the Secretary of the Department of the Treasury and the Executive Director of the Office of Management and Budget to set up a special budget, from any available funds, including the emergency fund, to cover all necessary costs for the containment of the virus throughout the Island and sharing information with the municipalities.

After issuing numerous executive orders with measures addressing the COVID-19 pandemic, the Governor signed the latest order, OE-2021-43, on June 3, 2021. This executive order lessened certain restrictions—due to recent decreases in COVID-19 infections and virus-related hospitalizations—such as increasing the maximum occupancy private places that are opened to the public. OE-2021-43 will be in effect until July 4, 2021.
COVID 19 Pandemic – (continued)

As the Government observes and assesses the results of its measures to control the negative health and economic effects of COVID-19 on the people of Puerto Rico and Puerto Rico’s economy, it will re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico.

Economic Stabilization Measures

On March 23, 2020, the Oversight Board agreed with the Commonwealth to provide support to the Puerto Rican people, frontline workers, educators and students, and small businesses. The $787 million Emergency Measure Support Package consists of approximately $500 million that had to be authorized as an incremental appropriation to the fiscal year 2020 General Fund budget in compliance with the budgetary process under PROMESA, approximately $157 million of reapportionment within the current fiscal year 2020 Commonwealth General Fund budget, and approximately $131 million of Federal funds. This Emergency Measures Support Package is in addition to the availability of approximately $160 million from Puerto Rico’s Emergency Reserve Fund the Oversight Board had already authorized.

On March 27, 2020, President Trump signed into law the Coronavirus, Aid, Relief, and Economic Security Act (“CARES Act”), commonly known as “Phase Three” of coronavirus economic relief. The CARES Act provides a stimulus to individuals, businesses, and hospitals in response to the economic distress caused by the COVID-19 pandemic; creates a $349 billion loan program for small businesses, including 501(c)(3) non-profits and physician practices; allocates approximately $500 billion for assistance to businesses, states, and municipalities; expands telehealth services in Medicare, including services unrelated to COVID-19 treatments; expands eligibility for unemployment insurance and provides people with an additional $600 per week on top of the unemployment amount determined by each state; expands the Defense Production Act, allowing for a period of two years when the government may correct any shortfall in resources without regard to the current expenditure limit of approximately $50 million; provides the U.S. Secretary of the Treasury with the authority to make loans or loan guarantees to states, municipalities, and eligible businesses and loosens a variety of regulations prior legislation imposed through the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Economic Stabilization Act of 2008, and others; and authorizes supplemental appropriations to help the government respond to COVID-19 pandemic emergency.
Note 19 - Subsequent Events – (continued)

COVID 19 Pandemic – (continued)

Economic Stabilization Measures – (continued)

The Government also enacted Act 57-2020, the Complementary Law to Address the Effects on the Puerto Rican Economy Caused by the COVID-19 Emergency, which provides additional tax and other economic incentives in response to the economic impact of the COVID-19 pandemic, which includes, among other measures, eliminating the 4% business to business tax on services for three months, allowing businesses to “carry back” losses caused by the COVID-19 pandemic to two previous tax years, exempting from tax any COVID-19 related subsidy payments and suspending a $500 minimum corporate tax.

The aftermath of the COVID-19 crisis poses unprecedented uncertainties for local, national, and global economies. While the societal and economic consequences cannot yet be accurately measured, the impacts will be profound and widespread. Although it is clear that the COVID-19 pandemic has affected nearly every economy and industry in the world, it is still unclear which cross-sections of the economy will experience disproportionately negative effects.

COVID-19 Effects on the Authority’s Operations

The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries and businesses in Puerto Rico. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the extent of the impact of COVID-19 on the Authority’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Authority’s customers, employees, and vendors all of which are uncertain and still cannot be predicted.

PREB resolved that the current situation warranted a close review of its impact on the Authority’s operational costs, including the fuel charge adjustment and the power purchase charge adjustment riders. As a result, PREB entered an order directing the Authority to submit monthly, instead of quarterly reconciliations of fuel and purchased power costs, starting with the month of April 2020. At this moment, the full extent to which COVID-19 may impact the Authority’s financial condition or results of operations is uncertain.

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Note 19 - Subsequent Events – (continued)

Integrated Resource Plan

Act 83-1941 directs the Authority to adopt an IRP. An IRP is a plan that considers all reasonable resources to satisfy the demand for electric power services during a specific period of time, including those related to the offering of electric power, whether existing, traditional, and/or new resources, and those related to energy demand, such as energy conservation and efficiency or demand response and localized energy generation by the customer. Pursuant to the applicable laws and regulations, an IRP should incorporate a twenty (20)-year planning period that shall be revised every three (3) years to show changes in the energy market conditions, the environmental regulations, fuel prices, capital costs, and other factors; provided, that in the case of a substantial change in the energy demand or group of resources, such review process shall be carried out before the three (3) years provided to respond to and/or mitigate such changes. Any amendment to the IRP shall be filed for PREB’s review and approval. The IRP shall be consistent with all the mandates of Act 83-1941, Act 82-2010, Act 57-2014, Act 120-2018, and Act 17-2019, among other applicable laws, and shall follow the best practices in electric power industry integrated resource planning.

The Authority’s first IRP was approved on September 26, 2016. Following the massive destruction resulting from hurricanes Irma and Maria in 2017, Puerto Rico faced the unprecedented challenge of rebuilding the electric power system. The hurricanes forced the Authority to rethink how its power supply and delivery infrastructure should be modified to ensure that the utility infrastructure was best prepared for future weather events. The experience accumulated in responding to and recovering from these disasters focused the Authority’s need to increase the resiliency and survivability of its systems, with due consideration to system hardening, distributed generation, decreased dependence on fuel oil, and increased reliance on renewable energy resources.

As a result of the impact of the hurricanes, on March 15, 2018, PREB ordered the Authority to file an updated IRP to reflect the impacts of hurricanes. The Authority completed the submittal of the proposed revised IRP on June 14, 2019.

On August 24, 2020, PREB entered the Final Resolution and Order on the Puerto Rico Electric Power Authority’s Integrated Resource Plan (the “Final IRP Resolution”). In the Final IRP Resolution, PREB adopts in part and rejects in part the Authority’s Energy Modernization System (“ESM”) plan, which, pursuant to PREB’s Regulation 9021, the Authority presented as its “Preferred Resource Plan.” PREB ordered the Authority to adopt a “Modified Preferred Resource Plan.”
Note 19 - Subsequent Events – (continued)

Integrated Resource Plan – (continued)

The Modified Preferred Resource Plan pursues an increased level of solar photovoltaic (“PV”) and battery resource additions and costs of renewables below the base case cost derived from National Renewable Energy Laboratory data, while incorporating five core elements of the Authority’s Preferred Resource Plan. These elements are: the timely conversion of older steam plant infrastructure to synchronous condensers to provide dynamic reactive support and stability the Authority’s system will require with the installation of increased quantities of solar PV; Energy efficiency deployment to the maximum amount obtainable; maximum procurement of solar PV; procurement of substantial amounts of battery energy storage; and hardening of the Authority’s T&D system.
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  

Schedule of Changes in the Authority’s Net Pension Liability and Related Ratios (Unaudited)  
(In thousands)  
For the Year Ended June 30, 2018  

For measurement period ended June 30,  

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total pension liability</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$95,768</td>
<td>$79,927</td>
<td>$86,627</td>
<td>$38,420</td>
</tr>
<tr>
<td>Interest on total pension liability</td>
<td>168,407</td>
<td>209,459</td>
<td>205,706</td>
<td>249,451</td>
</tr>
<tr>
<td>Difference between expected and actual experience</td>
<td>(21,443)</td>
<td>(19,815)</td>
<td>11,763</td>
<td>47,103</td>
</tr>
<tr>
<td>Changes in assumptions</td>
<td>(284,071)</td>
<td>947,510</td>
<td>(60,243)</td>
<td>1,796,904</td>
</tr>
<tr>
<td>Benefits payments</td>
<td>(268,469)</td>
<td>(254,624)</td>
<td>(279,479)</td>
<td>(216,811)</td>
</tr>
<tr>
<td>Refunds of contributions</td>
<td>(709)</td>
<td>(1,200)</td>
<td>(1,126)</td>
<td>(795)</td>
</tr>
<tr>
<td>Net change in total pension liability</td>
<td>(310,517)</td>
<td>961,257</td>
<td>(36,752)</td>
<td>1,914,272</td>
</tr>
</tbody>
</table>

Total pension liability - beginning | 5,882,289 | 4,921,032 | 4,957,784 | 3,043,512 |

Total pension liability - ending (a) | $5,571,772 | $5,882,289 | $4,921,032 | $4,957,784 |

Plan’s fiduciary net position  

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustment to beginning Plan net position</td>
<td>$ (58)</td>
<td>-</td>
<td>$1,672</td>
<td>-</td>
</tr>
<tr>
<td>Contribution-employer</td>
<td>120,326</td>
<td>113,384</td>
<td>99,179</td>
<td>100,145</td>
</tr>
<tr>
<td>Contributions-member</td>
<td>24,871</td>
<td>26,470</td>
<td>28,242</td>
<td>36,871</td>
</tr>
<tr>
<td>Net investment income</td>
<td>134,564</td>
<td>18,700</td>
<td>69,991</td>
<td>179,191</td>
</tr>
<tr>
<td>Benefits payments</td>
<td>(268,469)</td>
<td>(254,624)</td>
<td>(279,479)</td>
<td>(216,811)</td>
</tr>
<tr>
<td>Administrative expense</td>
<td>(230)</td>
<td>(385)</td>
<td>(598)</td>
<td>(348)</td>
</tr>
<tr>
<td>Refunds of employee contributions</td>
<td>(709)</td>
<td>(1,200)</td>
<td>(1,126)</td>
<td>(795)</td>
</tr>
<tr>
<td>Transfers from other systems</td>
<td>162</td>
<td>309</td>
<td>437</td>
<td>1,275</td>
</tr>
<tr>
<td>Impairment loss on deposits held in GDB</td>
<td>-</td>
<td>(4,129)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net change in plan fiduciary net position</td>
<td>10,457</td>
<td>(101,476)</td>
<td>(81,682)</td>
<td>99,528</td>
</tr>
</tbody>
</table>

Plan fiduciary net position-beginning | 1,215,754 | 1,317,230 | 1,398,912 | 1,299,384 |

Plan fiduciary net position-ending (b) | $1,226,211 | $1,215,754 | $1,317,230 | $1,398,912 |

Net pension liability-ending (a)-(b) | $4,345,561 | $4,666,535 | $3,603,802 | $3,558,872 |

Covered-employee payroll | $258,210 | $270,705 | $287,143 | $341,910 |

Plan’s fiduciary net position as a percentage of the pension liability | 22.01% | 20.67% | 26.77% | 28.22% |

Net pension liability as a percentage of covered-employee payroll | 1,683% | 1,724% | 1,255% | 1,041% |

See accompanying notes to required supplementary information and independent auditors’ report.
Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Employer Contributions- Pension Plan (Unaudited)
(In thousands)

For the Year Ended June 30, 2018

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30,</th>
<th>Actuarially Determined Employer Contribution</th>
<th>Actual Employer Contribution</th>
<th>Actual Employer Deficiency/(Excess)</th>
<th>Covered Employee Payroll</th>
<th>Actual Contributions as a percentage of Covered employee payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>124,634</td>
<td>129,673</td>
<td>(5,039)</td>
<td>247,705</td>
<td>33.20%</td>
</tr>
<tr>
<td>2017</td>
<td>147,607</td>
<td>120,326</td>
<td>27,281</td>
<td>258,210</td>
<td>46.60%</td>
</tr>
<tr>
<td>2016</td>
<td>141,481</td>
<td>113,384</td>
<td>28,097</td>
<td>270,705</td>
<td>41.88%</td>
</tr>
<tr>
<td>2015</td>
<td>99,179</td>
<td>99,179</td>
<td>-</td>
<td>287,143</td>
<td>34.54%</td>
</tr>
<tr>
<td>2014</td>
<td>100,145</td>
<td>100,145</td>
<td>-</td>
<td>341,910</td>
<td>29.29%</td>
</tr>
<tr>
<td>2013</td>
<td>89,481</td>
<td>89,481</td>
<td>-</td>
<td>347,094</td>
<td>25.78%</td>
</tr>
<tr>
<td>2012</td>
<td>85,361</td>
<td>85,361</td>
<td>-</td>
<td>357,758</td>
<td>23.86%</td>
</tr>
<tr>
<td>2011</td>
<td>85,313</td>
<td>85,313</td>
<td>-</td>
<td>358,458</td>
<td>23.80%</td>
</tr>
<tr>
<td>2010</td>
<td>69,926</td>
<td>69,926</td>
<td>-</td>
<td>354,955</td>
<td>19.70%</td>
</tr>
<tr>
<td>2009</td>
<td>78,490</td>
<td>78,490</td>
<td>-</td>
<td>372,344</td>
<td>21.08%</td>
</tr>
</tbody>
</table>

See accompanying notes to required supplementary information and independent auditors’ report.
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  

Schedule of Changes in the Authority's Total OPEB Liability  
and Related Ratios (Unaudited)  
(In thousands)  
For the Year Ended June 30, 2018

<table>
<thead>
<tr>
<th></th>
<th>Measurement period ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2017</td>
</tr>
<tr>
<td>Total OPEB liability</td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$ 3,235</td>
</tr>
<tr>
<td>Interest</td>
<td>10,674</td>
</tr>
<tr>
<td>Difference between expected and actual experience</td>
<td>(5,274)</td>
</tr>
<tr>
<td>Changes of assumptions or other inputs</td>
<td>(18,948)</td>
</tr>
<tr>
<td>Benefits payments</td>
<td>(17,952)</td>
</tr>
<tr>
<td>Net change in total OPEB liability</td>
<td>(28,265)</td>
</tr>
<tr>
<td>Total OPEB liability - beginning</td>
<td>402,855</td>
</tr>
<tr>
<td>Total OPEB liability - ending (a)</td>
<td>$ 374,590</td>
</tr>
<tr>
<td>Covered-Employee Payroll</td>
<td>$ 258,210</td>
</tr>
<tr>
<td>Total OPEB liability as a percentage of Covered-Employee Payroll</td>
<td>145.07%</td>
</tr>
</tbody>
</table>

See accompanying notes to required supplementary information and independent auditors’ report.
Note 1 - Benefit Changes

There were no pensions or OPEB plan changes since the prior measurement date.

Note 2 - Changes in Assumptions - Pensions

During the measurement period ended June 30, 2017, the only change in assumption was on the discount rate used to determine the total pension liability which was increased from 2.93% to 3.40% since the prior measurement date.

Note 3 - Actuarially Determine Contributions - Pensions

Actuarially determined contributions rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. Methods and assumptions used to determine contribution rates for the year ended June 30, 2018 and related information for the Plan and supplemental benefits follows:

<table>
<thead>
<tr>
<th>Actuarial cost method</th>
<th>Entry age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization method</td>
<td>Level dollar, closed</td>
</tr>
<tr>
<td>Remaining amortization period</td>
<td>24 years</td>
</tr>
<tr>
<td>Asset valuation method</td>
<td>5-year smoothed market</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.25 percent</td>
</tr>
<tr>
<td>Salary increases</td>
<td>3.5 to 7.25 percent, including inflation</td>
</tr>
<tr>
<td>Investment rate of return</td>
<td>8.50%, net of System investment expense, including inflation</td>
</tr>
</tbody>
</table>

Note 4 - Changes of Assumptions - OPEB

Changes of assumptions and other inputs since prior measurement date is only related to change in discount rate. Since the prior measurement date, the discount rate has changed from 2.71% to 3.13% due to a change in the Municipal Bond Rate.

The schedule is intended to show information for 10 years. Additional years will be added in the future when they become available.
Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule I- Sources and Disposition of Net Revenues Under the Provisions of the 1974 Agreement
Statement of Revenues, Expenses and Changes in Net Position and Reconciliation of Net Income/(Loss) (Unaudited)
(In thousands)

For the Year Ended June 30, 2018

<table>
<thead>
<tr>
<th>Reconciliation of components of net income:</th>
<th>1974 Trust Agreement</th>
<th>Position (Deficit) (GAAP)</th>
<th>Reconciliation of Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating revenues</td>
<td>$ 2,527,605</td>
<td>$ 2,551,621</td>
<td></td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>5,982</td>
<td>10,589</td>
<td></td>
</tr>
<tr>
<td>Proceeds from Monoline Insurance Companies</td>
<td>230,422</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Grants</td>
<td>-</td>
<td>1,071,677 (a)</td>
<td></td>
</tr>
<tr>
<td>Insurance proceeds for repairs of infrastructure</td>
<td>-</td>
<td>50,000 (b)</td>
<td></td>
</tr>
<tr>
<td>1974 agreement construction fund investment income</td>
<td>(254)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>In kind capital contributions from USACE and customers</td>
<td>-</td>
<td>35,010 (c)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,763,755</td>
<td>3,718,897</td>
<td>955,142</td>
</tr>
<tr>
<td>Current Expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As shown</td>
<td>2,499,989</td>
<td>2,526,777</td>
<td>(26,788)</td>
</tr>
<tr>
<td>Total as defined</td>
<td>2,499,989</td>
<td>2,526,777</td>
<td>(26,788)</td>
</tr>
<tr>
<td>Net revenues, as defined</td>
<td>$ 263,766</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td>342,714 (342,714)</td>
<td></td>
</tr>
<tr>
<td>Pension Expense, and OPEB</td>
<td>-</td>
<td>584,498 (584,498)</td>
<td></td>
</tr>
<tr>
<td>Impairment loss due to Hurricane Maria</td>
<td>-</td>
<td>1,140,101 (1,140,101)</td>
<td></td>
</tr>
<tr>
<td>Proceeds from Monoline Insurance Co.</td>
<td>230,422 (d)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal paid</td>
<td>(132,560) (d)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>(97,862) (d)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposition of Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(not classified in order of payment)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on debt</td>
<td></td>
<td>432,266</td>
<td></td>
</tr>
<tr>
<td>Interest on debt paid by Monoline Insurance Companies</td>
<td>97,862</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on general obligation notes</td>
<td>-</td>
<td>64,635</td>
<td></td>
</tr>
<tr>
<td>Amortization of debt discount, financing expenses</td>
<td>-</td>
<td>(10,110)</td>
<td></td>
</tr>
<tr>
<td>Amortization of bond defeasance</td>
<td>-</td>
<td>7,430</td>
<td></td>
</tr>
<tr>
<td>Net interest on long-term debt</td>
<td>97,862</td>
<td>494,221</td>
<td>(396,359)</td>
</tr>
<tr>
<td>Principal and other:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal paid by Monoline Insurance Companies</td>
<td>132,560</td>
<td>132,560</td>
<td></td>
</tr>
<tr>
<td>Contribution in lieu of taxes and other</td>
<td>-</td>
<td>192,238</td>
<td>(192,238)</td>
</tr>
<tr>
<td>Balance available for capital improvements and other needs</td>
<td>33,344</td>
<td>-</td>
<td>33,344</td>
</tr>
<tr>
<td>Total expenses (GAAP)</td>
<td></td>
<td>5,280,548</td>
<td></td>
</tr>
<tr>
<td>Net revenues, as defined</td>
<td>$ 263,766</td>
<td></td>
<td>263,766</td>
</tr>
<tr>
<td>Net loss</td>
<td>$ (1,561,652)</td>
<td>$ (1,561,652)</td>
<td></td>
</tr>
</tbody>
</table>

Notes
(a) Restricted use - FEMA Grant
(b) Restricted use 1974 Trust Agreement and FOMB order
(c) Restricted use imposed by donor
(d) Proceeds and payment of insured bond series

See independent auditors’ report.
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  
Schedule II- Supplemental Schedule of Sources and Disposition of Net Revenues  
Under the Provisions of the 1974 Agreement (Unaudited)  
(In thousands)  
For the Year Ended June 30, 2018  

Sources of Net Revenues:  
Revenues:  
Electric revenues $2,527,605  
Proceeds from Monoline Insurance Companies 230,422  
Other (principally interest) 5,728  
Total revenues 2,763,755  
Current Expenses:  
Operations:  
Fuel 1,051,710  
Purchased Power 585,916  
Maintenance 160,552  
Administrative and general 145,512  
Transmissions and distributions 137,317  
Customer accounting and collection 82,591  
Other productions 47,958  
Natural Disaster Expense 288,433  
Net revenues, as defined $263,766  
Disposition of Net Revenues:  
Revenue Fund:  
Power revenue bonds-sinking funds requirements:  
Interest $97,862  
Principal 132,560  
230,422  
General Fund:  
Balance available for capital improvements and other needs 33,344  
Lawful charges including contribution in lieu of taxes -  
Net revenues, as defined $263,766  
See independent auditors’ report.
Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule III-Supplemental Schedule of Funds Under the Provisions of the 1974 Trust Agreement (Unaudited)
(In thousands)
June 30, 2018

<table>
<thead>
<tr>
<th>By Account:</th>
<th>Held by Authority</th>
<th>Restricted Deposits with Trustee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Other Assets</td>
</tr>
</tbody>
</table>

By Account:
1974 Agreement (restricted):
- Sinking Fund - principal and interest: $13,511
- Sinking Fund - Bond Services: -
- Reserve account in the sinking fund: 3,688
- Self Insurance Fund: -
- Sinking Fund - Capitalized Interest: -
- Reserve Maintenance Fund: 16,364
- Other Restricted Fund: 1,941
- Construction Fund: -
- Rural Utilities Services (RUS): -
- Other: 57,845
- PREPA Client Fund: 3,232
- General purpose (unrestricted): -
- General: 343,243
- Working funds: 1,637

Total: $441,461

By Type of Assets Held:
- Working funds: $1,592
- PREPA Client Fund: -
- Cash in bank and time deposits (by depository institutions):
  - Banco Popular de Puerto Rico: 68,276
  - Citibank, N. A.: 329,534
  - US Bank: 17,264
  - US Bank- Bond Services: -
  - Oriental Bank / Scotiabank (San Juan, Puerto Rico): 21,222
  - FirstBank / Santander Bank (San Juan, Puerto Rico): 3,573

Total: $441,461

Note: Between 2019-2020, the following banks integrated their local operations: (1) Oriental Banks of Puerto Rico acquired Scotiabank of Puerto Rico, and (2) First Bank of Puerto Rico acquired Santander Bank of Puerto Rico.

See accompanying independent auditors’ report.
### Corporate Fund

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$3,312</td>
<td>$4,744</td>
<td>$5,295</td>
<td>$20,558</td>
<td>$22,558</td>
<td>$3,405</td>
<td>$40,650</td>
<td>$26,564</td>
<td>$32,293</td>
<td>$375,650</td>
</tr>
</tbody>
</table>

#### Operations

- **Actual Net revenues per Schedule V (includes Monoline Insurance Proceeds)**
  - Proceeds from Other Insurance Companies 50,000
  - Proceeds from Federal Agencies 652,507
  - Funds used for construction (1,692,945)
  - Interfunds transfers (from Current Expenses Fund) 188,467
  - Reclassified construction costs for deferred debits 30,106
  - Proceeds from Other Insurance Companies 50,000
  - Financing -
  - Payment of debt issue costs -
  - Proceeds from notes for working capital 1,418
  - **Adjustment to Net Revenues of Non-Cash Municipality Revenues**
  - Actual Net revenues per Schedule V (includes Monoline Insurance Proceeds)
  - Adjustment to Net Revenues of Non-Cash Municipality Revenues

#### Accounts Payable and Other Accrued Liabilities

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance at June 30, 2017</th>
<th>Add (deduct) Interfund accounts</th>
<th>Receivables</th>
<th>Other Assets</th>
<th>Other Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable and Other Accrued Liabilities</td>
<td>777,918</td>
<td>142,049</td>
<td>27,642</td>
<td>22,944</td>
<td>777,918</td>
</tr>
</tbody>
</table>

#### Claims and Judgement (22,944)

**See accompanying independent auditors’ report.**
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  

Scheduled V - Supplemental Schedule of Changes in Long-Term Debt and Current Portion of Long-Term Debt (Unaudited)  
(In thousands)  

For the Year Ended June 30, 2018  

Long-term debt, excluding current portion:  
Balance at beginning of year $ 7,792,301  
Transfers to current liabilities:  
Power revenue bonds (382,544)  
Notes payable (660)  
Remainder 7,409,097  
New Issues:  
Notes payable 450,482  
Long-term Notes Payments (149,064)  
Balance at end of year $ 7,710,515  

Current portion of long-term debt:  
Balance at beginning of year $ 1,317,325  
Transfer from long-term debt  
Power revenue bonds 383,204  
Loss on refinancing - deferred outflow (6,468)  
Payments to bondholders:  
Amortization of debt discount and excess reacquisition cost (11,016)  
Amortization of Loss on refinancing of debt 7,430  
Balance at end of year $ 1,690,475  

See accompanying independent auditors' report.
Note 1 - Basis of Presentation

The Schedules IV - VIII present certain information which is required by the 1974 Agreement. The Net Revenues data, as defined in the 1974 Agreement (“Net Revenues”), presented in Schedules IV and V differ in some important respects from the amounts presented in the basic financial statements which are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Such differences are explained below; Schedule IV also presents a reconciliation of Net Revenues with GAAP.

The most significant differences between Net Revenues and GAAP are the following:

1. Revenues do not include:
   a. Federal Grants received for recovery efforts of Hurricanes Irma and María (“the Hurricanes”), pursuant to Article IV, Section 401 of the 1974 Agreement.
   b. Insurance proceeds for damages caused by the Hurricanes, pursuant to PROMESA Title III Court Order # No. 17 BK 3283-LTS signed by Honorable Judge Laura Taylor Swain on December 20, 2017 (The Court Order), which ordered the Authority shall utilize and distribute the insurance proceeds solely to repair, replace or reconstruct damage or destroyed property of the Authority in compliance with the Trust Agreement.
   c. In-kind capital contributions, received primarily from USA Corps of Engineers (USACE) for damages caused by the Hurricanes, as these donations were restricted in use by its donor.
   d. Investment income earned in the construction fund.
   e. Revenues or expenses of the Irrigation Systems.

2. Expenses do not include:
   a. Depreciation, unpaid pension expense and other post-employment benefits.
   b. Interest expense on bonds covered by the 1974 Agreement.
   c. Impairment losses recognized due to damages caused by the Hurricanes.
   d. Amortization of debt discount and issuance cost, and the allowance for funds used during construction.
   e. Contribution in lieu of taxes.