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 fiscal year ended June 30, 2019

(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, 2019, 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 0.6 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 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

The Authority’s accrued liability for claims and judgments as of June 30, 2019 includes an accounting estimate for certain labor related claims of approximately $137.8 million. We were unable to obtain sufficient appropriate audit evidence regarding management’s estimate because certain employee files that were necessary to support management’s assumptions in the accounting estimate were either incomplete or unavailable. Consequently, we were unable to determine whether any adjustments to this amount were necessary.

Qualified Opinion

In our opinion, based on our audit, and the report of other auditors, except for the possible effects of the matter 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, 2019, and the changes in financial position and its cash flows 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 $6.8 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.

Restatement of Net Position

As discussed in note 4 to the basic financial statements, the net position as of July 1, 2018 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 117; the schedule of employer contributions – pension plan on page 118; and the schedule of changes in the Authority’s total OPEB liability and related ratios on page 119, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 24, 2022 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
February 24, 2022

Stamp No. E470471 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, 2019. 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 from, 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.
Financial Analysis

The Authority’s condensed statements of net position (deficit) as of June 30, 2019 and 2018, were as follows (2018 figures do not include the effect of the restatement disclosed in Note 4) (in thousands):

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<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets and deferred outflows of resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$ 1,728,887</td>
<td>$ 1,638,780</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>101,986</td>
<td>97,372</td>
</tr>
<tr>
<td>Capital assets</td>
<td>8,068,377</td>
<td>7,669,766</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>9,899,250</td>
<td>9,405,918</td>
</tr>
<tr>
<td><strong>Deferred outflows of resources</strong></td>
<td>731,508</td>
<td>965,496</td>
</tr>
<tr>
<td><strong>Total assets and deferred outflows of resources</strong></td>
<td>$10,630,758</td>
<td>$10,371,414</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Liabilities, deferred inflows of resources and net position (deficit)</strong></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt</td>
<td>14,296,349</td>
<td>14,488,695</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>2,891,909</td>
<td>2,526,761</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>17,188,258</td>
<td>17,015,456</td>
</tr>
<tr>
<td>Deferred inflows of resources</td>
<td>247,193</td>
<td>291,972</td>
</tr>
<tr>
<td><strong>Total liabilities and deferred inflows of resources</strong></td>
<td>17,435,451</td>
<td>17,307,428</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Net position (deficit):</strong></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment in capital assets</td>
<td>(268,167)</td>
<td>(700,705)</td>
</tr>
<tr>
<td>Restricted</td>
<td>85,831</td>
<td>79,220</td>
</tr>
<tr>
<td>Deficit</td>
<td>(6,622,357)</td>
<td>(6,314,529)</td>
</tr>
<tr>
<td><strong>Total net position (deficit)</strong></td>
<td>(6,804,693)</td>
<td>(6,936,014)</td>
</tr>
<tr>
<td><strong>Total liabilities, deferred inflows of resources and net position (deficit)</strong></td>
<td>$10,630,758</td>
<td>$10,371,414</td>
</tr>
</tbody>
</table>

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Financial Analysis – (continued)

Assets and Deferred Outflows of Resources

- Capital Assets 76%
- Current assets 16%
- Non-current assets 1%
- Deferred outflows of resources 7%

Liabilities and Deferred Inflows of Resources

- Long-term debt 82%
- Deferred inflows of resources 1%
- Other liabilities 17%
2019 Compared to 2018

As of June 30, 2019 and 2018, the Authority’s total assets and deferred outflows of resources amounted to approximately $10.6 billion and $10.4 billion, respectively, an increase of approximately $200 million (2 percent). The net increase in total assets and deferred outflows of resources is mainly due to the net effect of the following:

- A net increase on short term receivables of approximately $46.9 million. This increase was directly related to an increase in accounts receivables from general clients and from unbilled revenues of approximately $114 million and $41 million respectively, resulting from increased billings during fiscal year 2019. Due to the effects of the passage of the Hurricanes Irma and Maria (the Hurricanes) during fiscal year 2018, lower electric power generation levels were experienced until the Authority’s infrastructure was restored. There was also an increase in the allowance for uncollectible accounts of approximately $50 million, which lowers accounts receivable balances, as well as a decrease in receivables from U.S. Federal Government grants of approximately $67 million.

- An increase in capital assets of approximately $400 million. During fiscal year 2019, the recovery efforts from the losses experienced as a result of the Hurricanes continued with the acquisitions and repairs of existing equipment. Many of these recovery efforts were funded by the Federal Emergency Management Agency (FEMA).

- An increase in materials and supplies of approximately $79 million. During the fiscal year 2019, the Authority was able to increase its materials and supplies levels, once the restoration activities were completed.

- Decrease in deferred outflows related to pensions of approximately $234 million mainly related to pension adjustments under Governmental Accounting Standard Board (GASB) Statement No. 68 “Accounting and financial reporting for pensions” of approximately $239 million.

As of June 30, 2019, and 2018, the Authority’s total liabilities and deferred inflows of resources amounted to approximately $17.4 billion and $17.3 billion, respectively, an increase of approximately $100 million (1 percent). The net increase in total liabilities and deferred inflows of resources is primarily due to the net effect of the following:

- A net decrease of approximately $97 million in accounts payable and accrued liabilities. During the fiscal year ended June 30, 2019, accounts payable decreased by $225 million due to the higher 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 in fiscal year 2018. In addition, there was an increase of approximately $135 million in employee benefit related accruals.
2019 Compared to 2018 – (continued)

- An increase in accrued interest of approximately $463.6 million, mainly related to $416 million increase in bond interest payable from approximately $649.8 million in fiscal year 2018 to approximately $1.1 billion in fiscal year 2019; and the increase by approximately $58.7 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 temporarily stayed. During the year ended June 30, 2019, a total of approximately $93.6 million of interest payments were paid by the monoline insurance companies on certain insured power revenue bonds (See Note 12); however, as the monoline insurers may exercise bondholders’ rights and remedies, and may be entitled to recovery, as a result of those payments, the amount of interest paid by the monoline insurers continues to be presented as interest due and payable by the Authority.

- A decrease of approximately $295 million in long-term notes payable. This decrease is due mainly due to the payment in full of a $300 million Revolving Loan Facility between the Authority and the Commonwealth, which occurred on March 8, 2019. 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).

- A decrease of approximately $35.8 million in short-term notes payable. On November 29, 2018, the Government Development Bank (“GDB”), cancelled $35.8 million in notes payable plus accrued interests on those notes payables, pursuant to the GDB Title VI Qualifying Modification. See note 12.

- An increase in net pension liability of approximately $222 million, mainly due to changes in actuarial assumptions.

- A decrease of approximately $57 million in claims and judgment due to approximately $74 million in correction of prior year contingency reserves (see Note 4), net of an increase of $16 million in loss contingencies of other legal claims.

- A decrease in deferred inflows related to pension of approximately $45 million mainly related to GASB Statement No. 68 pension adjustments of approximately $52 million.

The largest portion of the Authority’s net position (deficit) is the deficit of approximately $6.6 billion in unrestricted net position (deficit). An additional portion of the Authority’s net position (deficit) represents $85 million in restricted assets and liabilities for capital projects and other. A deficit in restricted net position occurs when liabilities that relate to restricted assets exceed those assets. The Authority’s net deficit at the end of
2019 Compared to 2018 – (continued)

fiscal year 2019 decreased by approximately $131 million, when compared to its net deficit at the end of fiscal year 2018. This was mainly due to increased billings, additional FEMA funds, and the reduction in repair expenses related to the Hurricanes.

A negative $268 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 these assets. This negative balance decreased from a negative balance of approximately $700 million at the end of fiscal year 2018 primarily as a result of the net increase in capital assets during fiscal year 2019 by approximately $400 million.
The Authority’s condensed statements of revenues, expenses, and changes in net position (deficit) for the fiscal years ended on June 30, 2019 and 2018, were as follows (2018 figures do not include the effect of the restatement disclosed in Note 4) (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating revenues</td>
<td>$3,611,664</td>
<td>$2,551,621</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel and purchase power</td>
<td>2,089,683</td>
<td>1,637,626</td>
</tr>
<tr>
<td>Maintenance and other operating expenses</td>
<td>1,222,198</td>
<td>1,183,299</td>
</tr>
<tr>
<td>Impairment loss due to Hurricane María</td>
<td>-</td>
<td>1,090,101</td>
</tr>
<tr>
<td>Emergency repairs post Hurricane Maria</td>
<td>48,926</td>
<td>290,350</td>
</tr>
<tr>
<td>Depreciation</td>
<td>367,130</td>
<td>342,714</td>
</tr>
<tr>
<td>Contribution in lieu of taxes</td>
<td>169,196</td>
<td>192,238</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>3,897,133</td>
<td>4,736,328</td>
</tr>
<tr>
<td><strong>Non-operating revenues and (expenses):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-operating revenues</td>
<td>749,156</td>
<td>1,082,266</td>
</tr>
<tr>
<td>Interest and other expenses</td>
<td>(479,465)</td>
<td>(494,221)</td>
</tr>
<tr>
<td><strong>Non-operating revenues and (expenses), net</strong></td>
<td>269,691</td>
<td>588,045</td>
</tr>
<tr>
<td><strong>Gain (Loss) before capital contributions</strong></td>
<td>(15,778)</td>
<td>(1,596,662)</td>
</tr>
<tr>
<td><strong>Capital contributions</strong></td>
<td>72,845</td>
<td>35,010</td>
</tr>
<tr>
<td><strong>Change in net position (deficit)</strong></td>
<td>57,067</td>
<td>(1,561,652)</td>
</tr>
<tr>
<td><strong>Net position (deficit) at beginning of year</strong></td>
<td>(6,936,014)</td>
<td>(6,173,574)</td>
</tr>
<tr>
<td><strong>Correction of errors</strong></td>
<td>74,254</td>
<td>799,212</td>
</tr>
<tr>
<td><strong>Net position (deficit) at beginning of year, as restated</strong></td>
<td>(6,861,760)</td>
<td>(5,374,362)</td>
</tr>
<tr>
<td><strong>Net position (deficit) at end of year</strong></td>
<td>$ (6,804,693)</td>
<td>$ (6,936,014)</td>
</tr>
</tbody>
</table>
Revenues

Operating revenues 83%
Non-operating revenues 17%

Operating Expenses

Fuel and purchased power 54%
Maintenance and other 31%
Depreciation 10%
Contribution in lieu of taxes 4%
Emergency repairs post H. Maria 1%
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  

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

June 30, 2019  

2019 Compared to 2018 – (continued)  

For the fiscal years ended June 30, 2019, and 2018, the Authority’s operating revenues amounted to approximately $3.6 billion and $2.6 billion, respectively, an increase of approximately $1 billion (42 percent).  

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

• An increase in operating revenues of approximately $1,032 million during fiscal year 2019 primarily due to the increase in electric sales to all consumers (private and government). Immediately after the Hurricanes struck Puerto Rico, all of the Authority’s customers lost power. Depending on the location of its customers, these outages extended well into fiscal year 2018 resulting in decreased revenues to the Authority during fiscal year 2018. Power consumption by clients increased 25%, from 12,711 MkWh during fiscal year ended June 30, 2018, to 15,851 MkWh for the fiscal year ended June 30, 2019.  

• A decrease in revenue caused by an increase of approximately $17 million in the bad debt expense when compared to 2018 directly related to the increase in sales experienced in fiscal year 2019.  

The decrease of $318 million in net nonoperating revenues is the net effect of the following:  

• During fiscal year 2019 and 2018, the Authority entered in a voluntary nonexchange transactions with FEMA after the passage of the Hurricanes. Allowable costs were billed for reimbursement based on eligibility requirement and revenues were recognized once costs were approved. Revenues from federal grants decreased by approximately $399 million from approximately $1,072 million in 2018 to approximately $673 million in 2019.  

• During fiscal year 2019, the Authority recognized a gain of approximately $60 million given a partial settlement with the Public Entity Trust (“PET”). This gain is composed of the recovery of approximately $15 million in cash from deposits previously held at the GDB; and the charge off of approximately $35.8 million and approximately $6.7 million of previous notes and interest payable, respectively, due to the GDB. See Note 12.  

Pursuant to Act No. 109-2017, or the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other public entities were exchanged for interest in the newly formed PET.  

• An increase in capital contributions of approximately $37.8 million contributions from $35 million in 2018 to $72 million in 2019. Approximately $69.7 million in donations received during fiscal year 2019 were from the U.S. Army Corps of Engineers (USACE).
2019 Compared to 2018 – (continued)

The Authority’s operating expenses amounted to approximately $3.9 billion and $4.7 billion for the fiscal years ended June 30, 2019 and 2018, respectively, representing a decrease of approximately $860 million or 18 percent. The decrease in operating expenses is mainly due to the net effect of the following:

- During the fiscal year ended June 30, 2018, the Authority recognized an involuntary conversion loss of $1.1 billion due to the effects of the Hurricanes in the Authority’s infrastructure. No impairment was recognized in fiscal year 2019.

- An increase of approximately $356 million or 34 percent in fuel expense and fuel consumption during fiscal year 2019. This increase is directly related to the increase in fuel prices and the increase in electric sales during fiscal year 2019. The average fuel price increased from $63.61 to $74.85 per barrel. In addition, the consumption of fuel oil and natural gas barrels during fiscal year 2019 increased by 7% when compared to fiscal year 2018, to 18.5 million barrels.

- A $96 million increase, or 16% percent, in the Authority’s purchased power during fiscal year 2019. During the year ended June 30, 2019, the Authority purchased power was 2.6 MkWh more, when compared to the year ended June 30, 2018, at an average cost of $0.10 per kWh. The increase in purchased power was directly related to the increase in electric sales during fiscal year 2019. As mentioned before, the infrastructure throughout the island was significantly damaged by the Hurricanes during fiscal year 2018 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 were repaired, to ramp up these services, it was necessary to re-validate the systems. Consequently, the purchases of purchased power were significantly lower in 2018.

- Other operating expenses related the damages caused by the Hurricanes were significantly reduced when compared to fiscal year 2018. Emergency repair expenses decreased by approximately $241 million as most of these expenses were incurred in 2018.

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Capital Assets and Debt Administration

Capital Assets

Capital assets as of June 30, 2019 and 2018, amounted to approximately $8.1 billion and $7.7 billion, respectively. The Authority’s total capital assets increased by approximately $400 million or 5 percent, mainly because of the net effect of additions of $764 million, reduced by $367 million in depreciation.

Major capital assets projects undertaken by Authority during the year ended June 30, 2019 included the following:

- The Authority continued its restoration activities due to the impact of the Hurricanes. The Authority incurred costs related to the damages suffered of approximately $513 million, of which approximately $220 million were capitalized as infrastructure in the areas of transmission and distribution, $20 million in the area of generation and approximately $36 million in general and administrative related efforts. (See Note 16).

- Capital contributions received during the year ended June 30, 2019 amounted to approximately $72 million of which approximately $69.7 million were received from USACE. Approximately $20.3 million of these contributions were invested in capitalizable assets in the areas of transmission and distribution, $48.6 million were used for materials and supplies, as part of the continued repair efforts, and approximately $0.8 million were used for operational expenses.

- The Authority invested $13.9 million in the rehabilitation of units 5 and 6 at the San Juan Combined Cycle Power Plant, which included the replacement of critical parts enhancing their useful life. Other significant rehabilitation projects included $27.3 million to rehabilitate Central Mayaguez’s aero derivate turbines and the improvement of the Central Aguirre’s units 1 and 2 boilers.

- The Authority invested $6.3 million in unit 9 at the San Juan Steam Plant for replacement work of high-pressure parts.

- The Authority invested $5.1 million in unit 6 at the Costa Sur Steam Plant for (1) boiler improvements, (2) the rehabilitation of the turbo generation, and, (3) upgrading of the Foxboro Automation System.

- The Authority also invested $8.5 million in the acquisition and installation of residential customers meters. These meters automatically capture information about electricity consumption and then transmit it back to the Authority. Intelligent meters can provide accurate measurements of electricity use while eliminating the need for physical meter reads.
Capital Assets and Debt Administration – (continued)

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

Debt Administration

As of June 30, 2019 and 2018, the Authority had total outstanding notes and bonds payable of approximately $9.061 billion and $9.401 billion, respectively. As of the date of the issuance of the financial statements, the Authority’s bonds were rated “NR” by Moody’s Investors Service (“Moody’s”), “NR” by Standard & Poor’s (“S& P”) and “D” by Fitch Ratings (“Fitch”).

The decrease in debt is mainly due to the payment of 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 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. On March 8, 2019, the Revolving Loan Facility was paid off by the Authority.

During fiscal year 2019, the Authority borrowed an additional $5.5 million under 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%. As of the date of these financial statements, this project’s construction completion date is estimated to be December 2023; therefore, its estimated maturity date will likely be around December 2043. 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 on its bonds and notes as of July 1, 2017. As of June 30, 2019, this amount increased to $955 million. 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 fiscal year ended June 30, 2019, the monoline insurers of certain of the Authority’s power revenue bonds paid a total of $101.8 million of principal (See Note 12); however, because the monoline insurers acquired the rights of the bondholders after making such payment, the amounts paid by the monoline insurers continue to be presented as due and payable by the Authority.
Capital Assets and Debt Administration – (continued)

Correction of errors

During the fiscal year ended June 30, 2019, the Authority corrected the amounts shown for reserves for certain legal claims and judgments prior year financial statements, which correction resulted in the need under applicable accounting pronouncements to restate the beginning net deficit of the Authority. The cumulative effect of these corrections is reflected as a beginning of year adjustment in the accompanying financial statements by a decrease in net deficit of approximately $74 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”). The Governing Board now consist of seven members, six members of which are designated by the Governor (three of which require Senate approval) and one member is an elected consumer representative.

PROMESA

On June 30, 2016, the President of the United States signed into law 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 affected 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.

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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 – (continued)

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.

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 (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. The current emergency period expires on June 30, 2022.

Oversight Board Commencement of Title III Case

As disclosed in Note 3, on July 2, 2017, the Oversight Board filed a petition for relief on behalf of the Authority 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.
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 – (continued)

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).

\textit{Act 120 2018 Puerto Rico Electric System Transformation Act}

On June 20, 2018, the Governor signed into law Act No. 120 of 2018, known as the Puerto Rico Electric System Transformation Act (“Act 120 2018”). 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.

\textit{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. Refer to Note 17.
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 – (continued)

Subsequent Events

The most significant subsequent events are the following:

• 2018 Preliminary Restructuring Support Agreement (RSA) and 2019 RSA – On July 30, 2018, (i) the Authority, (ii) 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 the date of these financial statements, 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.

Considering the impact of the COVID-19 pandemic (see below), on March 27, 2020, FOMB, FAFAA, and the Authority requested the Title III Court adjourn all the deadlines in connection with the request to approve the settlements in the 2019 RSA. The Oversight Board, the Authority, and FAFAA have filed periodic status reports before the Title III Court providing an update on the Authority’s financial condition and next steps with respect to the 2019 RSA seeking court approval of the 2019 RSA. As a result, the Title III Court has adjourned all the proceedings related to the 2019 RSA until further order.

• Act 17-2019  Puerto Rico Energy Public Policy Act – On April 11, 2019, the Governor signed Act 17-2019 to establish public policy and the regulatory framework for Puerto Rico’s energy sector and sets the path for the Authority’s transformation.

• Transformation of the Transmission and Distribution (“T&D”) System (“T&D System”) and Generation Assets of the Authority – The T&D transformation procurement process was conducted by the Puerto
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 – (continued)

Rico Public Private Partnerships Authority (“P3 Authority”) with the purpose of awarding a long-term partnership contract to a qualified operations and maintenance (“O&M”) service provider for the T&D System.

- 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 an O&M agreement.

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, each approved the O&M agreement and the O&M agreement was signed by the parties.

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.

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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 – (continued)

Subsequent Events – (continued)

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.

- In October 2020, FEMA approved approximately $9.6 billion in federal grants for the Authority to repair damage to its electric grid caused by the Hurricanes. 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. In December 2020, the Authority released a report that details the projects that will be undertaken using the new FEMA funds.

- On December 28, 2019, the first of many earthquakes shook Puerto Rico. This seismic activity caused significant damage along the southern coast of the Island. Two units of the Costa Sur power plant in Guayanilla were severely damaged in the earthquakes. The damaged units provide approximately 25% of the Authority’s baseload generation capacity. In August 2020, the first Costa Sur damaged unit was returned to service and the second unit came online in January 2021. As of June 2021, the Authority had received approximately $238 million from FEMA and approximately $70 million from several insurance companies in respect of damages resulting from the January 2020 earthquakes.

- On August 24, 2020, Puerto Rico Energy Bureau (PREB) approved the Authority’s Integrated Resource Plan (“IRP”) which includes a directive for the Authority to develop a competitive solicitation process for the procurement of 3,750MW of renewable generation and 1,500MW of energy storage resources in support of, among other things, achievement of Act 17-2019 targets for renewable energy installations. PREB established a schedule for the acquisition by the Authority through request for proposals processes of minimum quantities of renewable energy and energy storage resources. The schedule is divided in six (6) tranches. In the first tranche the Authority had to procure at least 1,000 MW of solar photovoltaic (“PV”) (or other energy-equivalent renewable) generation and at least 500 MW (2,000 MWh or equivalent) of battery energy storage. Accordingly, on February 22, 2021, the Authority issued Request for Proposal 112648 for Renewable Energy Generation and Energy Storage Resources Tranche 1 of 6 (“Tranche 1 RFP”) soliciting proposals for renewable energy generation, energy storage and virtual power plant resources. On December 16, 2021, the Authority announced that it offers fifteen (15) proposals for Solar PV projects with a total generation capacity of 732.72 MW. Likewise, it had made offers to enter into contracts for 220 MW of energy storage resources. The Authority submitted the recommendation for approval of the proposed agreement to PREB.
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 – (continued)

- On January 18, 2022, the Title III Court entered an order approving the Commonwealth’s Plan of Adjustment (“POA”). The POA reduces $33 billion in bond debt, cuts overall debt by 80% and saves Puerto Rico more than $50 billion in debt service payments. The Oversight Board will now determine an effective date for the POA, at which the Commonwealth’s prior debt will be restructured and creditors, public service union members, and others will receive the cash payments agreed to under the POA. On January 27, 2022, the Oversight Board certified a new fiscal plan of the Commonwealth which reflects the POA, recent increases in federal funding, and Puerto Rico’s economic recovery. The Oversight Board also certified on February 22, 2022 a revised budget for the Commonwealth which includes the new debt payments.

For a detailed 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.
Current assets:
- Cash and cash equivalents: $317,210
- Accounts receivables, net: $679,400
- Accounts receivable from insurance companies and FEMA: $355,089
- Fuel Inventory: $156,460
- Materials and supplies: $211,902
- Prepayments and other assets: $8,826

Total current assets: $1,728,887

Non-current assets:
- Accounts receivable: $212
- Restricted cash and cash equivalents: $101,774
- Depreciable capital assets: $7,723,148
- Non-depreciable capital assets: $345,229

Total non-current assets: $8,170,363

Total assets: $9,899,250

Deferred outflows of resources:
- Related to pensions: $642,742
- Related to OPEB: $18,745
- Related to debt refunding: $28,681
- Related to derivative instruments: $41,340

Total deferred outflows of resources: $731,508

Total assets and deferred outflows of resources: $10,630,758

(Continued)
<table>
<thead>
<tr>
<th>Current liabilities:</th>
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</thead>
<tbody>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$1,361,891</td>
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<tr>
<td>Current portion of bonds payable</td>
<td>1,306,632</td>
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<td>Current portion of notes payable</td>
<td>696,652</td>
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<tr>
<td>Accrued interest</td>
<td>1,187,526</td>
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<tr>
<td>Customer’s deposits</td>
<td>102,987</td>
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<td>Compensated absences</td>
<td>13,722</td>
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<td>Unearned Revenues</td>
<td>7,361</td>
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<td>Total current liabilities</td>
<td>4,676,771</td>
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<table>
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<tr>
<th>Non-current liabilities:</th>
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<tr>
<td>Compensated absences</td>
<td>16,544</td>
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<td>Customer deposits and others</td>
<td>202,441</td>
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<td>Unearned Revenues</td>
<td>1,145</td>
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<td>Notes Payable</td>
<td>26,118</td>
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<td>Bonds payable</td>
<td>7,031,816</td>
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<tr>
<td>Other post-employment benefits liability</td>
<td>348,095</td>
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<tr>
<td>Claims and judgments</td>
<td>276,667</td>
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<tr>
<td>Fair value of derivative instruments</td>
<td>41,340</td>
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<td>Net pension liability</td>
<td>4,567,321</td>
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<tr>
<td>Total non-current liabilities</td>
<td>12,511,487</td>
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<tr>
<td>Total liabilities</td>
<td>17,188,258</td>
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</tbody>
</table>

Deferred inflows of resources:
- Related to pension: 222,515
- Related to OPEB: 24,678

Total deferred inflows of resources: 247,193

Net position (deficit):
- Net Investment in capital assets: (268,167)
- Restricted: 85,831
- Unrestricted: (6,622,357)

Total net position (deficit): (6,804,693)

Total liabilities, deferred inflows of resources and net position: $10,630,758

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

For the fiscal year ended June 30, 2019

<table>
<thead>
<tr>
<th>Operating revenues</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential and Commercial</td>
<td>$ 2,960,880</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>659,043</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>18,130</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad Debt Expense</td>
<td>(47,924)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecommunications</td>
<td>14,023</td>
<td></td>
<td></td>
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<tr>
<td>Irrigation</td>
<td>7,512</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>3,611,664</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating expenses:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel</td>
<td>1,407,501</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased power</td>
<td>682,182</td>
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<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>367,130</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td>304,301</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative and general</td>
<td>368,642</td>
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<td></td>
</tr>
<tr>
<td>Transmission and distribution</td>
<td>265,244</td>
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<tr>
<td>Customer accounting and collection</td>
<td>185,890</td>
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<tr>
<td>Other production</td>
<td>98,121</td>
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<tr>
<td>Emergency repairs post Hurricane María</td>
<td>48,926</td>
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<tr>
<td>Contribution in lieu of taxes</td>
<td>169,196</td>
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</tr>
<tr>
<td>Total operating expenses</td>
<td>3,897,133</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Operating loss | (285,469) | | |

<table>
<thead>
<tr>
<th>Non-operating revenues and (expenses), net:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants from U.S. Federal Government</td>
<td>672,701</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income and other</td>
<td>16,514</td>
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</tr>
<tr>
<td>Interest expense and other</td>
<td>(479,465)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net gain on GDB partial settlement</td>
<td>59,941</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total nonoperating revenues and (expenses), net</td>
<td>269,691</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Loss before capital contributions | (15,778) | | |

| Capital contributions | 72,845 | | |

| Change in net position (deficit) | 57,067 | | |

| Net position (deficit), at beginning of year, as restated (See Note 4) | (6,861,760) | | |

| Net position (deficit), at end of year | $ (6,804,693) | | |

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 fiscal year ended June 30, 2019

Cash flows from operating activities:  
Cash received from customers $3,410,268  
Cash paid to suppliers (2,424,197)  
Cash paid to employees (306,845)  
Cash paid to customers (9,762)  
Net cash flows provided by operating activities 669,464

Cash flows from noncapital financing activities:  
Proceeds received from U.S. Federal Government 740,105  
Proceeds from notes payable 5,450  
Principal paid on notes payable (300,660)  
Net cash flows provided for noncapital financing activities 444,895

Cash flows from capital and related financing activities:  
Construction expenditures (mostly natural disaster) (1,143,163)  
Proceeds received from contributed capital 1,004  
Interests paid (10,195)  
Power revenue bonds:  
Proceeds from insurance companies to pay insured bond series 101,790  
Principal paid on revenue bonds maturities on insured series (101,790)  
Proceeds from insurance companies to pay interest to revenue bondholders 93,618  
Interest paid on revenue bonds on insured series (93,618)  
Net cash flows used for capital and related financing activities (1,152,354)

Cash flow from investing activities:  
Recovery of GDB deposits 15,518  
Net cash flows provided by investing activities 15,518

Net decrease in cash and cash equivalents (22,477)  
Cash and cash equivalents at beginning of year 441,461  
Cash and cash equivalents at end of year $418,984

Cash and cash equivalents:  
Unrestricted $317,210  
Restricted 101,774  
$418,984

(Continued)
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  
Statement of Cash Flows - (continued)  
(In thousands)  
For the fiscal year ended June 30, 2019

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

Operating loss $ (285,469)

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

Depreciation 367,130
Provision for uncollectible accounts and others 47,924
Other miscellaneous (964)

Changes in operating assets and liabilities:

Receivables (145,139)
Fuel inventory 11,776
Materials and supplies (30,648)
Prepayments and other assets (3,403)
Deferred outflows of resources 237,997
Accounts payable and other accrued liabilities 304,933
Net pension liability 221,760
Customer’s deposits and others (18,227)
Other post-employment benefits liability (8,710)
Claims and judgement 17,589
Compensated absences to be liquidated after one year (3,957)
Deferred inflow of resources (44,779)
Unearned revenues 1,651
Total adjustments 954,933

Net cash flows provided by operating activities $ 669,464

Supplemental cash flows information:

Noncash transactions:

Capital contributions $ 71,035
Contributions in lieu of taxes, billings and offset effect $ 169,197
Change in fair value of derivative instruments $ (9,854)
Changes in deferred loss resulting from debt refunding $ 5,845
Non cash portion of GDB partial settlement $ 44,423
Upaid construction expenditures $ 388,052

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 (“Act 57-2014”), 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, special purpose entity has the power to issue securitization bonds to restructure at a discount the Authority’s outstanding long-term debt. See Note 19. 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 (the “Title III Court”), commencing a Title III case for the Authority (the “Title III Petition”). The Title III Petition for relief is 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.

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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 wholly-owned subsidiary, created as a holding company for PREPA Networks, LLC (now HUB Advanced Networks, LLC) (“PREPA Net”), 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. The basis for the blended presentation is that PREPA Holdings was created by the Authority’s Governing Board pursuant to Resolution No. 3661 adopted on October 16, 2009. PREPA Holdings is a single-member, limited liability company, and the Authority is the sole member with shared management representatives.

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

Reporting Entity – (continued)

Condensed financial information for PREPA Holdings as of and for the fiscal year ended June 30, 2019 is as follows (in thousands):

Statement of net position:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets:</td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$8,898</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>212</td>
</tr>
<tr>
<td>Capital assets, net of depreciation</td>
<td>50,714</td>
</tr>
<tr>
<td>Total assets</td>
<td>$59,824</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$3,866</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>30,752</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>34,618</td>
</tr>
<tr>
<td>Net position</td>
<td></td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>35,924</td>
</tr>
<tr>
<td>Unrestricted (deficit)</td>
<td>(10,717)</td>
</tr>
<tr>
<td>Net position</td>
<td>$25,207</td>
</tr>
</tbody>
</table>

This space is intentionally left in blank
Note 2 -  Summary of Significant Accounting Policies – (continued)

Reporting Entity – (continued)

Statement of revenues, expenses and changes in net position:

Operating revenues $14,023
Operating expenses (13,487)
Operating loss 536
Non-operating income 16
Change in net position 552
Net position, beginning balance 24,655
Net position, ending balance $25,207

Statement of cash flows:

Net cash provided by operating activities $3,307
Net cash used in capital and related financing activities (3,832)
Net cash provided from investing activities 1,287
Net increase in cash 762
Cash, at beginning of year 4,075
Cash, at end of year $4,837

Complete separately issued audited financial statements of PREPA Holdings 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.
Note 2 - Summary of Significant Accounting Policies – (continued)

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 receivable

Accounts receivable 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 accounts 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 fiscal 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, 2019, a reserve of approximately $47 million for obsolete inventory is included as part of materials and supplies 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, 2019, the Authority received approximately $72 million in capital contributions, of which approximately $69.7 million were received from the U.S. Army Corps of Engineers (“USACE”). See Note 17.

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)

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. For the fiscal year ended June 30, 2019, the Authority did not report impairment losses on its capital assets.

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 3.124% for June 30, 2019.

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>
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 the Authority’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. 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 amortized 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)

Customer Deposits and Other – (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, 2019, the customer deposits and customer overpayments of approximately $221 million and $79.6 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. Annual sick leave accumulation is limited to 12 days for new hires after February 3, 2017, as per Act 8-2017. However, this benefit is not accrued in liabilities because 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)

Pensions – (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 as pension expense or as deferred inflows of resources or deferred outflows of resources, depending on the nature of the change. Refer to Note 13.

Other Post-Employment Benefits (OPEB)

The Authority accounts for other post-employment benefits, (“OPEB”) in accordance with GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. The Authority’s retired employees are eligible to participate in a single-employer, defined benefit, healthcare plan called the Authority Retired Employees Healthcare Plan (the OPEB 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 applicable litigation. The Authority consults with legal counsel in order to determine 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 stayed because of the filing of the Title III Petition.

Pollution Remediation Obligation

The Authority accrues pollution remediation obligations (“PRO”) under GASB No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations”, which requires that the liability should be recorded at the current value of the costs the Authority expects to incur to perform the work. Estimated remediation costs are subject to change over time and are revised for updated technology, changes in potential responsible parties, results of environmental studies, changes in statutes or regulations, and other factors.
Note 2 - Summary of Significant Accounting Policies – (continued)

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 upon the sale of 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.

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 rate swap agreements. The Authority measures at fair value its interest rate 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.
Note 2 - Summary of Significant Accounting Policies – (continued)

Net Position – (continued)

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 Oversight Board filed the Title III Petition on July 2, 2017, the Authority has stopped withdrawing funds from its restricted resources.

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 related to administrative fines or penalties, 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, 2019, the Authority received federal grants from the Federal Emergency Management Agency (“FEMA”) in aid for damage to the Authority’s assets caused by Hurricanes Irma and María (the “Hurricanes”), and from an agreement with Puerto Rico Infrastructure Financing Authority for environmental and related repair works. The Authority has applied the provisions of GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions”, to account for these grants. GASB Statement No. 33 allows revenues to be recognized when eligibility requirements are met and the resources are available, whichever occurs first. See Note 14.

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, which is designed to permit full recovery of the fuel and purchased power costs as ordered by the PREB. Beginning May 1, 2019, as a result of the new tariff structure approved under Act No. 4 “The law for the Revitalization of the Puerto Rico Electric Authority” (“Act 4 2016”), three new cost recovery riders were implemented: contribution in lieu of taxes (“CILT”), and two additional riders (“Help to Humans” and “Non- Help to Humans”) designed to cover costs associated with subsidies, public lighting and other PREB initiatives, as established in the PREB’s CEPR-AP_2015-001 of January 10, 2017.

Fuel costs and purchased power costs are reflected in operating expenses as the fuel and purchased power are consumed. Costs related to the new riders implemented are presented as a reduction of net revenues and as operating expenses.

Contributions 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 the Act.

Risk Management

The Authority is subject to certain business risks common to the utility industry. The majority of these risks is mitigated by external insurance coverage obtained by the Authority. For other business risks, however, the Authority has elected to be self-insured. See Note 16.

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 or 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 (“ARO”). 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 were originally effective for reporting periods beginning after June 15, 2018, although postponed due to the COVID-19 pandemic. Refer to GASB Statement No. 95 below.

• 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 were originally 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 were originally 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 were originally effective for reporting periods beginning after June 15, 2018, although postponed due to the 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. 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 were originally effective for reporting periods beginning after December 15, 2018, although postponed due to the COVID-19 pandemic. Refer to GASB Statement No. 95 below.

- 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 were originally effective for reporting periods beginning after December 15, 2020, although postponed due to the 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 ARO 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 relates 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 were originally effective for government acquisitions occurring in reporting periods beginning after June 15, 2020, although postponed due to the COVID-19 pandemic. Refer to GASB Statement No. 95 below. Earlier application is encouraged and is permitted by topic.
Note 2 - Summary of Significant Accounting Policies – (continued)

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 the COVID-19 pandemic. Refer to GASB Statement No. 95 below. All other requirements of this Statement were originally effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

- GASB Statement No. 94, Public-Private and Public-Public 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 and providing guidance for accounting and financial reporting for availability payment arrangements. 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, Postponement 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 by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are effective immediately.

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 the above Statements 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.
Note 2 - Summary of Significant Accounting Policies – (continued)

Accounting Pronouncements Issued But Not Yet Effective – (continued)

- GASB Statement No. 97, Certain component unit criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans- an amendment of GASB Statement No. 14 and No. 84 and a Supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately. The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

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:

- The Authority 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, 2019, the Authority has an accumulated deficit of approximately $6.8 billion.
Notes to the Financial Statements

For the fiscal year ended June 30, 2019

Note 3 - Going Concern Uncertainty – (continued)

Going Concern Consideration – (continued)

• As noted in Note 1, on July 2, 2017, the Oversight Board filed the Title III Petition. 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. 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 20, 2021, Moody’s Investors Service (“Moody’s) withdrew its rating on the Authority’s bonds. On February 9, 2018, Standard & Poor’s (“S&P”) withdrew its rating for the Authority’s bonds and now rates them (NR). Fitch Ratings (“Fitch”) currently maintains its “D” rating(s) for the Authority’s bonds.

• The Authority’s operational and fiscal condition has been further affected by a series of catastrophic events. The Hurricanes caused substantial, island-wide damage to the Authority’s Transmission and Distribution System (“T&D System”) and other assets. In January 2020, a magnitude 6.4 earthquake located near Puerto Rico’s southwestern coast caused significant damage to two units at 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.

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 its T&D System and other 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 System and generation operating and maintenance responsibilities to professional private operators; and (4) supporting efforts to restructure its legacy debt and pension obligations.
Note 3 - Going Concern Uncertainty – (continued)

The Authority’s Fiscal Plan

On March 13, 2017, the Authority presented its first 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.

The Oversight Board has certified various fiscal plans for the Authority and most recently on May 27, 2021 (the “Certified 2021 Fiscal Plan”). On January 27, 2022, the Oversight Board also certified the 2022 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.

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.

Restructuring Support Agreement

On July 30, 2018, the Authority, Puerto Rico Fiscal Agency and Financial Advisory Authority (“FAFAA”), the Oversight Board and members of an ad hoc group of Authority 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, the Ad Hoc Group and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. signed the Definitive Restructuring Agreement (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 by Puerto Rico Electric Power Authority Restructuring Corporation (“CRAEE”) to restructure and refinance at a discount the Authority’s outstanding long-term debt under a plan of adjustment for the Authority, which securitization bonds would be secured by and payable from a transition charge imposed on Authority’s customers and certain other electricity users.
Note 3 - Going Concern Uncertainty – (continued)

Restructuring Support Agreement – (continued)

The issuance of securitization bonds contemplated under the 2019 RSA only becomes effective after confirmation of the Authority’s plan of adjustment by the Title III Court and passage of any required legislation. As of the date of these financial statements, the Oversight Board has not filed a plan of adjustment for the Authority with the Title III Court, 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.

Note 4 - Corrections of Errors

The impact of correction of errors to net position (deficit) were as follows (in thousands):

<table>
<thead>
<tr>
<th>Net Position (Deficit)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>As previously reported</td>
<td>$ (6,936,014)</td>
</tr>
<tr>
<td>Correction of claims and judgments</td>
<td>74,254</td>
</tr>
<tr>
<td>Beginning balances, as restated</td>
<td>$ (6,861,760)</td>
</tr>
</tbody>
</table>

During the fiscal year ended June 30, 2019, the Authority restated its reserve for legal claims and judgments to reflect more precise estimates for some of its legal contingencies. The effect of these corrections resulted in a decrease of approximately $74 million in net deficit.

Note 5 - Deposits

As of June 30, 2019, 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>Carrying Amount</th>
<th>Bank Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted cash</td>
<td>$ 317,210</td>
</tr>
<tr>
<td>Restricted cash and time deposits</td>
<td>$ 101,774</td>
</tr>
</tbody>
</table>
Note 5 - Deposits – (continued)

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 provide insurance or securities as collateral. Such collateral is held by the Department of the Treasury of the Commonwealth.

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Note 6 - Accounts Receivable from Services and Accounts Receivable from Insurance Companies and FEMA

Accounts receivable consist of (in thousands):

### Current:

**Electric and related services:**
- Commonwealth agencies and component units: $139,083
- Residential, industrial, and commercial: 1,038,785
- Unbilled services: 191,417

**Municipalities**
- Accounts receivable: 366,700
- Accounts payable offset (See Note 9): (356,693)
  
**Telecommunications and others:**
- 12,905

Total current accounts receivable, net: $679,400

**Insurance companies:**
- 3,322

**Grants from U.S. Federal Government:**
- 351,767

Total accounts receivable from insurance companies and FEMA: $355,089

### Noncurrent:

**Electric and related services:**
- Governmental agencies and municipalities: $87,010
- Other receivables related to government: 95,104

Allowance for uncollectible accounts: (182,114)

Other non-current receivable not related to government: 212

Total non-current accounts receivable, net: $212
Note 6 - Accounts Receivable from Services and Accounts Receivable from Insurance Companies and FEMA – (continued)

As of June 30, 2019, receivables from the municipalities subject to receipt of CILT from the Authority amounted to approximately $356.7 million, which the Authority has the right to offset with CILT 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, 2019. Grants receivable from U.S. Government of approximately $351.8 million, were recorded as assets when the related expenditures met the eligibility requirements.

The portion of accounts receivable and other governmental receivables not expected to be collected during the next fiscal year is recorded under other noncurrent receivables. The Authority has recorded an allowance for uncollectible accounts of $182 million for the fiscal year ended June 30, 2019, of which $87 million is in consideration of the financial difficulties of the Commonwealth, its component units and municipalities. The remaining $95 million represents the allowance for the outstanding claim that the Authority has for deposits previously held with Government Development Bank for Puerto Rico (“GDB”), and that are held at the GDB Public Entity Trust that was established as part of the GDB restructuring proceedings under Title VI of PROMESA (“GDB Qualifying Modification”). See Note 12.

Note 7 - Restricted Cash and Cash Equivalents

As of June 30, 2019, the Authority had the following restricted cash and cash equivalent held by the U.S National Bank Association, the trustee under the 1974 Agreement (the “1974 Trustee”) consisting primarily of commercial bank deposits, money markets and time deposits (in thousands):

<table>
<thead>
<tr>
<th>Restricted Cash and Cash Equivalents</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction fund</td>
<td>$63,865</td>
</tr>
<tr>
<td>Reserve maintenance fund</td>
<td>16,581</td>
</tr>
<tr>
<td>Reserve account in the sinking fund</td>
<td>16,085</td>
</tr>
<tr>
<td>PREPA client fund</td>
<td>3,277</td>
</tr>
<tr>
<td>Other restricted funds</td>
<td>1,966</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$101,774</strong></td>
</tr>
</tbody>
</table>
Note 7 - Restricted Cash and Cash Equivalents – (continued)

All moneys deposited with the 1974 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 1974 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 1974 Trustee(defined in Note 7).

For fiscal year ended June 30, 2019, the balance held in this fund represents primarily insurance proceeds restricted for capital asset investment in accordance with a determination by the Title III Court that restricted the use of those funds to repair, replace or reconstruct damaged or destroyed property in compliance with the Trust Agreement.

Reserve Maintenance 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 on Power Revenue Bonds 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, 2018</td>
<td></td>
<td></td>
<td></td>
<td>June 30, 2019</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>$150,275</td>
<td>$ -</td>
<td>$ -</td>
<td>$8,569</td>
<td>$158,844</td>
</tr>
<tr>
<td>Construction work in process</td>
<td>128,916</td>
<td>240,777</td>
<td>(387)</td>
<td>(182,922)</td>
<td>186,384</td>
</tr>
<tr>
<td>Total non-depreciable capital assets</td>
<td>279,191</td>
<td>240,777</td>
<td>(387)</td>
<td>(174,353)</td>
<td>345,228</td>
</tr>
<tr>
<td>Depreciable capital assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>4,832,988</td>
<td>20,090</td>
<td></td>
<td>75,391</td>
<td>4,928,469</td>
</tr>
<tr>
<td>Distribution</td>
<td>4,547,074</td>
<td>274,219</td>
<td>(57)</td>
<td>31,242</td>
<td>4,852,478</td>
</tr>
<tr>
<td>Transmission</td>
<td>2,189,522</td>
<td>192,803</td>
<td>(571)</td>
<td>61,139</td>
<td>2,442,893</td>
</tr>
<tr>
<td>General and administrative</td>
<td>1,555,226</td>
<td>33,833</td>
<td></td>
<td>6,574</td>
<td>1,595,633</td>
</tr>
<tr>
<td>Fiber network</td>
<td>70,024</td>
<td>2,948</td>
<td>(387)</td>
<td>-</td>
<td>73,359</td>
</tr>
<tr>
<td>Irrigation systems</td>
<td>36,203</td>
<td>(698)</td>
<td></td>
<td></td>
<td>35,505</td>
</tr>
<tr>
<td>Total depreciable capital assets</td>
<td>13,231,037</td>
<td>523,195</td>
<td>(241)</td>
<td>174,346</td>
<td>13,928,337</td>
</tr>
<tr>
<td>Accumulated depreciation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>(2,481,427)</td>
<td>(106,306)</td>
<td>46</td>
<td>(385)</td>
<td>(2,588,072)</td>
</tr>
<tr>
<td>Distribution</td>
<td>(1,772,490)</td>
<td>(154,739)</td>
<td>1,686</td>
<td>109</td>
<td>(1,925,434)</td>
</tr>
<tr>
<td>Transmission</td>
<td>(620,368)</td>
<td>(49,184)</td>
<td>2,875</td>
<td>(205)</td>
<td>(666,882)</td>
</tr>
<tr>
<td>General and administrative</td>
<td>(916,913)</td>
<td>(53,460)</td>
<td>(431)</td>
<td>(1,291)</td>
<td>(972,095)</td>
</tr>
<tr>
<td>Irrigation systems</td>
<td>(22,843)</td>
<td>(515)</td>
<td></td>
<td></td>
<td>(23,358)</td>
</tr>
<tr>
<td>Fiber network</td>
<td>(26,421)</td>
<td>(2,926)</td>
<td></td>
<td></td>
<td>(29,347)</td>
</tr>
<tr>
<td>Total accumulated depreciation</td>
<td>(5,840,462)</td>
<td>(367,130)</td>
<td>4,177</td>
<td>(1,772)</td>
<td>(6,205,188)</td>
</tr>
<tr>
<td>Total depreciable capital assets, net</td>
<td>7,390,575</td>
<td>156,065</td>
<td>3,936</td>
<td>172,574</td>
<td>7,723,149</td>
</tr>
<tr>
<td>Total capital assets</td>
<td>$7,669,766</td>
<td>$396,842</td>
<td>$3,549</td>
<td>$(1,779)</td>
<td>$8,068,377</td>
</tr>
</tbody>
</table>

Construction work in progress on June 30, 2019, 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 2019 was approximately $367 million. As of June 30, 2019, the Authority did not report impairment losses on its capital assets.

Note 9 - Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2019, were as follows (in thousands):

Accounts payable, accrued expenses, and withholdings $ 1,036,810
Contribution in lieu of taxes
   Accounts payable 356,693
   Accounts receivable offset (See Note 6) (356,693) -
Accrued pension plan contribution and withholding from employees 310,208
Other post employment benefit liability 12,782
Accrued compensation and other 2,091

Total $ 1,361,891

Note 10 - Long-Term Liabilities

Long term debt activity for the fiscal year ended June 30, 2019, was as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Balance at June 30, 2018, as restated</th>
<th>Increases</th>
<th>Decreases</th>
<th>Balance at June 30, 2019</th>
<th>Due within one year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds payable</td>
<td>$ 8,347,164</td>
<td>$ 101,792</td>
<td>$(110,508)</td>
<td>$ 8,338,448</td>
<td>$ 1,306,632</td>
</tr>
<tr>
<td>Notes payable</td>
<td>1,053,825</td>
<td>5,451</td>
<td>(336,506)</td>
<td>722,770</td>
<td>696,652</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>34,223</td>
<td>14,481</td>
<td>(18,438)</td>
<td>30,266</td>
<td>13,722</td>
</tr>
<tr>
<td>Claims and judgments</td>
<td>259,078</td>
<td>17,589</td>
<td>-</td>
<td>276,667</td>
<td>-</td>
</tr>
<tr>
<td>Net pension liability</td>
<td>4,345,561</td>
<td>519,200</td>
<td>(297,440)</td>
<td>4,567,321</td>
<td>-</td>
</tr>
<tr>
<td>Other postemployment benefits liability</td>
<td>374,590</td>
<td>22,743</td>
<td>(36,456)</td>
<td>360,877</td>
<td>12,782</td>
</tr>
</tbody>
</table>

Total long-term liabilities $ 14,414,441 $ 681,256 $(799,348) $ 14,296,349 $ 2,029,788
Note 10 - Long-Term Liabilities – (continued)

Commencing with the filing of the Title III Petition, the Authority has not made any payments (whether for interest or principal) on bonds payable and some notes payable. As such, the current portion of the long-term liabilities is expected to increase as they become due until new terms for the Authority’s long-term debt are negotiated in the Authority’s Title III proceeding. Payments made during fiscal year 2019 on notes payable and interest on notes payable were mainly related to the Revolving Credit Loan Agreement held with the Commonwealth. These payments amounted approximately $309 million.

Note 11 - Notes Payable

The following is a summary of notes payable as of June 30, 2019 (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 $250 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>8.75% (V)</td>
<td>549,950</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 following completion of the construction</td>
<td>2.00% (V)</td>
<td>-</td>
<td>12,619</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>6.00% (V)</td>
<td>660</td>
<td>13,499</td>
</tr>
</tbody>
</table>

Total notes payable $696,652 $26,118 $722,770

(V) - variable interest rate

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Note 11 - Notes Payable – (continued)

The schedule of maturities of notes payable with interest thereon as of June 30, 2019, 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>2020</td>
<td>$696,652</td>
<td>$58,606</td>
<td>$755,258</td>
</tr>
<tr>
<td>2021</td>
<td>660</td>
<td>6,528</td>
<td>7,188</td>
</tr>
<tr>
<td>2022</td>
<td>660</td>
<td>6,495</td>
<td>7,155</td>
</tr>
<tr>
<td>2023</td>
<td>12,179</td>
<td>6,165</td>
<td>18,344</td>
</tr>
<tr>
<td>2024</td>
<td></td>
<td>5,859</td>
<td>5,859</td>
</tr>
<tr>
<td>2025-2029</td>
<td></td>
<td>29,296</td>
<td>29,296</td>
</tr>
<tr>
<td>2030-2034</td>
<td></td>
<td>29,296</td>
<td>29,296</td>
</tr>
<tr>
<td>2035-2039</td>
<td></td>
<td>29,296</td>
<td>29,296</td>
</tr>
<tr>
<td>2040-2044</td>
<td>12,619</td>
<td>29,296</td>
<td>41,915</td>
</tr>
<tr>
<td>Total notes payable</td>
<td>722,770</td>
<td>$200,837</td>
<td>$923,607</td>
</tr>
<tr>
<td>Less amount due within one year</td>
<td>(696,652)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes payable, less amount due within one year $26,118

The above schedule has been presented in accordance with original terms of the notes payable and does not reflect the effect, if any, that may result from the Authority’s Title III proceeding. Accordingly, the effects of these subsequent events may affect the carrying amounts, interest rates and repayment terms. See Note 3 for additional information on the Authority’s Title III proceeding and status.

In July 2012, the Authority entered into a revolving line of credit agreement with Citibank not to exceed approximately $250 million for the purpose of providing the Authority with funds to (a) purchase power or fuel oil or (b) construction of liquified natural gas (“LNG”) facility in connection with the Authority’s business operations, and to pay cost related to the agreement. As of June 30, 2019, the outstanding balance is approximately $146 million.
Note 11 - Notes Payable – (continued)

In April 2012, the Authority entered into a revolving line of credit agreement 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 but was extended to August 15, 2014; and its amount was increased by an additional $50 million. As of June 30, 2019, this line of credit is under the lead of Cortland Capital Market Services, LLC; and its 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, 2019, this line of credit was settled along with other lines of credit from GDB and brought to a zero balance. Refer to the section below, Partial payment to the Authority from GDB Public Entity Trust, for additional information with regards this settlement.

During fiscal year 2019, the Authority borrowed an additional $5.5 million under 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 20 years after the construction completion date, and an effective interest of 2%. As of the date of these financial statements, the project’s construction completion date is estimated to be December of 2023; the outstanding balance of the revolving line of credit as of June 30, 2019, is approximately $12.6 million and its estimated maturity date is December of 2043. 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 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 such expenditures from September 6, 2017 until the funding of the Revolving Loan Facility. On March 8, 2019, the Revolving Loan Facility was paid off by the Authority.
Note 11 - Notes Payable – (continued)

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 (6.0025% as of June 30, 2019), 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, 2019, the outstanding principal amount due is approximately $14.2 million. This note payable is collateralized by a first mortgage on the real property, and an assignment of all insurance policies, an assignment of all material contracts with both related and third parties, and a pledge of all cash, equipment, receivables, and personal property of 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 1974 Trustee to repay Power Revenue Bonds principal and interest. The 1974 Agreement provides for certain affirmative and negative covenants, among other requirements; however, on June 30, 2019, the Authority was not in compliance with some of these debt covenants. On July 2, 2017, the Oversight Board filed the Title III Petition.

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

Notes to the Financial Statements  

For the fiscal year ended June 30, 2019 

Note 12 - Bonds Payable – (continued)  

Power Revenue Bonds Payable – (continued) 

On June 30, 2019, 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% (F)</td>
<td>2018</td>
<td>$42,315</td>
</tr>
<tr>
<td>Issue of 2002, Series LL</td>
<td>July 2, 2002</td>
<td>5.5% (F)</td>
<td>2019</td>
<td>77,905</td>
</tr>
<tr>
<td>Issue of 2002, Series MM</td>
<td>October 3, 2002</td>
<td>5.0% (F)</td>
<td>2023</td>
<td>56,200</td>
</tr>
<tr>
<td>Issue of 2003, Series NN</td>
<td>August 19, 2003</td>
<td>5.2% (F)</td>
<td>2033</td>
<td>171,525</td>
</tr>
<tr>
<td>Issue of 2004, Series PP</td>
<td>August 26, 2004</td>
<td>5.0% (F)</td>
<td>2025</td>
<td>84,765</td>
</tr>
<tr>
<td>Issue of 2005, Series QQ, RR and S</td>
<td>April 4, 2005</td>
<td>5.5% (F)</td>
<td>From 2018 to 2030</td>
<td>603,810</td>
</tr>
<tr>
<td>Issue of 2007, Series TT, UU and V</td>
<td>May 3, 2007</td>
<td>5.3% (F(V))</td>
<td>From 2031 to 2037</td>
<td>1,946,010</td>
</tr>
<tr>
<td>Issue of 2008, Series WW</td>
<td>June 26, 2008</td>
<td>5.3% (F)</td>
<td>2038</td>
<td>610,140</td>
</tr>
<tr>
<td>Issue of 2010, Series XX</td>
<td>April 7, 2010</td>
<td>5.3% (F)</td>
<td>2040</td>
<td>822,210</td>
</tr>
<tr>
<td>Issue of 2010, Series YY</td>
<td>April 29, 2010</td>
<td>6.1% (F)</td>
<td>2040</td>
<td>320,175</td>
</tr>
<tr>
<td>Issue of 2010, Series ZZ and AAA</td>
<td>May 5, 2010</td>
<td>From 5.1% to 5.3% (F)</td>
<td>From 2028 to 2031</td>
<td>877,975</td>
</tr>
<tr>
<td>Issue of 2010, Series BBB and CCC</td>
<td>May 26, 2010</td>
<td>5.4% (F)</td>
<td>2028</td>
<td>393,720</td>
</tr>
<tr>
<td>Issue of 2010, Series DDD</td>
<td>October 14, 2010</td>
<td>4.5% (F)</td>
<td>2024</td>
<td>218,225</td>
</tr>
<tr>
<td>Issue of 2010, Series EEE</td>
<td>December 29, 2010</td>
<td>6.1% (F)</td>
<td>2040</td>
<td>355,730</td>
</tr>
<tr>
<td>Issue of 2012, Series A</td>
<td>May 1, 2012</td>
<td>5.0% (F)</td>
<td>2042</td>
<td>630,110</td>
</tr>
<tr>
<td>Issue of 2013, Series A</td>
<td>August 21, 2013</td>
<td>6.9% (F)</td>
<td>2043</td>
<td>673,145</td>
</tr>
<tr>
<td>Issue of 2016, Series A</td>
<td>May 19, 2016</td>
<td>10.0% (F)</td>
<td>2019</td>
<td>55,640</td>
</tr>
<tr>
<td>Issue of 2016, Series B</td>
<td>June 22, 2016</td>
<td>10.0% (F)</td>
<td>2019</td>
<td>55,211</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% (F)</td>
<td>From 2020 to 2022</td>
<td>263,803</td>
</tr>
</tbody>
</table>

Total principal amount face value 8,258,614
Unamortized premiums and discounts 79,834
Power revenue bonds, net 8,338,448
Amount due within one year (1,306,632)
Long-term portion of bonds payable $7,031,816

(V) - variable interest rate  
(F) - fixed interest rate
Note 12 - Bonds Payable – (continued)

Power Revenue Bonds Payable – (continued)

The schedule of maturities of bonds payable with interest thereon as of June 30, 2019, 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>2020</td>
<td>$1,306,632</td>
<td>$390,112</td>
<td>$1,696,744</td>
</tr>
<tr>
<td>2021</td>
<td>360,066</td>
<td>371,477</td>
<td>731,543</td>
</tr>
<tr>
<td>2022</td>
<td>327,282</td>
<td>351,095</td>
<td>678,377</td>
</tr>
<tr>
<td>2023</td>
<td>318,965</td>
<td>334,113</td>
<td>653,078</td>
</tr>
<tr>
<td>2024</td>
<td>334,600</td>
<td>318,557</td>
<td>653,157</td>
</tr>
<tr>
<td>2025-2029</td>
<td>1,895,140</td>
<td>1,355,715</td>
<td>3,250,855</td>
</tr>
<tr>
<td>2030-2034</td>
<td>1,458,545</td>
<td>885,115</td>
<td>2,343,660</td>
</tr>
<tr>
<td>2035-2039</td>
<td>1,381,460</td>
<td>483,439</td>
<td>1,864,899</td>
</tr>
<tr>
<td>2040-2043</td>
<td>875,924</td>
<td>109,423</td>
<td>985,347</td>
</tr>
<tr>
<td>Total</td>
<td>8,258,614</td>
<td>$4,599,046</td>
<td>$12,857,660</td>
</tr>
<tr>
<td>Plus or less: unamortized discount or premium</td>
<td>79,834</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total bonds payable</td>
<td>8,338,448</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current portion of bonds payable</td>
<td>(1,306,632)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds payable, excluding current portion</td>
<td>$7,031,816</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

From the total of approximately $8.3 billion of bonds outstanding, approximately $2.2 billion are insured by certain monoline insurance companies. During fiscal year 2019, these insurance companies made payments of approximately $101.8 million in principal and approximately $93.6 million in interest as the amounts owed became due. After the monoline insurers make the insured payments, they become subrogated to the rights of the original bondholders. As a result, the Authority presents amounts owed to the insurance companies as Bonds Payable and Accrued Interest until such rights are resolved by payment or by the Authority’s Title III proceeding. As such, payments of principal and interest made by the monoline insurance companies are not recorded or presented as debt service.
Note 12 - Bonds Payable – (continued)

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 in 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 to the Authority several investigation letters from February 7, 2019, to September 6, 2019 related (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 Information Return for Build America Bonds and Recovery Zone Economic Development Bonds 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, 2019, no additional information has been received from the IRS in this regard. See Note 19 for further events.

Interest Rate Swap Agreements

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, 2019, 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>A2/A-/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>Aa2/AA-/AA-</td>
<td>$ 83,343</td>
</tr>
</tbody>
</table>

|       |               |               |       |                          | $ 252,875       |

This space is intentionally left in blank
Note 12 - Bonds Payable – (continued)

Interest Rate Swap Agreements- (continued)

Derivative instruments A and B hedge changes in cash flows of the underlying floating bonds 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, instruments A and B are considered hedging derivative instruments. As of June 30, 2019, the combined negative fair value of the derivative instruments was $41.3 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, 2019 (in thousands):

| Associate Power Revenue Bonds | Change in Fair Value | Fair Value | |
|-------------------------------|----------------------|------------|
|                               | Classification       | Amount     | Classification | Amount | Notional |
| Libor Bonds, Series UU        | Deferred              | (6,606)    | FV of derivative instruments | (27,714) | 169,532 |
| Mini-BMS Bonds, Series UU     | Deferred              | (3,248)    | FV of derivative instruments | (13,626) | 83,343 |
|                               | Outflows              |            |                |        |          |

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, 2019, consists 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.
Note 12 - Bonds Payable – (continued)

Interest Rate Swap Agreements – (continued)

Credit Risk

As of June 30, 2019, the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the Authority would be exposed to counterparty credit risk in the amount of the derivatives positive fair value. As of the date of the issuance of the financial statements one of the swap counterparties, was rated A2 by Moody’s, A- by S&P and AA- by Fitch. The other counterparty was rated Aa2 by Moody’s, AA- by S&P and AA- by Fitch.

Termination Risk

The swap agreements use 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 swaps have a negative fair value, the Authority would be liable to the counterparties for a payment equal to the swaps’ total fair value.

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

Basis Risk

During fiscal year 2019, the payments of fixed rate interest from the Authority would have exceeded the amount received as variable interest from swap counterparties by approximately $4.7 million. Due to the stay imposed by the Title III Petition, this amount has been accrued in the accompanying financial statements.

Rollover Risk

Using rates as of June 30, 2019, debt service amounts of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term are set forth in the table below (in thousands). 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)

<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>2020</td>
<td>$</td>
<td>$ 5,245</td>
<td>$ 5,072</td>
<td>$ 10,317</td>
</tr>
<tr>
<td>2021</td>
<td></td>
<td>5,245</td>
<td>5,072</td>
<td>10,317</td>
</tr>
<tr>
<td>2022</td>
<td></td>
<td>5,245</td>
<td>5,072</td>
<td>10,317</td>
</tr>
<tr>
<td>2023</td>
<td></td>
<td>5,245</td>
<td>5,072</td>
<td>10,317</td>
</tr>
<tr>
<td>2024</td>
<td></td>
<td>5,245</td>
<td>5,072</td>
<td>10,317</td>
</tr>
<tr>
<td>2025-2029</td>
<td>252,875</td>
<td>26,227</td>
<td>25,360</td>
<td>304,462</td>
</tr>
<tr>
<td>Total</td>
<td>$ 252,875</td>
<td>$ 52,452</td>
<td>$ 50,720</td>
<td>$ 356,047</td>
</tr>
</tbody>
</table>

The Authority obtained an approximately $150 million revolving line of credit from GDB to meet collateral posting requirements from the swaps. As of June 30, 2019, this line of credit was settled along with other line of credits from GDB and brought to a zero balance. Refer to the section below for additional information regarding this settlement.

Partial payment to the Authority from GDB Public Entity Trust

On November 29, 2018, GDB completed 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”).

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Partial payment to the Authority from GDB Public Entity Trust – (continued)

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 Public Entity Trust (“PET”) in 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 GDB and the Department of Treasury of the Commonwealth of Puerto Rico, the Authority obtained a PET claim totaling approximately $110.4 million, and canceled $35.8 million in notes payable plus accrued interests on those notes payable.

In February 2019, GDB, as trustee of the PET, transferred approximately $15.5 million to the Authority on account of its PET claim. The remaining assets of the PET (the “PET Assets”) consist of, among other items, an unsecured claim against the Commonwealth 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 assurance can be provided that the Authority will be able to collect on its remaining claim against the PET. Due to this uncertainty, the amount of the PET Claim recorded as part of accounts receivable has been fully reserved in the accompanying financial statements.

Defeasance of debt

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 through their maturity or earlier redemption dates. Accordingly, the trust accounts, assets, and liabilities for the defeased bonds were not included in the Authority’s financial statements. As of June 30, 2019, 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.

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.

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 credited 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 credited 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.
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 Plan’s provisions and benefits in effect as of June 30, 2019, 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 service at full retirement</td>
<td>75% is limited to $50,000 @ 30 years of service 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 Authority contribution rates</td>
<td>34.54%</td>
<td>34.54%</td>
</tr>
</tbody>
</table>

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

Pension Plan – (continued)

Employees Covered

As of the June 30, 2018 valuation date, the following members were covered by the benefit terms for the Pension Plan:

<table>
<thead>
<tr>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired participants and beneficiaries currently receiving benefits</td>
</tr>
<tr>
<td>Terminated participants and beneficiaries entitled to benefits but not yet receiving benefits</td>
</tr>
<tr>
<td>Active participants</td>
</tr>
<tr>
<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 fiscal year ended June 30, 2019, the Authority’s annual contribution was $224.4 million.

B. Net Pension Liability

The net pension liability as of June 30, 2019, was measured as of June 30, 2018, and the actuarial valuation date was June 30, 2018.

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>June 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation Date</td>
<td>June 30, 2018</td>
</tr>
<tr>
<td>Measurement Date</td>
<td>June 30, 2018</td>
</tr>
<tr>
<td>Reporting date</td>
<td>June 30, 2019</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>2.98%</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>2022</td>
</tr>
<tr>
<td>Actuarial Assumptions:</td>
<td></td>
</tr>
<tr>
<td>Discount Rate</td>
<td>3.05%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.25%</td>
</tr>
<tr>
<td>Payroll Growth</td>
<td>0.00%</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></td>
</tr>
</tbody>
</table>

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Authority 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 Authority 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 PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019. This assumption measures the probabilities of each benefit payment being made after retirement.

*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 3.05%. The projection of cash flows used to determine the discount rate assumed that members contribute the mandatory contribution rate, and the Authority will contribute 34.54% 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, 2022. 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, 2022, and the applicable municipal bond index rate of 2.98%, based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2018, was applied to all periods of projected benefit payments after June 30, 2022. The Single Equivalent Interest Rate (“SEIR”) of 3.05% 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, 2018.

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>1.45%</td>
</tr>
<tr>
<td>U.S. Large Cap Equity</td>
<td>70.00%</td>
<td>4.97%</td>
</tr>
<tr>
<td>Total</td>
<td>100.00%</td>
<td></td>
</tr>
</tbody>
</table>

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>Increase/(Decrease)</th>
<th>Pension Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Pension Liability</td>
</tr>
<tr>
<td>Balance as of reporting period June 30, 2018</td>
<td>$ 5,571,772</td>
</tr>
<tr>
<td>Changes for the year:</td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>80,783</td>
</tr>
<tr>
<td>Interest</td>
<td>184,768</td>
</tr>
<tr>
<td>Differences between expected and actual experience</td>
<td>(50,005)</td>
</tr>
<tr>
<td>Changes in assumptions</td>
<td>253,387</td>
</tr>
<tr>
<td>Contributions - employer</td>
<td>-</td>
</tr>
<tr>
<td>Contributions - employee</td>
<td>-</td>
</tr>
<tr>
<td>Net investment income</td>
<td>-</td>
</tr>
<tr>
<td>Benefit payments, including refunds of employee contributions</td>
<td>-</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>-</td>
</tr>
<tr>
<td>Other changes</td>
<td>-</td>
</tr>
<tr>
<td>Net changes</td>
<td>194,115</td>
</tr>
<tr>
<td>Balance as of reporting period June 30, 2019</td>
<td>$ 5,765,887</td>
</tr>
</tbody>
</table>
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 Authority ERS, calculated using the discount rate of 3.05 percent, as well as what the Authority ERS net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.05 percent) or 1 percentage point higher (4.05 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>$5,433,996</td>
<td>$4,567,321</td>
<td>$3,869,058</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 ended June 30, 2018 (the “Measurement Date”):

- The discount rate used to determine the total pension liability was decreased from 3.40% to 3.05%.
- The municipal bond index rate decreased from 3.13% to 2.98%.
- The mortality rates assumptions were changed from RP-2014 Employee Mortality Projected to 2018 using Scale BB to PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019.
- The projected cash flows used to determine the discount rate assumed that the Authority would contribute 34.54% of closed group compensation for 2018, while for 2017 the assumption was that the Authority would contribute 46.60% of closed group compensation.
- For June 30, 2018, the basis for the target asset allocation and best estimates of arithmetic real rates of return for each major asset class is the Survey of Capital Market Assumptions, 2019 Edition, published by the Horizon Actuarial Services, LLC. For June 30, 2017, this basis was provided by the Authority ERS investment consultants.

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 Authority ERS members.
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, 2019, the Authority recognized pension expense of approximately $633.5 million. On June 30, 2019, 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 $922
- Employer contributions subsequent to the measurement date 224,368
- Changes of assumptions 417,452
- Total deferred outflows of resources $642,742

Deferred inflows of resources:
- Changes in assumptions $138,090
- Differences between expected and actual experience 50,657
- Net difference between projected and actual earnings on pension plan investments 33,768
- Total deferred inflows of resources $222,515

Contributions of approximately $224.4 million were reported as deferred outflows of resources resulting from contributions made subsequent to 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 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>2020</td>
<td>$204,910</td>
</tr>
<tr>
<td>2021</td>
<td>(12,409)</td>
</tr>
<tr>
<td>2022</td>
<td>8,883</td>
</tr>
<tr>
<td>2023</td>
<td>(5,525)</td>
</tr>
<tr>
<td></td>
<td>$195,859</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 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” 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 aged 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 aged 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 service and all retired employees that retired before September 1, 2009, regardless of length of employment, 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 members were covered by the benefit terms:

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inactive members or beneficiaries currently receiving benefits</td>
<td>8,135</td>
</tr>
<tr>
<td>Inactive members entitled to but not yet receiving benefits</td>
<td>-</td>
</tr>
<tr>
<td>Active members</td>
<td>5,739</td>
</tr>
<tr>
<td>Total</td>
<td>13,874</td>
</tr>
</tbody>
</table>
Note 13 - Employees’ Retirement Benefits – (continued)

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

Funding Policy and Annual OPEB Cost

The OPEB Plan is funded on a “pay-as-you-go” basis. 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, 2019, was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and other inputs

The TOL was determined using the following actuarial assumptions and other inputs:

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>July 1, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurement Date (MD)</td>
<td>June 30, 2018</td>
</tr>
<tr>
<td>Reporting date</td>
<td>June 30, 2019</td>
</tr>
<tr>
<td>Actuarial Assumptions</td>
<td></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>2.98%</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, 2018.

Mortality rates were based on PUB 2010 Headcount-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019.

The Authority’s OPEB Plan has no health care trends.

The actuarial assumptions used in the June 30, 2019, 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 TOL are as 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, 2018</td>
<td>$374,590</td>
</tr>
<tr>
<td>Changes for the year:</td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>2,929</td>
</tr>
<tr>
<td>Interest</td>
<td>11,446</td>
</tr>
<tr>
<td>Difference between expected and actual experience</td>
<td>(18,671)</td>
</tr>
<tr>
<td>Changes of assumptions or other inputs</td>
<td>8,368</td>
</tr>
<tr>
<td>Benefits payments</td>
<td>(17,785)</td>
</tr>
<tr>
<td>Net changes</td>
<td>(13,713)</td>
</tr>
<tr>
<td>Total OPEB liability as of reporting period June 30, 2019</td>
<td>$360,877</td>
</tr>
</tbody>
</table>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.13% to 2.98%. The mortality rate assumptions were changed from RP-2014 Employee Mortality Projected to 2018 using Scale BB to PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019.

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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 2.98 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 (1.98 percent) or 1 percentage point higher (3.98 percent) than the current rate (in thousands):

<table>
<thead>
<tr>
<th>Discount Rate</th>
<th>1% Decrease 1.98%</th>
<th>2.98%</th>
<th>1% Increase 3.98%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total OPEB Liability</td>
<td>$409,463</td>
<td>$360,877</td>
<td>$321,189</td>
</tr>
</tbody>
</table>

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

For the fiscal year ended June 30, 2019, the Authority recognized an OPEB expense of approximately $5.0 million. On June 30, 2019, 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 $12,782
- Changes of assumptions 5,963
  Total deferred outflows of resources $18,745

Deferred inflows of resources:
- Differences between expected and actual experience $15,782
- Changes of assumptions 8,896
  Total deferred inflows of resources $24,678
Note 13 - Employees’ Retirement Benefits – (continued)

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

Benefit payments of approximately $12.8 million were reported as deferred outflows of resources resulting from payments made subsequent to June 30, 2018, the Measurement Date.

The amounts reported as deferred outflows of resources (other than the benefits paid 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>Measurement period ended June 30,</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$(9,386)</td>
</tr>
<tr>
<td>2020</td>
<td>$(7,908)</td>
</tr>
<tr>
<td>2021</td>
<td>$(1,421)</td>
</tr>
<tr>
<td></td>
<td><strong>$(18,715)</strong></td>
</tr>
</tbody>
</table>

Note 14 - Revenues

PREB Orders

Act 57-2014 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 the Authority to collect or reimburse clients for such overages/shortages.

On June 27, 2019, the PREB ordered the Authority to prospectively implement a total rate reduction of approximately $15.3 million, net of 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 implemented on 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.
Note 14 - Revenues – (continued)

Major Clients and Related Parties

Net operating revenues from major clients and related parties during the fiscal year ended June 30, 2019, are as follows (in thousands):

| Commonwealth of Puerto Rico and components units | $ 489,847 |
| Municipalities                                    | $ 169,196 |
| **Total**                                       | **$ 659,043** |

Financial Assistance Agreement between Puerto Rico Infrastructure Financing Authority and the Authority

On July 29, 2018, the Authority and Puerto Rico Infrastructure Financing Authority, acting on behalf of the Government, entered into a Financial Assistance Agreement under which the Authority received a grant award notification of $20.8 million to finance the cost of certain specified projects under the Government’s Water Pollution Control Revolving Fund Program, established in accordance with the Clean Water Act.

The Authority will apply the proceeds of the grant to reimburse itself for allowable costs of the approved projects. Per GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", assets and revenues are recognized by the Authority when allowable costs are incurred or resources are received, whichever is first. As of June 30, 2019, no grant funds had yet been received by the Authority.

Note 15 - Leases

Operating Lease Agreement

On April 8, 2016, PREPA Net entered into a lease agreement covering certain space in one of its buildings for a term of 20 years. The lease agreement calls for PREPA Net to receive monthly rental payments 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, 2019, amounted to approximately $1.2 million.
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  

Notes to the Financial Statements  

For the fiscal year ended June 30, 2019  

Note 15 - Leases – (continued)  

Operating Lease Agreement – (continued)  

The schedule of the future minimum annual rental income thereon as of June 30, 2019, are as follows (in thousands):  

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<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</td>
<td>336</td>
</tr>
<tr>
<td>Thereafter</td>
<td>4,225</td>
</tr>
<tr>
<td>Total</td>
<td>$ 5,905</td>
</tr>
</tbody>
</table>

Operating Lease Commitments  

The Authority has entered in rental lease commitments for the use of local buildings and land. These agreements are scheduled to expire from 2020 to 2024. 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 by PREPA Net in monthly installments of approximately $46 thousand, through December 31, 2019. The future minimum lease payments by PREPA Net all of which are due during for the fiscal year ending June 30, 2020 are approximately $537 thousand.  

For fiscal the year ended June 30, 2019, consolidated rent expense amounted to approximately $3.3 million, and is included as general and administrative expenses in the accompanying statement of revenues, expenses, and changes in net position (deficit).
Note 15 - Leases – (continued)

Operating Lease Commitments – (continued)

Minimum annual rental expenses for the five fiscal years subsequent to June 30, 2019, are as follows (in thousands):

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$6,757</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>2024</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>$7,782</td>
</tr>
</tbody>
</table>

Note 16 - 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. Commercial insurance for the Authority’s transmission and distribution assets is not available. The insurance program structure and coverage for the fiscal year 2019 remain similar to those from prior years for the major categories of risk. Subsequent to 2019, during fiscal year 2021, the Authority’s property policy structure and coverage related to the Authority’s commercial property insurance changed. Coverage now consists of a sixty percent indemnity (based on the amount (subject to deductibles and limits) to restore the insured assets to their pre-damage state) and a forty percent parametric under which the fixed amount of the payout is determined by a measure of the occurrence (such as, for example, a category 3 or greater hurricane occurring during the term of the policy), instead of the actual damage sustained by such occurrence. The Authority will also have a higher retention in the upper tier limits of the property insurance program.
Note 16 - Risk Management – (continued)

Self-Insurance Health Program

The self-funded health care program provides benefits coverage for all active Authority 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>2018</td>
<td>$ 4,121</td>
<td>$42,481</td>
<td>($42,950)</td>
<td>$3,652</td>
</tr>
<tr>
<td>2019</td>
<td>$ 3,652</td>
<td>$36,290</td>
<td>($36,984)</td>
<td>$ 2,958</td>
</tr>
</tbody>
</table>

This amount is included in accounts payable and accrued liabilities in the statement of net position (deficit).

Note 17 - Significant Event Related to the Hurricanes

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. Two weeks earlier, Hurricane Irma passed just north of Puerto Rico, substantially impairing portions of the Authority’s already weak infrastructure.

The Hurricanes caused significant infrastructure damage and losses to the Authority’s power grid and other assets. From the total costs incurred by the Authority as of June 30, 2019, in relation to the passage of the Hurricanes, the Authority capitalized approximately $457 million related to infrastructure in the areas of transmission and distribution, approximately $20 million in the areas of generation, and approximately $36 million as general and administrative related efforts.

During the fiscal year ended June 30, 2019, the Authority recognized as revenue approximately $672.7 million related to costs incurred in the recovery from the Hurricanes based on the approved grant awards from FEMA, in accordance with guidance established by GASB Statement No. 33, “Accounting and Financial Reporting for Non-Exchange Transactions”. A total amount of $740.1 million were collected in fiscal year 2019 from claims approved during fiscal years 2018 and 2019, and approximately $351.8 million are presented as accounts receivable from insurance companies and FEMA in the accompanying statement of net position.
Note 17 - Significant Event Related to the Hurricanes – (continued)

In addition, the Authority received capital contributions of approximately $72 million, of which approximately $69.7 million were received from the USACE.

Note 18 - Commitments, Contingencies and Pollution Remediation Obligation

Commitments

Power Purchase Agreements

Power purchase agreements as of June 30, 2019, were as follows (in thousands):

<table>
<thead>
<tr>
<th>Authority Capacity Outstanding</th>
<th>Shares</th>
<th>Type</th>
<th>Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>AES Puerto Rico</td>
<td>100%</td>
<td>Coal</td>
<td>454.3</td>
</tr>
<tr>
<td>EcoEléctrica</td>
<td>100%</td>
<td>Gas</td>
<td>507</td>
</tr>
<tr>
<td>Humacao Solar Project, LLC</td>
<td>100%</td>
<td>Renewable</td>
<td>40</td>
</tr>
<tr>
<td>Pattern Santa Isabel, LLC</td>
<td>100%</td>
<td>Renewable</td>
<td>95</td>
</tr>
<tr>
<td>Oriana Energy, LLC (Yarotek)</td>
<td>100%</td>
<td>Renewable</td>
<td>45</td>
</tr>
<tr>
<td>San Fermín Solar Farm, LLC</td>
<td>100%</td>
<td>Renewable</td>
<td>20</td>
</tr>
<tr>
<td>AES Ilumina, LLC</td>
<td>100%</td>
<td>Renewable</td>
<td>20</td>
</tr>
<tr>
<td>Punta Lima Wind Farm, LLC</td>
<td>100%</td>
<td>Renewable</td>
<td>26</td>
</tr>
<tr>
<td>Horizon Energy, LLC</td>
<td>100%</td>
<td>Renewable</td>
<td>10</td>
</tr>
<tr>
<td>Coto Laurel Solar Farm, Inc.</td>
<td>100%</td>
<td>Renewable</td>
<td>10</td>
</tr>
<tr>
<td>Landfill Gas Technologies of Fajardo, LLC (Toa Baja)</td>
<td>100%</td>
<td>Renewable</td>
<td>2</td>
</tr>
<tr>
<td>Windmar Renewable Energy, Inc.</td>
<td>100%</td>
<td>Renewable</td>
<td>2</td>
</tr>
<tr>
<td>Landfill Gas Technologies of Fajardo, LLC (Fajardo)</td>
<td>100%</td>
<td>Renewable</td>
<td>2</td>
</tr>
</tbody>
</table>

Total: $4,885,532

The Authority does not have ownership of any assets related to these agreements. As costs are incurred each year, they are recorded as purchased power expense. During the year ended June 30, 2019, the Authority recorded as expense $682.1 million for the purchased 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. The purchase power agreements are scheduled to expire from 2022 to 2045. The outstanding commitment in the table above is a projected cost based on the different variables included in the agreed upon terms throughout the remaining duration of the power purchase.
Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Commitments – (continued)

agreements. In accordance with the Authority’s Operating Fiscal Plan, the Authority has renegotiated several power purchase operating agreements (‘PPOAs’) to procure a reduction in their current prices. See Note 19.

Construction and Other Commitments

The Authority has renegotiated several PPOAs to procure a reduction in their current prices and to assume or reject agreements in the Authority’s Title III proceeding. For a further discussion, see Note 19.

As of June 30, 2019, the Authority has commitments of approximately $771 million in active construction, maintenance, and engineering services contracts.

Contingencies

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. An accrued liability of approximately $252 million to cover such exposure is included in the accompanying statement of net position (deficit).

As disclosed in Note 3, on July 2, 2017, the Oversight Board filed a petition for relief under Title III of PROMESA on behalf of the Authority. Accordingly, claims against the Authority for the period prior to July 2, 2017, have been stayed until the Title III stay is lifted pursuant to PROMESA. Most of these claims will be subject to objection in the Title III case and will likely be deemed a pre-petition unsecured claim subject to impairment in the Authority’s Title III case.

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
Legal Contingencies – (continued)

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.

Labor Related Claims

• Excess Vacation License Claim

In 1999, Unión de Trabajadores de la Industria Eléctrica y Riego (“UTIER”) filed a claim against the Authority with the Bureau of Conciliation and Arbitrage of the Puerto Rico Department of Labor and Human Resources (“PRDLHR”) for the accrued vacation balances over 450 hours based on the ten-year period beginning July 24, 1989. On September 26, 2012, a PRDLHR arbitrator resolved that the claim was applicable to all of UTIER’s membership and ordered the Authority to pay the following:

a) Two times the corresponding salary for the vacation day 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) One-half of the amount in as a penalty plus the legal interest since the day of the decision.

c) 10% of the total 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.
Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

*Labor Related Claims – (continued)*

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 ruled against the Authority and 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 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.

• Christmas Bonus

On December 17, 2014, UTIER filed a claim against the Authority with the Puerto Rico Labor Relations Board (“PRLRB”) 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 PRLRB that the Title III stay was in effect due to the Title III Petition. Thereafter, the Puerto Rico Supreme Court ordered PRLRB 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 2014, a group of the Authority’s management employees presented to the Public Service Appeals Commission (“PSAC”) 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 Title III Petition.
Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Labor Related Claims – (continued)

Some of these cases have been consolidated by the PSAC on the basis of the year in which the bonus is claimed. The respective motions to assume legal representation for the Authority have been filed, but the PSAC has not yet ruled on all of them. The respective motions to stay because of the Title III Petition have been filed, but the PSAC has not yet ruled on all of them.

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Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Labor Related Claims – (continued)

- 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 UTIER collective bargaining agreement. The Arbitration hearing was held on May 14, 2010. On June 18, 2013, the Arbitrator concluded that the Authority violated the collective bargaining agreement, because 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 from the date the new employees were hired. Management’s estimate of loss contingency has been accrued in the accompanying financial statements. The case has been stayed due to the Title III Petition.

- Mealtime Penalty Claim

On December 31, 1997, Unión Insular de Trabajadores Industriales y Construcciones Eléctricas (“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 June 30, 2017, the parties signed a new stipulation to comply with the court order. The case has been stayed as a result of the filing of the Title III Petition. Management’s estimate of loss contingency has been accrued in the accompanying financial statements.
Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Labor Related Claims – (continued)

• Other Cases Related to Collective Bargaining Agreement Matters

In 2007, UTIER filed with PRLRB 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, PRLRB 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 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. Claims against the Authority have continued despite CAPECO’s bankruptcy proceeding having ended. These claims have been stayed due to the Title III Petition. This contingency does not meet the probable criteria, and no liability has been recorded in the accompanying statement of net position (deficit) related to this contingency.

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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 to 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. Class certification was affirmed by the U.S Court of Appeals for the First Circuit, but the appeal petition was denied. The case is currently stayed. The Oversight Board’s special claims committee (“SCC”) filed an avoidance action with the Title III Court and currently in the avoidance action, the SCC, the unsecured creditors committee (“UCC”) and the vendor defendants stipulated to the stay being lifted for the limited purpose of briefing and determination of motions to dismiss or judgment on the pleadings. Those motions are being briefed. Discovery in the avoidance action remains stayed. In the District Court, plaintiffs recently filed a motion to lift stay as to all defendants except the Authority. A determination is pending on that petition.

The Authority is litigating the case vigorously, defending the merits phase of the case and denying all allegations against it. Plaintiffs are not claiming at this time a specific amount of damages from the Authority. At present, the case is stayed as a result of the Title III Petition. Management’s estimate of loss contingency has been accrued in the accompanying financial statements.

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Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Consumer Billing Litigation – (continued)

• 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 case is stayed as a result of the Title III Petition. 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.

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 and not paid for 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 an Authority claim for approximately $17 million in excise taxes and has stated that it will amend its counterclaim to dismiss that claim.
Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

PREPA v. Vitol Inc. – (continued)

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 Authority’s Title III proceeding, due to the SCC 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. The Authority moved for remand to the Court of First Instance once again, but the District Court denied the Authority’s motion on March 13, 2020. The case is currently before the District Court as an adversary proceeding in the Authority’s Title III proceeding. After hearing cross summary judgment motions by the parties, on September 27, 2021, the District Court granted, in part, and denied, in part, each cross motion. It ruled against the Authority on its claim for $3.89 billion and for Vitol on its counterclaim for $28.4 million plus interest. The District Court ordered the parties to identify any issues remaining to be resolved in the adversary proceeding and file a (i) stipulation resolving any such issues, including but not limited to (a) the relevant period and rate for calculating any pre-judgment interest, (b) the total amount of any pre-judgment interest payable, (c) Vitol’s claim for attorney’s fees, and (d) whether the judgment may properly be entered upon the resolution of the outstanding issues, or (ii) a status report including a proposed briefing schedule for any outstanding legal issues.

On November 1, 2021, the parties filed a joint status report on the remaining legal issues, and agreed to the Court entering a final judgment regarding a sum certain in pre-judgment interest, and withdrawal of Vitol’s claims for attorneys’ fees and post-judgment interest. On November 2, 2021, the Court issued a final judgment, which: (i) orders the Authority shall take nothing on its suit; (ii) orders Vitol Inc. has a final judgment against the Authority in the amount of $41.5 million on Vitol Inc.’s counterclaim, which amount includes prejudgment interest accrued through July 2, 2017, the date the Title III Petition; (iii) taxes all allowable costs against the Authority under Fed. R. Civ. P. 54(d)(1); and (iv) denies all relief not granted in the judgment. On December 2, 2021, the Authority appealed the Court’s final judgment to the U.S. Court of Appeals for the First Circuit, where the matter is currently pending. Management’s estimate of loss contingency has been accrued in the accompanying financial statements.
Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

*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 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 Title III Petition. Since this contingency does not meet the probable criteria, no liability has been 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 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 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 has been stayed as a result of the filing of the 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 has been recorded in the accompanying statement of net position (deficit) related to this contingency.
Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

*PBIL 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 (“PV”) 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.

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 Petition. Since this contingency does not meet the probable criteria, no liability has been 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 Petition. Thereafter, pursuant to an agreement between the Authority and CMA Builders, the stay was lifted and as a result, the judgment was affirmed, the Authority paid the $2.1 million bid bond on March 3, 2020 and the lawsuit was terminated. The amount is accrued in the accompanying statement of net position (deficit).
Contingencies – (continued)

Legal Contingencies – (continued)

Whitefish

On October 30, 2020, Whitefish Energy Holdings, LLC (“Whitefish”) filed an Administrative Expense Motion against the Authority before the Title III proceedings, seeking allowance of an administrative expense claim based on alleged services rendered to the Authority consisting of repairs in the aftermath of the Hurricanes. Whitefish alleges an entitlement to said administrative claim based on outstanding invoiced amounts for the asserted amount of $107 million, as well as finance charges for an additional $49.8 million as of November 2021, which continue to accrue at 1% monthly. Management’s estimate of loss contingency has been accrued in the accompanying financial statements. On January 10, 2022, the Title III Court issued an Order granting the Authority until February 8, 2022 to file an opposition to Whitefish’s motion of allowance of administrative expense claim, and granting Whitefish until February 15, 2022 to reply to such opposition. Meanwhile, the parties are involved in ongoing discussions to find a potential resolution that is satisfactory to both Whitefish and the Authority.

Cobra

On September 30, 2019, Cobra Acquisitions LLC (“Cobra”) filed an Administrative Expense Motion against the Authority with the Title III Court, seeking allowance of an administrative expenses claim, for the amount of $216 million plus interest, arising from various services provided by Cobra to the Authority to assist in the rebuilding of the Authority’s power grid in the aftermath of the Hurricanes. The case is currently stayed pending the resolution of the ongoing criminal charges brought against Cobra’s former President Donald Keith Ellison and two FEMA officials who have been criminally indicted and arrested for fraud and conspiracy to commit bribery in connection with Cobra’s work on the Authority’s electric grid, under the contracts Cobra seeks to enforce. See U.S.A. v. Tribble, Case No. 19-CR-541-FAB, ECF No. 3 (D.P.R. Sep. 3, 2019). FEMA is also investigating the reasonableness of the fees charged by Cobra for its work on the Authority’s electric grid. On January 19, 2022, the parties filed a status report on the matter, in which PREPA submits the litigation stay should remain in effect and Cobra asserts the stay should be lifted. The Title III Court has not taken action with respect to the January 19, 2022 status report. Due to the circumstances, it is difficult for the Authority to provide a reserve.
Contingencies – (continued)

Bodily Injuries Claims

The Authority is a defendant in several legal actions claiming physical bodily injuries suffered by individual coming into contact with wires and similar accidents and events. Aggregate claims amount to approximately $167 million.

Management’s estimate of loss contingency has been accrued in the accompanying financial statements 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 Title III Petition.

Environmental Contingencies

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, Resource Conservation Recovery Act, 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 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
Contingencies – (continued)

1999 Consent Decree – (continued)

nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree. The Authority believes it is in substantial compliance with the Consent Decree programs. On July 22, 2014, representatives from the Authority, DOJ, and EPA met to discuss the termination of some of the programs. As a result, DOJ and EPA requested that the Authority submit information regarding the Authority’s compliance with the Programs for their review and evaluation. On September 25, 2014, the Authority submitted the information requested, and by letter formally requested that DOJ and EPA 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.

As of the issuance of the financial statements, a draft of the partial termination agreement is being reviewed by 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 with 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 penalties of approximately $47 thousand in fiscal year 2019.

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

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 $333,333.33. Second installment was paid on May 29, 2018, for the amount of $337,838.01. The third and final installment was paid on July 19, 2019, for the amount of $339,779.36. There are no additional financial commitments with respect to this case.
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  

Notes to the Financial Statements  
For the fiscal year ended June 30, 2019

Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Contingencies – (continued)

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.

*Mercury and Air Toxics Standards (MATS)*

The Mercury and Air Toxics Standard (“MATS”) establishes national emission standards for hazardous air pollutants 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). The Authority operates and maintains fourteen (14) oil fired EGUs that are affected by the regulation.

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. Deviations have been observed at Aguirre, San Juan, and Palo Seco. The Authority has also not met various deadlines with respect to audits and testing required under MATS, particularly with regards to 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 EPA to enter into a consent decree to address its MATS noncompliance with MATS. In September 2016, negotiations were put on hold when PREB disapproved core elements of the Authority’s draft 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 EPA 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.

Because the five-year statute of limitations will soon lapse for various of 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. The tolling agreement was signed by the Authority on March 16, 2021.
Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Contingencies – (continued)

Compliance Programs – (continued)

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

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 for Authority non-compliance with MATS are significant. EPA has discretion, however, in determining penalty amounts and may settle for less than the statutory maximum. Without a tolling agreement in place, 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 EPA, the resulting consent decree will almost certainly require the Authority to make various expenditures and may also include civil penalties for the Authority’s noncompliance with MATS, as well as injunctive relief. Reaching a settlement with EPA would allow for the Authority to seek reduced civil penalties for MATS noncompliance and avoid the filing of an enforcement lawsuit.

On August 24, 2020, PREB issued its final order on the Authority’s IRP, approving in part of what was proposed by the Authority, and making certain modifications. The approved IRP is expected to form the basis of a potential MATS consent decree with EPA. Negotiations with EPA on the MATS Consent for Compliance Decree are expected to resume now that the IRP has been approved. The Authority expects EPA 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 in relation to MATS non-compliance and the Authority’s IRP; therefore, no amount has been recorded in the accompanying financial statements.
Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Contingencies – (continued)

Compliance Programs – (continued)

NAAQS SO2 Compliance

On January 9, 2018, EPA published the third round of final area designations under the 2010 sulfur dioxide (“SO2”) national ambient air quality standards. EPA has identified two (2) SO2 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 air 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 SIPs to EPA. Puerto Rico’s SIP was due to EPA by October 9, 2019. The SIP is required 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. Puerto Rico did not meet the October 9, 2019 deadline for filing its SIP. DNER has been working with EPA on submitting a qualifying SIP before May, 2022, in order to avoid the loss of certain federal funding for Puerto Rico. 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 Authority has not identified any contingent losses that would be considered probable of occurrence regarding this matter; therefore, no amount has been recorded in the accompanying financial statements.

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Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Pollution Remediation Obligation (PRO)

Pollution remediation obligations (“PRO”) are recorded by the Authority when an obligating event occurs, as defined in GASB Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations”, and if a reasonable estimate of the remediation costs can be made. Two different locations require the analysis of pollution remediation obligations, including the Protección técnica Ecológica (“PROTECO”) super fund site in Peñuelas and the Vega Baja Solid Waste Disposal Superfund Site.

PROTECO

In March 2019, the Authority received from EPA, a notice of potential liability and request for information under CERCLA in relation to the PROTECO super fund site in Peñuelas that the Authority used for waste disposal between 1981 and 1999. On June 28, 2019, the Authority and certain other potentially responsible parties (with the Authority, the “PRP”) received notice (the “June 28, 2019, Special Notice Letter”) from EPA to facilitate a settlement of a remedial investigation and feasibility study (“RI/FS”) at the site.

The Administrative Settlement Agreement and Order on Consent for RI/FS (the “Administrative Settlement and Consent Agreement”) required a payment from the PRP to EPA in the amount of approximately $444,708 for past response costs. The agreement also required that the PRP provide financial assurance, initially in the amount of approximately $5 million (estimated cost of work), for EPA’s benefit. The Authority has entered into a Joint Defense Agreement (“JDA”) with the other PRP to respond to EPA’s June 28, 2019, Special Notice Letter.

The above-mentioned Authority share will be applied to any payment of RI/FS work to be carried out at the landfill and considered part of the liability, as well as to pay and absorb any future liability that may be imposed for non-compliance with the Administrative Settlement and Consent Agreement.

On the other hand, Geosyntec Corporation has been selected to perform the RI/FS work. For the payment of this work, the PRP Group agreed to allocate funds under the JDA. The RI/FS is in the infant stage and the associated costs cannot be reasonably estimated at this point. In addition, the PRP Group is in the process of identifying and inviting more PRPs to join the PRP Group, which will decrease the cost to the Authority. The case is approximately a couple of years away from the costs being reasonably estimated.
Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Pollution Remediation Obligation – (continued)

PROTECO – (continued)

As of the date of the issuance of the financial statements, negotiations between the Joint Defense Agreement group and EPA are still in progress. The Authority’s Governing Board authorized an initial expenditure of up to approximately $1.5 million (included as part of Claims and Judgments in the accompanying financial statements) to pay for the Authority’s share of the RI/FS total costs. The $1.5 million is the only cost estimable at this time, and therefore that is the amount accrued by the Authority.

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. EPA has identified the Authority and six other entities as “potentially responsible parties,” as defined in 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 United State of America. The EEA serves as financial assurance for the performance of the obligation under the Consent Decree. On June 24, 2013, the Authority deposited approximately $400 thousand into an escrow account as provided in the Consent Decree and the EEA. 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 main corrective action of removing the lead from the residential area to a nonresidential site was completed in 2015. The costs that will be incurred in the future are restricted to operational annual assessments, and if any corrective action is deemed necessary in nonresidential and residential areas, the Authority, PRLA and PRHD will be responsible. At the time of the issuance of these financial statements, no corrective actions have been identified.

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Note 18 - Commitments, Contingencies and Pollution Remediation Obligation – (continued)

Pollution Remediation Obligation – (continued)

Vega Baja Solid Waste Disposal Superfund Site – (continued)

The Authority, on behalf of PRLA and PRHD, has requested disbursements charged against the escrow 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 stipulated in the Consent Decree.

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, EPA conducted a 5 year review of whether the remedial action is protective of human health and the environment. 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 was evaluated by EPA, and it determined that the Authority, PRLA, and PRHD have not failed to operate and maintain the remedial action as required and no further response actions for the Site have to be undertaken at the moment. The Authority shall pay to EPA all future costs not inconsistent with the National Oil and Hazardous Substances Pollution Contingency Plan. As of the time of this issuance of these financial statements, the Authority has not identified any PRO that would be considered probable of occurrence, therefore no amount has been recorded in the accompanying financial statements.
Note 19 - Subsequent Events

Subsequent events were evaluated through February 24, 2022 to determine if any such events should either be recognized or disclosed in the 2019 basic financial statements.

The Authority's Fiscal Plan

On May 27, 2021, the Oversight Board approved the Certified 2021 Fiscal Plan for the Authority. On January 27, 2022, Oversight Board certified the Commonwealth Fiscal Plan. Even though the Authority has its own Fiscal Plan, the Commonwealth Fiscal Plan includes a discussion of energy reform and 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 supported by PREB, (2) transitioning 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 the Authority’s legacy debt obligations to be able to access capital markets and support the modernization of the power grid.

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

Notes to the Financial Statements

For the fiscal year ended June 30, 2019
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 to the 9019 Motion on October 30, 2019. However, in response to the COVID-19 pandemic, 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 and Renewed 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. As of October 22, 2021, the status of this lift stay motion has not changed.

  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.
Note 19 - Subsequent Events – (continued)

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

• UTIER’s Challenge to Local Fiscal Laws

On August 7, 2017, UTIER filed an adversary proceeding within the Title III 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 June 1, 2021, the Authority and UTIER filed cross motions for summary judgment. On September 10, 2021, the parties responded to each other’s motion for summary judgment. All summary judgment motions and the motion to dismiss are pending adjudication as of the date hereof.

• 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. 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 to determine that all amounts owed to the PREPA ERS are “Current Expenses” under the 1974 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.
Note 19 - Subsequent Events – (continued)

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

• Current Expense Litigation – (continued)

  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.

• Lien Challenge

  On July 1, 2019, the Authority, the Oversight Board, and FAFAA filed a complaint against the “1974 Trustee” asking the Title III Court to (a)(i) declare that the 1974 Trustee’s security interest in the Authority’s property is limited to funds deposited to the credit of the “Sinking Fund” and “Subordinate Funds” under the 1974 Trust Agreement; (ii) declare the 1974 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 1974 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 that contractual covenants and remedies set forth in the 1974 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 bonds; (ii) declare the 1974 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 1974 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 1974 Trust Agreement or that are unperfected.

  On July 16, 2019, the Title III Court entered an order staying this 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.

Transformation of the Authority

On January 22, 2018, the Governor announced that the government would begin the transformation of the Authority. On June 20, 2018, the Governor 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, the Governor 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.
Note 19 - Subsequent Events – (continued)

Transformation of the Authority – (continued)

• Transformation of the T&D System of the Authority

On May 15, 2020, the Partnership Committee (the “Partnership Committee”) established by the Puerto Rico Public-Private Partnership Authority (the “P3 Authority”) pursuant to Act 120-2018, as amended, recommended to the board of directors of the P3 Authority that the contract (the “T&D Contract”) for the management, operation, maintenance, repair, restoration, and replacement of the T&D System (the “Project”) be awarded to LUMA Energy, LLC (“LUMA”).

On June 22, 2020, the Governing Board and the Government of Puerto Rico each approved the T&D Contract, and the T&D Contract was signed by the Authority, the P3 Authority and LUMA. On June 1, 2021, pursuant to the T&D Contract, LUMA took over the management and operation of the T&D System.

On April 20, 2021, UTIER filed an adversary proceeding against the Authority, among others, with the Title III Court challenging the implementation of the T&D Contract. 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 Title III Court issued an order denying UTIER’s motion for preliminary injunction. On July 19, 2021, the Authority filed a motion to dismiss UTIER’s complaint. UTIER filed a response to the motion to dismiss on September 7, 2021, and the Authority filed a reply in support of its motion to dismiss on October 4, 2021. The motion to dismiss is fully briefed and pending adjudication.

On May 6, 2021, PREPA ERS filed a complaint with the Title III Court against the Authority with substantially similar causes of action as in the UTIER adversary proceeding. On July 19, 2021, the Authority filed a motion to dismiss PREPA ERS’ complaint, to which PREPA ERS responded on September 7, 2021. On October 4, 2021, the Authority filed a reply in support of its motion to dismiss. The motion to dismiss is fully briefed and pending adjudication.
Note 19 - Subsequent Events – (continued)

Transformation of the Authority – (continued)

- Transformation of the Authority’s Generation – (continued)

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 flexible distributed generation units (or a combination thereof) 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 the Authority, solicited SOQs from companies and consortia interested in providing generation capacity to replace existing generation through a new facility at 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 LUMA; 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 (the “Proponents”) in the request for proposals (“RFP”) process. Subsequently, the P3 Authority issued the RFP, and the same was distributed to the Proponents. Proposals were received on December 22, 2021. The P3 Authority is evaluating the proposals and the Partnership Committee is expected to make a determination within the following weeks.

Approval of $9.6 Billion to Repair Grid

In October 2020, FEMA approved approximately $9.6 billion in federal grants for the Authority to repair damage to its electric grid caused by the Hurricanes. 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 help protect the electrical system from future catastrophic events.
Note 19 - Subsequent Events – (continued)

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 entered into a contract with NFEnergía LLC (“NFEnergía”), the Puerto Rico subsidiary of New Fortress Energy LLC (“New Fortress”), for the supply of natural gas and conversion of Units 5 and 6 of the San Juan Power Plant to dual fuel (natural gas and diesel) capacity. Construction of LNG receiving and vaporization facility opposite the San Juan Power Plant commenced in early summer 2019, and conversion of San Juan Units 5 and 6 to dual fuel capability commenced during fall 2019. The construction and conversion project was substantially completed during the first quarter of 2020 and 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. LNG has now been received into the NFEnergía 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. San Juan Units 5 and 6 have run primarily on natural gas since that time.

On June 18, 2020, the U.S. Federal Energy Regulatory Commission (“FERC”) issued an “Order to Show Cause” directing New Fortress to show cause why the NFEnergía 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 NFEnergía on the assumption that FERC approval for the siting and construction of the LNG handling facility would not be required. After considering arguments which New Fortress Energy LLC and the Authority presented as to why the NFEnergía 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, FERC concluded in an order issued on March 19, 2021 that the facility is an “LNG terminal” subject to its jurisdiction under Section 3 of the Natural Gas Act. In that order FERC directed NFEnergía to submit an Application for authorization under Natural Gas Act Section 3 to operate its San Juan Harbor LNG receiving facility, but declined to order the suspension of facility operations. NFEnergía submitted the required application to FERC on September 15, 2021 in Docket No. CP21-496-000. Motions to intervene in that proceeding and comments on the Application must be filed by October 20, 2021. The Application will then be considered by FERC, and the Authority cannot predict when FERC may act on it. In the meantime, the NFEnergía LNG receiving facility continues to operate and to supply natural gas to the Authority’s San Juan Units 5 and 6.
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 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 suspending the operation of the NFEnergía LNG handling facility. In their complaint, the environmental groups assert that the NFEnergía LNG handling facility was constructed unlawfully.

General Permits Office of Puerto Rico filed a response to the complaint on November 25, 2020. NFEnergía 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 Groups moved for reconsideration of the judgment dismissing the case. The Court denied the motion on January 12, 2021. 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.

U.S. Internal Revenue Service Examinations

The IRS notified the Authority in letters dated from February 7, 2019 to September 6, 2019 that the IRS is conducting investigations related to (i) certain Form 8038-CP Returns 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 Information Return for Build America Bonds and Recovery Zone Economic Development Bonds with respect to the Series EEE bond issuance, regarding its qualification as Build America Bonds (“BAB”). 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 in (ii) of the preceding sentence without change.

In respect of the investigation in (i) of the preceding paragraph, on July 10, 2020, the IRS also issued “30-day” letters to the Authority, requesting disgorgement of BAB Subsidy Payments received for the interest payment dates July 1, 2017, October 1, 2017, January 1, 2018, April 1, 2018, and January 1, 2020, in the total amount of $18.9 million, and denying the Authority’s request for BAB Subsidy Payments for the interest payment dates July 1, 2018, October 1, 2018, January 1, 2019, April 1, 2019, July 1, 2019, October 1, 2019, and April 1, 2020, in the total amount of $23.7 million.
Note 19 - Subsequent Events – (continued)

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

For the fiscal year 2021 and 2022, the Authority made requests for BAB Subsidy Payments for the total amount of approximately $20 million. On August 14, 2020, the Authority appealed the IRS determination in the “30-day” letters, and the appeals are still pending.


On December 28, 2019, the first of many earthquakes shook Puerto Rico. 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 a 5.8 magnitude earthquake on January 6, 2020 and a 6.4 magnitude earthquake on the following day.

This seismic activity caused significant damage in the southern region of the island. Since then, there have been more than 500 earthquakes of magnitude 2 or greater, primarily in the same region. A disaster declaration for federal individual assistance covering Guánica, Guayanilla, Peñuelas, Ponce, Utuado and a federal public assistance declaration covering Guánica, Guayanilla, Peñuelas, Ponce, San Germán and Yauco were issued on January 16, 2020. Since then, 9 additional municipalities have been added to the individual assistance program and 8 additional municipalities to the public assistance program.


Two units of the Costa Sur power plant in Guayanilla were severely damaged in the earthquakes. The damaged units provide approximately 25% of the Authority’s baseload generation capacity. Damage claims are currently being prepared with the support of the insurance company.

On May 22, 2020, PREB approved the Authority’s expenditure of $25.2 million to repair the Costa Sur damaged units. PREB also allowed the Authority to obligate an additional $15 million for the repairs.

In August 2020, the first Costa Sur damaged unit was returned to service and the second unit came online in January, 2021. As of June 2021, the Authority had received approximately $238 million from FEMA and approximately $70 million from several insurance companies in respect of damages resulting from the January 2020 earthquakes.
Note 19 - Subsequent Events – (continued)

Renegotiation of Power Purchase Operating Agreements

To better align the Authority’s finances with the objectives of the Authority’s Certified 2021 Fiscal Plan (and prior certified fiscal plans for the Authority) pursuant to the Title III process, the Authority negotiated with nine (9) counterparties to amend existing PPOAs relating to operating renewable energy projects beginning in late 2019 to provide a targeted 10% savings over the remainder of the PPOAs’ terms. The Authority reached agreement with seven (7) of the nine (9) counterparties. The Oversight Board approved the agreements on September 30, 2020; (ii) PREB approved them on October 16, 2020 and October 19, 2020; and (iii) the P3 Authority approved them on November 5, 2020. The amended agreements became effective during January and February 2021.

The Authority also negotiated amendments to several other PPOAs to procure a reduction in their current prices. The Authority reached agreement on amendments with six (6) of the eleven (11) counterparties. The revised cost estimates (inclusive of savings) for the amended contracts in the aggregate is of $1.4 billion. The effective dates of the amended contracts range from late January, 2021 to late March, 2021.

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 Authority’s current PREB approved IRP.

Tranches to Procure Renewable Energy and Battery Storage Systems

The IRP places significant renewable energy production requirements on the Authority, including a requirement that, by 2025, the Authority source at least 40% of the energy production connected to the T&D System from renewable energy generation. The IRP also includes a directive for the Authority to develop a competitive solicitation process for the procurement of new renewable generation and energy storage resources in support of, among other things, achievement of Act 17-2019 targets for renewable energy installations. PREB established a schedule for the procurement of minimum quantities of renewable resources and energy storage resources through request for proposals processes.

In accordance with the above, on February 22, 2021, the Authority issued the Tranche 1 RFP soliciting proposals for renewable energy, energy storage and virtual power plant resources.
Tranches to Procure Renewable Energy and Battery Storage Systems - (continued)

After a long and challenging process, on December 16, 2021, the Authority announced that it had made offers to counterparties for Solar PV projects with a capacity of 732.72 MW and for up to 220 MW of energy storage resources. On December 23, 2021, the Authority informed that it had made offers to counterparties for Solar PV projects for an additional capacity of 112.1 MW. Bespoke PPOAs for the total amount of 844 MW of Solar PV and 200 MW of energy storage resources were submitted for the approval of PREB. On February 2, 2022, PREB entered an order approving the bespoke PPOAs for the total amount of 844 MW. The PPOA are now subject to the approval of the Oversight Board. They will also be subject to the outcome of integration studies that LUMA is performing. PREB has not ruled on the Authority’s request to approve the 200 MW of energy storage resources. The storage contracts are also subject to approval by the Oversight Board and the outcome of studies that LUMA is performing.

COVID-19 Pandemic

Executive Orders

On March 11, 2020, the World Health Organization declared the COVID-19 as a global pandemic. As a result of the health threat and to contain the virus’ spread across the island, the 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 authorized 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 additional executive orders with measures addressing the COVID-19 pandemic, the Governor signed the latest order, OE-2022-07, on January 28, 2022. This executive order added certain restrictions due to recent increases in COVID-19 infections and virus-related hospitalizations. OE-2022-07 will be in effect until February 16, 2022.

As the Government observes and assesses the results of its measures to control the negative health and economic effects of the COVID-19 pandemic 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.
Note 19 - Subsequent Events – (continued)

COVID 19 Pandemic – (continued)

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 and resulting in significant price inflation. 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 and the supply chain, inflation and other impacts on the Authority’s customers, employees and vendors all of which are uncertain and still cannot be predicted.

Allocation of $76 million for Pandemic Mitigation

On October 23, 2021, the Governor announced that he had authorized the allocation of $76 million from the American Rescue Plan Act funds to the Authority to mitigate the effects of the pandemic in Puerto Rico. The mitigation includes the investment in the purchase of fuel and maintenance of the generating infrastructure. The funds avoid passing on to consumers the cumulative effect of the pandemic, which was reflected in the June, July, and August quarter in the incremental cost of fuel caused by continuous failures at generation plants, as well as using rapid response units that use a more expensive fuel.

Approval of the Commonwealth Plan of Adjustment of Debts

On January 18, 2022, the Title III Court entered an order approving the Commonwealth’s Plan of Adjustment (“POA”). The POA reduces $33 billion in bond debt, cuts overall debt by 80% and saves Puerto Rico more than $50 billion in debt service payments. The Oversight Board will now determine an effective date for the POA, at which the Commonwealth’s prior debt will be restructured and creditors, public service union members, and others will receive the cash payments agreed to under the POA. Also, on February 22, 2022, the Oversight Board certified a revised budget for the Puerto Rico government which includes the new debt payments.
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 fiscal year ended June 30, 2019

<table>
<thead>
<tr>
<th>For measurement period ended June 30,</th>
<th>2018</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>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$80,783</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>184,768</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>(50,005)</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>253,387</td>
<td>(284,071)</td>
<td>947,510</td>
<td>(60,243)</td>
<td>1,796,904</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(274,818)</td>
<td>(268,469)</td>
<td>(254,624)</td>
<td>(279,479)</td>
<td>(216,811)</td>
</tr>
<tr>
<td>Contribution Refunds</td>
<td>-</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>194,115</td>
<td>(310,518)</td>
<td>961,257</td>
<td>(36,752)</td>
<td>1,914,272</td>
</tr>
<tr>
<td>Total pension liability - beginning</td>
<td>5,571,772</td>
<td>5,882,289</td>
<td>4,921,032</td>
<td>4,957,784</td>
<td>3,043,512</td>
</tr>
<tr>
<td>Total pension liability - ending (a)</td>
<td>$5,765,887</td>
<td>$5,571,772</td>
<td>$5,882,289</td>
<td>$4,921,032</td>
<td>$4,957,784</td>
</tr>
<tr>
<td>Plan's fiduciary net position</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment to beginning Plan net position</td>
<td>$ -</td>
<td>$ -</td>
<td>$(58)</td>
<td>$ -</td>
<td>$1,672</td>
</tr>
<tr>
<td>Contributions-employer</td>
<td>129,728</td>
<td>120,326</td>
<td>113,384</td>
<td>99,179</td>
<td>100,145</td>
</tr>
<tr>
<td>Contributions-members</td>
<td>22,985</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>94,616</td>
<td>134,564</td>
<td>18,700</td>
<td>69,991</td>
<td>179,191</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(274,818)</td>
<td>(268,469)</td>
<td>(254,625)</td>
<td>(279,479)</td>
<td>(216,811)</td>
</tr>
<tr>
<td>Administrative expense</td>
<td>(156)</td>
<td>(230)</td>
<td>(385)</td>
<td>(598)</td>
<td>(348)</td>
</tr>
<tr>
<td>Employee Contribution Refunds</td>
<td>-</td>
<td>(709)</td>
<td>(1,200)</td>
<td>(1,126)</td>
<td>(795)</td>
</tr>
<tr>
<td>Transfers from other systems</td>
<td>-</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>-</td>
<td>(4,129)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net change in plan fiduciary net position</td>
<td>(27,645)</td>
<td>10,457</td>
<td>(101,476)</td>
<td>(81,682)</td>
<td>99,528</td>
</tr>
<tr>
<td>Plan fiduciary net position-beginning</td>
<td>1,226,211</td>
<td>1,215,754</td>
<td>1,317,230</td>
<td>1,398,912</td>
<td>1,299,384</td>
</tr>
<tr>
<td>Plan fiduciary net position-ending (b)</td>
<td>$1,198,566</td>
<td>$1,226,211</td>
<td>$1,215,754</td>
<td>$1,317,230</td>
<td>$1,398,912</td>
</tr>
<tr>
<td>Net pension liability-ending (a)-(b)</td>
<td>$4,567,321</td>
<td>$4,345,561</td>
<td>$4,666,535</td>
<td>$3,603,802</td>
<td>$3,558,872</td>
</tr>
<tr>
<td>Covered-employee payroll</td>
<td>$247,705</td>
<td>$258,210</td>
<td>$270,705</td>
<td>$287,143</td>
<td>$341,910</td>
</tr>
<tr>
<td>Plan's fiduciary net position as a percentage of the pension liability</td>
<td>20.79%</td>
<td>22.01%</td>
<td>20.67%</td>
<td>26.77%</td>
<td>28.22%</td>
</tr>
<tr>
<td>Net pension liability as a percentage of covered-employee payroll</td>
<td>1.844%</td>
<td>1.683%</td>
<td>1.724%</td>
<td>1.255%</td>
<td>1.041%</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 Employer Contributions- Pension Plan (Unaudited)  
(In thousands)  

For the fiscal year ended June 30, 2019

<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>2019</td>
<td>198,332</td>
<td>224,368</td>
<td>(26,036)</td>
<td>292,269</td>
<td>22.79%</td>
</tr>
<tr>
<td>2018</td>
<td>124,634</td>
<td>129,728</td>
<td>(5,094)</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>113,384</td>
<td>113,384</td>
<td>-</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>
</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 fiscal year ended June 30, 2019

<table>
<thead>
<tr>
<th></th>
<th>Measurement period ended June 30, 2018</th>
<th>Measurement period ended June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total OPEB liability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$2,929</td>
<td>$3,235</td>
</tr>
<tr>
<td>Interest</td>
<td>11,446</td>
<td>10,674</td>
</tr>
<tr>
<td>Difference between expected and actual experience</td>
<td>(18,671)</td>
<td>(5,274)</td>
</tr>
<tr>
<td>Changes of assumptions or other inputs</td>
<td>8,368</td>
<td>(18,948)</td>
</tr>
<tr>
<td>Benefits payments</td>
<td>(17,785)</td>
<td>(17,952)</td>
</tr>
<tr>
<td>Net change in total OPEB liability</td>
<td>(13,713)</td>
<td>(28,265)</td>
</tr>
<tr>
<td>Total OPEB liability - beginning</td>
<td>374,590</td>
<td>402,855</td>
</tr>
<tr>
<td>Total OPEB liability - ending (a)</td>
<td>$360,877</td>
<td>$374,590</td>
</tr>
<tr>
<td>Covered-Employee Payroll</td>
<td>$247,705</td>
<td>$258,210</td>
</tr>
<tr>
<td>Total OPEB liability as a percentage of Covered-Employee Payroll</td>
<td>145.69%</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 pension or OPEB plan changes since the prior measurement date.

Note 2 - **Changes in Assumptions - Pensions**

The following were the changes in assumptions for the measurement period ended June 30, 2018:

- The discount rate used to determine the total pension liability was decreased from 3.40% to 3.05%.
- The municipal bond index rate decreased from 3.13% to 2.98%.
- The mortality rates assumptions were changed from RP-2014 Employee Mortality Projected to 2018 using Scale BB to PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019.
- The projected cash flows used to determine the discount rate assumed that the Authority will contribute 34.54% of closed group compensation for 2018, while for 2017 the assumption was that the Authority will contribute 46.60% of closed group compensation.
- For June 30, 2018, the basis for the target asset allocation and best estimates of arithmetic real rates of return for each major asset class is the Survey of Capital Market Assumptions, 2019 Edition, published by the Horizon Actuarial Services, LLC. For June 30, 2017, this basis was provided by the Authority ERS’s investment consultants.

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.

During the measurement period ended June 30, 2016 the changes in assumptions were the following:

- The discount rate used to determine the total pension liability was reduced from 4.37% to 2.93% since the prior measurement date.
- Assumed rates of retirement for members hired before January 1, 1993 have been adjusted.
- Assumed rates of disability retirements have been adjusted.
- Assumed rates for active and healthy annuitants mortality have been updated to the RP-2014 Mortality Table projected to 2018 using Scale BB, set back one year for males.
- Assumed rates for disabled annuitants mortality have been updated to the RP-2014 Disabled Annuitant Mortality Table projected to 2018 using scale BB.
- The merit component of the salary scale was adjusted.
- Assumed rate of wage inflation was reduced from 3.50% to 2.50%.
- Assumed rate of price inflation was reduced from 2.50% to 2.25%.
- The assumed rate of return on assets was reduced from 8.25% to 5.75%.
Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)  

Notes to the Required Supplementary Information (Unaudited)  

For the fiscal year ended June 30, 2019

- The payroll growth assumption for amortizing the unfunded actuarial accrued liability as a level percentage of payroll was reduced from 3.50% to 0.00%.

There were no changes in assumptions during the measurement periods ended June 30, 2015 and June 30, 2014. Amounts presented as expense represents amortization of prior years’ changes in assumptions.

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 fiscal year ended June 30, 2019, and related information for the Plan and supplemental benefits follow:

- Actuarial cost method: Entry age
- Amortization method: Level dollar, closed
- Remaining amortization period: 23 years
- Asset valuation method: 5-year smoothed market
- Inflation: 2.25 percent
- Salary increases: 2.5 to 7.25 percent, including inflation
- Investment rate of return: 5.75%, net of System investment expense, including inflation

Note 4 - Changes in Assumptions - OPEB

Changes in assumptions and other inputs for the measurement period ended June 30, 2018, are only related to change in discount rate and in the mortality assumptions. Since the prior measurement date, the discount rate changed from 3.13% to 2.98% due to a change in the Municipal Bond Rate. The mortality rates assumptions were changed from RP-2014 Employee Mortality Projected to 2018 using Scale BB to PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019.

Changes in assumptions and other inputs for the measurement period ended June 30, 2017, were only related to change in discount rate. The discount rate changed from 2.71% to 3.13% due to a change in the Municipal Bond Rate.

The schedules are intended to show information for 10 years. Additional years will be added in the future when they become available.