



**Puerto Rico
Electric Power
Authority**

Puerto Rico Electric Power Authority

FY 2018 Budget Overview

June 30, 2017

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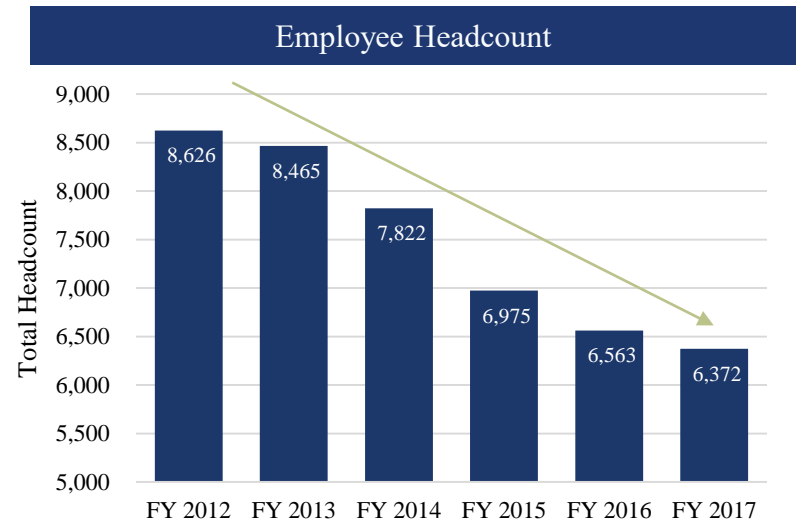
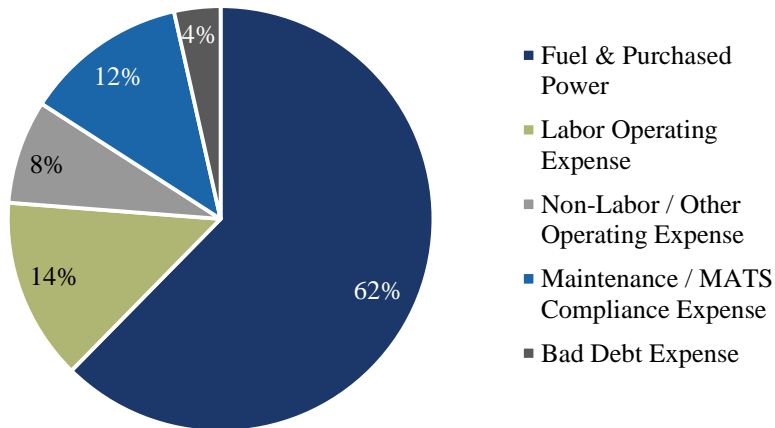
Overview

- Management is committed to executing the transformation of PREPA into a utility of the future, enabled by a rigorous corporate governance framework (including a PMO implementation structure) with ambitious and measurable transformational objectives as identified in the Certified Fiscal Plan
- PREPA's management has developed an emergency implementation plan to deal with the current state of criticality of its operations that has been caused by the level of understaffing resulting from the retirement of skilled personnel mostly in operational areas. Reduced headcount and employee availability pose a significant operational risk for PREPA particularly during the hurricane season that began in June
- The FY 2018 budget was developed to be consistent with PREPA's Certified Fiscal Plan, with certain adjustments that reflect the most current data regarding necessary and mandatory operational and maintenance needs, as well as the needs identified in the emergency implementation plan
- Assumptions and budget requests were adjusted based on identified needs, actual and projected cost data, considerations identified by the FOMB and its advisors, and other known and measurable changes
- On the following pages, PREPA provides an overview of the FY2018 Budget, coupled with relevant background information, for the Fiscal Oversight and Management Board's (FOMB) consideration and approval

PREPA's operating expense profile and recent attrition constrains operational savings opportunities

Approximately 30% of PREPA's operating expenses have actionable components

- Headcount has fallen by 30%, or 2,254 employees since 2012 and PREPA is currently facing an exodus of critical employees
- Cost reduction opportunities are limited, due to already massive cuts in operations and underfunding of maintenance, and the fact that over 62% of PREPA's costs are controlled by external factors
- PREPA's operating revenues and operating expenses (net of fuel and purchased power expenses) are 30% to 40% below those of mainland U.S. electric utilities" (1)



Annual Average Expense	Millions	% Total
Fuel & Purchased Power	\$ 1,867	62%
Labor Operating Expense	\$ 415	14%
Non-Labor / Other Operating Expense	\$ 236	8%
Maintenance / MATS Compliance Expense	\$ 370	12%
Bad Debt Expense	\$ 97	4%

Source: Headcount and other figures provided by PREPA Human Resources Department

1) Written Sworn testimony by Dr. Lawrence Kaufmann before the Energy Commission Rate Case proceedings. See Ex. 6 of PREPA Rate filing

Budget Components and Assumptions

	Comments
Rate Structure	<ul style="list-style-type: none"> ▪ New rate structure will be adopted in FY 2018 to better align bill items with costs, and comply with Act 57-2014 and Act 4-2016 ▪ The fuel and purchased power expense will be passed through to customers at cost ▪ CILT and subsidies will also be recovered (passed through) at cost
Fuel & Purchased Power	<ul style="list-style-type: none"> ▪ Annual forecast based on PREPA Planning dispatch modelling and fuel price forecasts ▪ Costs are tracked and rates are adjusted on a monthly basis
CILT and Subsidies	<ul style="list-style-type: none"> ▪ The cost of municipal CILT period considers the stipulations in Act 4-2016 in which municipalities will pay for usage above specified caps and all electricity consumed by for-profit entities ▪ Special customer subsidies are provided as required by law
Bad Debt Expense	<ul style="list-style-type: none"> ▪ Bad debt is assumed to be 3.4% of total revenue requirement
Labor Expense	<ul style="list-style-type: none"> ▪ Current employee count was combined with identified critical positions ▪ Total expense is based on an average annual headcount for FY 2018 of 6,372 employees with contingency for emergency contract labor as needed
Non-Labor Operating	<ul style="list-style-type: none"> ▪ Based on requested and itemized estimates from PREPA directorates ▪ Including materials, per diem, property & casualty insurance premiums, advisory fees, retiree medical benefits, security expenses, banking services, maintenance, utilities, and other miscellaneous expenses
Maintenance	<ul style="list-style-type: none"> ▪ Includes all necessary and required maintenance projects to sustain critical generation, transmission, and distribution infrastructure and provide safe and reliable service to customers (previously debt financed) ▪ Projects include repairs, replacement, and rehabilitation of power substations, boiler units, metering equipment, fuel and water storage tanks, feeder lines, and other utility infrastructure
MATS Compliance	<ul style="list-style-type: none"> ▪ The proposed FY2018 Budget does not contemplate funding for AOGP and related projects ▪ In the Certified Fiscal Plan, funding for AOGP and related projects is part of the required liquidity identified therein

Budget Variance

Budget	FY 2017*	FY 2018	FY18 vs FY17	4-28 FP	FY18 vs CFP
Fuel Expense	\$1,353,767	\$1,074,197	(\$279,570)	\$1,074,197	\$0
Purchased Power Expense	\$828,804	\$820,323	(\$8,481)	\$820,323	\$0
CILT	\$67,442	\$72,474	\$5,032	\$52,629	\$19,845
Subsidies & Lighting	\$179,769	\$185,420	\$5,651	\$191,333	(\$5,913)
Bad Debt Expense	\$97,384	\$112,792	\$15,408	\$70,923	\$41,869
Labor Expense	\$429,589	\$470,954	\$41,365	\$463,494	\$7,460
Other Operating Expenses	\$218,287	\$265,093	\$46,806	\$250,418	\$14,675
Maintenance Expense	\$162,433	\$331,855	\$169,422	\$255,137	\$76,718
Total Operating & Maintenance	\$3,337,475	\$3,333,108	(\$4,367)	\$3,178,455	\$154,653

* Preliminary unaudited results, subject to material change

Budget Detail

Labor Expense

Salary and Overtime	\$ 292,519
Pension and Benefits	178,435
Total Labor Expense	\$ 470,954

Non-Labor Operating Expense

Materials	\$ 19,086
Transportation	27,038
Travel	5,763
Division Expense	31,411
Corporate Expense	181,795
Total Non-Labor Expense	\$ 265,093

Maintenance Expenses

Administrative	\$ 40,105
Generation	90,068
Planning & Environmental Protection	5,850
Client Service	14,795
Transmission & Distribution	181,037
Total Maintenance	\$ 331,855

Corporate Expenses Detail

Consulting Engineers	3,487
Legal Services	26,562
Retiree Medical Benefits and Services	18,374
Professional Services	22,409
Insurance, Claims, and Risk	24,525
Telecommunications, Water, and Light Security	9,970
Environmental Regulation and Inspection	18,250
Rent	7,930
Maintenance and Corporate Services	4,361
Audit, Banking, and Financial Services	15,812
General and Miscellaneous Expenses	19,658
Sub-total	\$ 181,795