

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

Audited Financial Statements and Required Supplementary Information

For the fiscal year ended June 30, 2020

(With Independent Auditors' Report Thereon)

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the Puerto Rico Electric Power Authority (the Authority), as of and for the year ended June 30, 2020, 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 unmodified and modified audit opinions.



## **Basis for Qualified Opinion**

The Authority's accrued liability for claims and judgments as of June 30, 2020, 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 Opinions**

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, 2020, 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 \$8.0 billion, does not currently have sufficient funds available to fully repay its various obligations as they come due, and has defaulted on various debt obligations. Also, on July 2, 2017, the Financial Oversight and Management Board, at the request of the Governor, filed a petition on behalf of the Authority for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in note 3. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion on the basic financial statements is not modified with respect to this matter.

#### *Adoption of New Accounting Pronouncement*

As discussed in note 4 to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 83, *Certain Asset Retirement Obligations*. 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 122; the schedule of employer contributions – pension plan on page 123; and the schedule of changes in the Authority's total OPEB liability and related ratios on page 124, 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 September 30, 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.

KPMG LLP

San Juan, Puerto Rico  
September 30, 2022

Stamp No. E481810 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2020

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, 2020. We recommend that readers 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.

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Puerto Rico Electric Power Authority  
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Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2020

Financial Analysis

The Authority's condensed statements of net position (deficit) as of June 30, 2020 and 2019, were as follows (2019 figures do not include the effect of the restatement disclosed in Note 4) (in thousands):

	<u>2020</u>	<u>2019</u>
Assets and deferred outflows of resources		
Current assets	\$ 1,516,437	\$ 1,728,887
Other non-current assets	184,614	101,986
Capital assets	<u>7,917,266</u>	<u>8,068,377</u>
Total Assets	9,618,317	9,899,250
Deferred outflows of resources	<u>753,070</u>	<u>731,508</u>
Total assets and deferred outflows of resources	<u>\$ 10,371,387</u>	<u>\$ 10,630,758</u>
Liabilities, deferred inflows of resources and net position (deficit)		
Long-term debt	\$ 14,638,034	\$ 14,296,349
Other liabilities	<u>3,682,004</u>	<u>2,891,909</u>
Total liabilities	18,320,038	17,188,258
Deferred inflows of resources	<u>104,554</u>	<u>247,193</u>
Total liabilities and deferred inflows of resources	<u>18,424,592</u>	<u>17,435,451</u>
Net position (deficit):		
Net investment in capital assets	(500,522)	(268,167)
Restricted	166,782	85,831
Deficit	<u>(7,719,465)</u>	<u>(6,622,357)</u>
Total net position (deficit)	<u>(8,053,205)</u>	<u>(6,804,693)</u>
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 10,371,387</u>	<u>\$ 10,630,758</u>

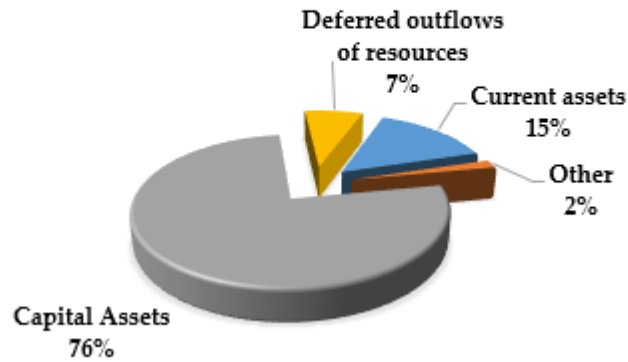
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Management's Discussion and Analysis (Unaudited) – (continued)

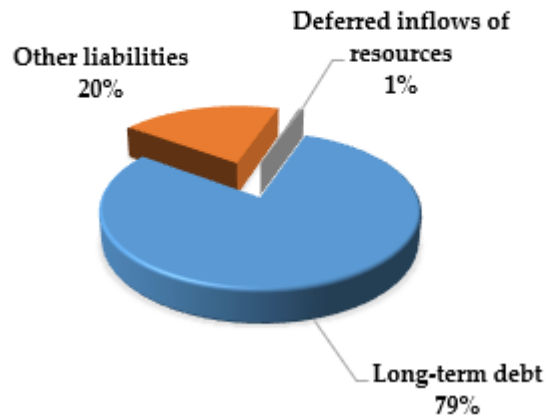
June 30, 2020

Financial Analysis – (continued)

### Assets and Deferred Outflows of Resources



### Liabilities and Deferred Inflows of Resources





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

June 30, 2020

2020 Compared to 2019

As of June 30, 2020 and 2019, the Authority's total assets and deferred outflows of resources amounted to approximately \$10.4 billion and \$10.6 billion, respectively, a decrease of approximately \$200 million (2 percent). The net decrease in total assets and deferred outflows of resources is mainly due to the net effect of the following:

- An increase in cash and cash equivalents of approximately \$118.4 million, or 37 percent. During the fiscal year 2020, the normal operation at the Authority was affected by the COVID-19 global pandemic. The increase in cash and cash equivalents is directly related to an approximately \$160.3 million, or 12 percent increase in accounts payable compared to fiscal year 2019. This increase in payables was caused mainly by the emergency declaration and associated lockdown ordered by the Governor of Puerto Rico by executive order in March of 2020 and the effect this had on the review of supplier invoices, their approval, and finally, the issuance of payments. See Note 17.
- An increase in restricted cash and cash equivalents of approximately \$61.5 million, or 60 percent. During the fiscal year 2020, the Authority established a Front-End Transition Fund to pay for transition services, as stipulated in the newly signed T&D Contract (as defined in Note 18 of the Financial Statements) regarding the transition of operation of the Authority's transmission and distribution system to an operations and maintenance service provider.
- A net decrease in account receivables of approximately \$265.7 million, or 26 percent, due mainly to approximately \$232.5 million in correction of prior year accounts receivables from U.S. Federal Government's Grants (See Note 4). There was also a decrease in accounts receivables from general and governmental customers of approximately \$44.8 million. The decrease in accounts receivable from general and governmental customers is affected by the increase in the allowance for doubtful accounts of approximately \$93.5 million. The main cause for the increase in the allowance was the economic uncertainty as the effect from the COVID-19 pandemic lockdown resulted in delayed payments from its customers. The change in Accounts Receivable from FEMA is the recognition of revenues of \$40.9 million, net of the receipt of \$29.2 million in collections.
- A decrease in fuel inventory of approximately \$53.6 million, or 34 percent. This was mainly due to a decrease in the average fuel purchase price, from \$74.85 a barrel in fiscal year 2019 to \$68.92 a barrel in fiscal year 2020. Also, there was an increase of approximately 5 percent in fuel consumption, from \$1,404 million in fiscal year 2019 (18.5 million barrels) to \$1,468 million in fiscal year 2020 (20.5 million barrels).

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

June 30, 2020

2020 Compared to 2019 – (continued)

- A net decrease in capital assets of approximately \$151.1 million, or 2 percent, primarily driven by depreciation charges of \$350.3 million, net of capital assets additions of \$227.8 million, among other fluctuations. See Capital Assets and Debt Administration sections of this MD&A.
- An increase in deferred outflows of resources of approximately \$21.6 million, or 3 percent. This was mainly due to the implementation of GASB Statement No. 83, "Certain Asset Retirement Obligations", which increased the Authority's deferred outflows of resources by approximately \$66 million, and to the decrease in deferred outflows related to pensions of approximately \$54 million. Also, there was a decrease in the combined negative fair value of the derivative instruments held by the Authority, by approximately \$12 million.

As of June 30, 2020, the Authority's total liabilities and deferred inflows of resources amounted to approximately \$18.4 billion, an increase of approximately \$1.0 billion (6 percent) over the June 30, 2019 amount of \$17.4 billion. The net increase in total liabilities and deferred inflows of resources is primarily due to the net effect of the following:

- A net increase of approximately \$160.3 million in accounts payable and accrued liabilities, or 12 percent. The net increase in accounts payable is directly related to the effects of the COVID-19 pandemic. This increase in payables was caused mainly by the emergency declaration and associated lockdown ordered by the Governor of Puerto Rico by executive order in March of 2020 and the effect this had on the review of supplier invoices, their approval and finally, the issuance of payments. See Note 17.
- An increase in accrued interest of approximately \$446.9 million, or 38 percent, mainly related to \$390.5 million increase in bond interest payable from approximately \$1.1 billion in fiscal year 2019 to approximately \$1.5 billion in fiscal year 2020; and the increase by approximately \$56.1 million in interest payable on the Authority's fuel lines of credit. As disclosed further under the Capital Assets and Debt Administration section in this MD&A, pursuant to Title III of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), interest payments are stayed pending the outcome of the Title III Petition (as defined below) and are subject to Authority's rights in the Title III case. During the fiscal year ended June 30, 2020, a total of approximately \$87.2 million of interest payments was paid by the monoline insurance companies on certain Authority power revenue bonds that they insured (see Note 12); however, as the monoline insurers are subrogated to and may, therefore, exercise bondholders' rights and remedies and may be entitled to recovery, the interest paid by the monoline insurers continues to be presented as interest due and payable by the Authority, but are subject to Authority's rights in the Title III case.
- An increase in net pension liability by approximately \$314.9 million, or 7 percent, due mainly to changes in actuarial assumptions.

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

June 30, 2020

2020 Compared to 2019 – (continued)

- An increase in non-current liabilities due to the implementation of GASB Statement No. 83, "Certain Asset Retirement Obligations" ("ARO" or "GASB 83"), which required the recording of asset retirement obligations of approximately \$148.6 million.
- A decrease in deferred inflows related to pension benefits of approximately \$142.6 million, or 58 percent, mainly related to GASB Statement No. 68 pension adjustments of approximately \$130.8 million.
- An increase in other post-employment pension liability by approximately \$20.2 million, or 6 percent, due mainly to changes in actuarial assumptions.

The largest portion of the Authority's net position (deficit) is the deficit of approximately \$7.7 billion in unrestricted net position (deficit). An additional portion of the Authority's net position (deficit) consists of \$166.8 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 fiscal year 2020 increased by approximately \$1.2 billion, approximately 15 percent, when compared to its net deficit at the end of fiscal year 2019. This was mainly due to decreased operating revenues and decreased funds from the Federal Emergency Management Agency ("FEMA"), explained in more detail below.

Net investment in capital assets consists of capital assets such as land, infrastructure, buildings, equipment, among others, less any outstanding related debt used to acquire these assets. As of June 30, 2020, net investment in capital assets was negative \$500.5 million. This negative balance increased from a negative balance of approximately \$268.2 million at the end of fiscal year 2019 primarily, as a result of the net decrease in capital assets during fiscal year 2020 of approximately \$151.1 million and the recording of asset retirement obligations required by GASB 83.

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Puerto Rico Electric Power Authority  
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Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2020

The Authority's condensed statements of revenues, expenses, and changes in net position (deficit) for the fiscal years ended on June 30, 2020 and 2019, were as follows (2019 figures do not include the effect of the restatement disclosed in Note 4) (in thousands):

	<u>2020</u>	<u>2019</u>
Revenues:		
Operating revenues	\$ 3,278,875	\$ 3,611,664
Operating expenses:		
Fuel and purchase power	1,969,408	2,089,683
Maintenance and other operating expenses	1,156,169	1,222,198
Emergency repairs post the Hurricanes	286,581	48,926
Depreciation	350,259	367,130
Contribution in lieu of taxes	<u>69,986</u>	<u>169,196</u>
Total operating expenses	<u>3,832,403</u>	<u>3,897,133</u>
Non-operating revenues and (expenses):		
Non-operating revenues	54,217	749,156
Interest and other expenses	<u>(445,574)</u>	<u>(479,465)</u>
Non-operating revenues and (expenses), net	<u>(391,357)</u>	<u>269,691</u>
Loss before capital contributions	<u>(944,885)</u>	<u>(15,778)</u>
Capital contributions	<u>7,538</u>	<u>72,845</u>
Change in net position (deficit)	(937,347)	57,067
Net position (deficit) at beginning of year	(6,804,693)	(6,936,014)
GASB implementation and correction of error	<u>(311,165)</u>	<u>74,254</u>
Net position (deficit) at beginning of year, as restated	<u>(7,115,858)</u>	<u>(6,861,760)</u>
Net position (deficit) at end of year	<u>\$ (8,053,205)</u>	<u>\$ (6,804,693)</u>

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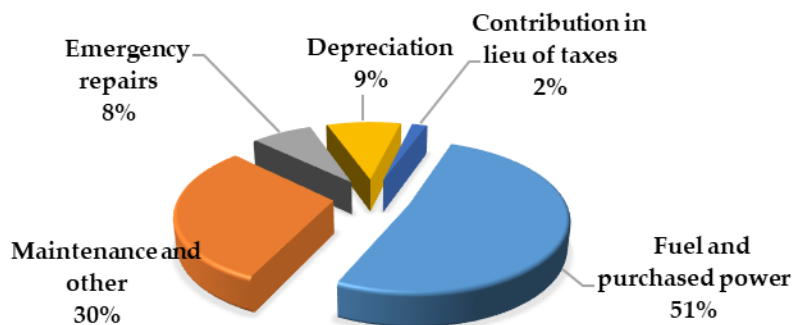
Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2020

2020 Compared to 2019 – (continued)



### Operating Expenses



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

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

June 30, 2020

2020 Compared to 2019 – (continued)

For the fiscal years ended June 30, 2020 and 2019, the Authority's operating revenues amounted to approximately \$3.3 billion and \$3.6 billion, respectively, a decrease of approximately \$332.8 million (9 percent).

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

- A decrease in revenues of approximately \$59.2 million resulting from the Puerto Rico Energy Bureau's ("PREB") approval of a reduction in billing rates for services to clients during the last quarter of fiscal year 2020. After the January 2020's earthquakes, two units of the Costa Sur power plant in Guayanilla were significantly damaged and taken out of service. As a result, the Authority covered the shortfall in generating capacity by utilizing peaking generation units, which caused an increase in fuel cost. The unavailability of these two natural gas lines at Costa Sur impacted the average fuel cost, as these units produce a more cost-effective energy source, and they were non-operational during the second half of fiscal year 2020. Fuel costs are commonly billed to the Authority's clients, but these additional costs were not passed to the clients given a PREB's approved order during the last quarter of fiscal year 2020.
- A decrease of approximately \$100.6 million in revenues due to the elimination on May 1, 2019 of the public lighting billings to the municipalities by order of PREB under Act 4-2016- Puerto Rico Electric Power Authority Revitalization Act.
- Also, on May 1, 2019, the Authority implemented several rider adjustments, related to charges collected from its clients during each of the years ended June 2017, 2018, and 2019. This order included, among other reconciling charges, the differential between the Provisional Rate of \$1.299 cents/kWh approved by PREB on June 24, 2016, and the Permanent Rate of \$0.9948 cents/kWh that went into effect on May 1, 2019. These adjustments were recovered/paid by the Authority from/to its general and governmental clients during fiscal year 2020. The net effect of this implementation was a reduction in sales revenues of approximately \$123 million.
- A decrease in revenues caused by an increase of approximately \$90.8 million in the bad debt expense when compared to 2019, directly related to delayed collections from customers due to the COVID-19 pandemic.

The decrease of \$694.9 million in net nonoperating revenues is the net effect of the following:

- During fiscal year 2020 and 2019, the Authority entered into voluntary non-exchange transactions with and for the receipt of federal grant funds from FEMA after the passage of the Hurricanes Irma and María (the "Hurricanes") in September of 2017 (fiscal year 2018) and after several earthquakes hit Puerto Rico during January 2020. Allowable costs were billed for reimbursement based on eligibility requirements,

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

June 30, 2020

2020 Compared to 2019 – (continued)

and revenues were recognized once costs were approved. Net revenues from federal grants decreased by approximately \$631.8 million, or 94 percent, from approximately \$672.7 million in fiscal year 2019 to approximately \$40.9 million in fiscal year 2020.

- A reduction of \$59.9 million in gains due to the recognition during fiscal year 2019 of a nonrecurring gain given a partial settlement with the Public Entity Trust. This gain is composed of the recovery of approximately \$15.3 million in cash from deposits previously held at the Government Development Bank for Puerto Rico (“GDB”) and the charge off approximately \$35.8 million and approximately \$6.7 million of outstanding notes and accrued interest payable thereon, respectively, due to the GDB.

The Authority's operating expenses amounted to approximately \$3,832 million and \$3,897 million for the fiscal years ended June 30, 2020, and 2019, respectively, representing a decrease of approximately \$64.7 million or 2 percent. The decrease in operating expenses is mainly due to the net effect of the following:

- A \$50.7 million increase, or 7 percent, in the Authority's purchased power during fiscal year 2020. During the fiscal year ended June 30, 2020, the Authority purchased power was 0.27 M kWh more, when compared to the fiscal year ended June 30, 2019. The average cost for fiscal year 2020 was \$0.1031 per kWh, while for fiscal year 2019, the average cost was \$0.1000. The increase in purchased power expense was directly related to the increase in the average purchase costs.
- A reduction of \$99.2 million in contributions in lieu of taxes during fiscal year 2020, a decrease of 59 percent when compared to fiscal year 2019, resulted from the fact that beginning on May 1, 2019, the Authority's contributions in lieu of taxes obligation no longer takes into account the cost of public lighting.

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Puerto Rico Electric Power Authority  
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Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2020

Capital Assets and Debt Administration

*Capital Assets*

Capital assets as of June 30, 2020, and 2019, amounted to approximately \$7.9 billion and \$8.1 billion, respectively. The Authority's total capital assets decreased by approximately \$151.1 million, or 2 percent, mainly because of the net effect of capital assets additions of \$227.8 million, reduced by \$350.3 million in depreciation.

Major capital assets projects undertaken by Authority during the fiscal year ended June 30, 2020, included the following:

- The Authority incurred in restoration activities related to the January 2020's earthquakes and continued repairs of damages caused by the Hurricanes. The Authority incurred costs related to the damages to capital assets of approximately \$16.1 million, of which approximately \$14.6 million were capitalized as generation infrastructure and \$1.5 million as transmission and distribution. See Note 17.
- Capital contributions received during the fiscal year ended June 30, 2020, amounted to approximately \$7.5 million of which approximately \$6.0 million were received from US Army Corps of Engineers ("USACE"). The Authority capitalized \$8 million of the USACE contributions, received during this and prior fiscal years in the areas of transmission and distribution and \$2 million were used for operational expenses.
- The Authority invested \$15.9 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 \$21.3 million to rehabilitate Central Mayagüez's turbines, boiler improvements at Central Aguirre's units 1 and 2 and improvements to units 2 and 3 at Cambalache.
- The Authority invested \$21.5 million in rehabilitation and upgrades at Aguirre Combined Cycle Power Plant and rehabilitation and other improvements at Costa Sur.
- The Authority invested \$1.5 million in unit 9 at the San Juan Steam Plant for replacement work of high-pressure parts.
- The Authority also invested \$12.9 million in the acquisition and installation of intelligent residential customers meters that capture information about electricity consumption and then automatically transmit it back to the Authority. Intelligent meters can provide accurate measurements of electricity use while eliminating the need for physical meter reads.



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

June 30, 2020

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, 2020 and 2019, the Authority had total outstanding notes and bonds payable of approximately \$9.054 billion and \$9.061 billion, respectively. As of the date of the issuance of the financial statements, the Authority's uninsured bonds were rated "NR" by Moody's Investors Service ("Moody's"), "NR" by Standard & Poor's ("S&P") and "D" by Fitch Ratings ("Fitch").

During fiscal year 2020, the Authority borrowed an additional \$1.6 million under a \$27 million revolving line of credit 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 rate of 2% per annum. As of the date of these financial statements, this project's construction completion date is estimated to be March 2024; therefore, the estimated maturity date of this borrowing under the line will likely be around March 2044. 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, 2019, the Authority had not paid approximately \$955 million in principal amount due on its bonds and notes as of July 1, 2019. As of June 30, 2020, this amount increased to \$1.3 billion. 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 stayed and are subject to Authority's rights in the Title III case.

During the fiscal year ended June 30, 2020, the monoline insurers of certain of the Authority's power revenue bonds paid a total of \$139.2 million of principal (see Note 12); however, because the monoline insurers are subrogated to and, therefore, acquired the rights of the insured bondholders after making such payment, are subject to Authority's rights in the Title III case, the amounts paid by the monoline insurers continue to be presented as due and payable by the Authority.

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

June 30, 2020

Initial adoption of GASB Statement No. 83 and correction of immaterial error

During the fiscal year ended June 30, 2020, the Authority adopted the provisions of GASB Statement No. 83, "Certain Asset Retirement Obligations". This statement addresses accounting and financial reporting for certain asset retirement obligations. Accordingly, beginning net deficit was restated to retroactively report the beginning ARO liability and deferred outflows of resources related to asset retirement obligations. (See Note 4).

The Authority also identified a misstatement related to prior year financial statements, which resulted in the correction of the beginning net deficit of the Authority due to the balance of accounts receivable from U.S. Federal Government's Grants. The cumulative effect of the correction and the implementation of the new GASB is reflected in the accompanying financial statements as an increase in the beginning of year net deficit of approximately \$311.1 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, among others, the certification of fiscal plans and budgets for the Commonwealth and its component units; (ii) a 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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Puerto Rico Electric Power Authority  
(A Component Unit of the Commonwealth of Puerto Rico)

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

June 30, 2020

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 subdivisions. 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*

On January 29, 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act ("Act 5 2017"), which amended and repealed certain other provisions of the Moratorium Act and established a state of emergency regarding Government finances. Act 5 2017 maintained the moratorium on debt payment existing under the Moratorium Act.

The emergency period under Act 5 2017 was set to expire on May 1, 2017 to coincide with the expiration of the 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 December 31, 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

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

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

June 30, 2020

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).

*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 29"). The P3 Act allows for the sale of Authority 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. On April 11, 2019, the Governor signed Act 17-2019 to establish, among other things, the regulatory framework for Puerto Rico's energy sector and the Authority's transformation.

*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.

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 negatively affected by various business challenges that have been exacerbated by the Commonwealth's economic situation, the volatility of 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.

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

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

June 30, 2020

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:

Mediation of the Authority's Plan of Adjustment

During the last quarter of fiscal year 2022, the Authority, FAFAA, and the Oversight Board commenced mediation with certain Authority stakeholders regarding disputes relating to the Authority's financial obligations, with the intent of developing a consensual plan of adjustment for the Authority. The Title III Court has set a deadline of August 15, 2022 for the Oversight Board to file a pleading identifying its proposed path forward to efficiently conclude the Authority's Title III case (the Mediation Termination Deadline). The Mediation Termination deadline was subject to multiple extensions, the last one being until September 16<sup>th</sup>, 2022 with an automatic extension through September 30<sup>th</sup>, 2022. However, on September 19, 2022, the mediation team filed its notice and report stating that the mediation had ended and informing that no consensus was reached in mediation between the parties, but that a settlement is still achievable if the terms and conditions of mediation are revised. Its noteworthy that on September 19, 2022, the bondholders filed a Motion to Dismiss the Authority's Title III case or for relief of the Automatic Stay.

On September 20, 2022 the Oversight Board on behalf of the Authority filed a motion requesting the Title III court to establish a schedule to continue negotiations during litigation embracing solely the fundamental disputes over the claims the plan must restructure. On this same date, the Title III Court ordered the mediation team to submit a proposed continued mediation order that identifies an appropriate time period for the next phase of mediation and additional provisions necessary to address the obstacles that the Mediation Team identified in the Mediation Report. As such, on September 22, 2022, the mediation team proposed an amended order establishing terms and conditions of mediation which proposes a revised schedule for the Mediation that proceeds in parallel with the Court's schedule for the consideration of various litigation issues that had been stayed pending the prior conduct of the Mediation. On September 22, 2022, the Title III Court ordered the parties to submit any objections or responses to the Mediation Team's proposed amended terms and conditions. On September 23, 2022 the Oversight Board filed a response to the proposed mediation amendment agreeing in part and also proposing some changes. On September 29<sup>th</sup> 2022, the Title III Court entered an Order amending the terms and conditions of mediation and establishing a new deadline until December 31<sup>st</sup> 2022, to terminate mediation, with an automatic extension until January 31<sup>st</sup> 2023. On that same date, the Title III court issued an Order directing the Oversight Board to file a proposed plan of adjustment for the Authority by December 1<sup>st</sup> 2022, that it believes could be confirmable, taking into account the litigation risk and economic issues that are in dispute, it must also include a disclosure statement and proposed confirmation schedule contemplating a June 2023 confirmation hearing.

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

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

June 30, 2020

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)*

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 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.

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, and on April 16, 2020, the Oversight Board approved the agreement.

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, 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 transition to LUMA of the responsibility for the management, operation, maintenance, repairs, restoration, and replacement of the T&D System took place.

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 September 2020, FEMA approved approximately \$9.6 billion in federal grants for approximately \$10.5 billion in total project costs to enable 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 federal funding is subject to the Authority contributing a 10% cost share.

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

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

June 30, 2020

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 December 28, 2019, the first of many earthquakes struck the southwestern coast of Puerto Rico. This seismic activity caused significant damage in the affected area, including to two units of the Costa Sur power plant in Guayanilla. 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 the date of the issuance of these financial statements, the Authority has requested but has not yet received approximately \$238.8 million from FEMA and approximately \$70 million from several insurance companies in respect of damages resulting from the January 2020's earthquakes.
- On August 24, 2020, the 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 process 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 photo voltaic ("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 23, 2021, the Authority informed PREB that it had made offers to counterparties for Solar PV projects for an additional capacity of 112.1 MW. The Authority submitted to PREB for its approval draft power purchase and operating agreements for the total amount of 844 MW of Solar PV ("Bespoke PPOAs") and 200 MW of energy storage resources. On February 2, 2022, PREB entered an order approving the Bespoke PPOAs, and they were approved by the Oversight Board on March 25, 2022. The Bespoke PPOAs are now 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 integration studies that LUMA is performing.
- On October 30, 2020, Whitefish Energy Holdings, LLC ("Whitefish") filed a motion for administrative expense priority of its over \$150 million in claims in the Title III cases. The motion requested allowance of an administrative expense claim based on services rendered to the Authority consisting of repairs in the aftermath of the Hurricanes. On March 1, 2022, the Oversight Board filed a motion on behalf of the Authority to approve a settlement with Whitefish. On March 21, 2022, the Title III Court issued an order approving such settlement.

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

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

June 30, 2020

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' Plan of Adjustment ("POA"). The POA reduces Commonwealth bond and other debt by 80% and saves Puerto Rico more than \$50 billion in future debt service payments. 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. The POA became effective on March 15, 2022.
- On September 18, 2022, Hurricane Fiona made landfall in Puerto Rico by the municipality of Cabo Rojo. Hurricane Fiona reached Puerto Rico as a Category 1 hurricane with winds of 85 mph and gusts of up to 103 mph. Despite the strong winds, most of the damage throughout the Island was caused by the heavy rains. Hurricane Fiona caused a general blackout throughout Puerto Rico, due to the damages caused to the electric power system. As of the date of these financial statements, the Authority and LUMA, are still assessing the damages.

For a more detailed discussion of these and other subsequent events that may have a significant effect on the Authority's financial condition and operations, see Note 20 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](http://www.aeepr.com).



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

Statement of Net Position (Deficit)  
(In thousands)  
June 30, 2020

Assets and Deferred Outflows of Resources

Current assets:

Cash and cash equivalents	\$ 435,603
Accounts receivable, net	634,613
Accounts receivable from insurance companies and FEMA, net	134,355
Fuel inventory	102,886
Materials and supplies	207,931
Prepayments and other assets	<u>1,049</u>

Total current assets 1,516,437

Non-current assets:

Restricted cash and cash equivalents	163,303
Restricted investments	21,311
Depreciable capital assets, net	7,428,816
Non-depreciable capital assets	<u>488,450</u>

Total non-current assets 8,101,880

Total assets 9,618,317

Deferred outflows of resources:

Related to pensions	588,385
Related to OPEB	21,519
Related to asset retirement obligation	66,023
Related to debt refunding	23,241
Related to derivative instruments	<u>53,902</u>

Total deferred outflows of resources 753,070

Total assets and deferred outflows of resources \$ 10,371,387

(Continued)

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

Statement of Net Position (Deficit) - (continued)  
(In thousands)  
June 30, 2020

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

Current liabilities:

Accounts payable and accrued liabilities	\$ 1,522,225
Current portion of bonds payable	1,666,169
Current portion of notes payable	696,652
Accrued interest	1,634,466
Customer deposits	108,046
Compensated absences	19,030
Unearned revenues	<u>9,408</u>
Total current liabilities	<u>5,655,996</u>

Non-current liabilities:

Compensated absences	17,424
Customer deposits and others	212,266
Unearned revenues	1,035
Notes payable	27,069
Loan payable	451
Bonds payable	6,664,562
Other post-employment benefits liability	368,248
Claims and judgments	288,231
Asset retirement obligation	148,593
Fair value of derivative instruments	53,902
Net pension liability	<u>4,882,261</u>
Total non-current liabilities	<u>12,664,042</u>
Total liabilities	<u>18,320,038</u>

Deferred inflows of resources:

Related to pension	91,666
Related to OPEB	<u>12,888</u>
Total deferred inflows of resources	<u>104,554</u>

Net position (deficit):

Net investment in capital assets	(500,522)
Restricted	166,782
Unrestricted	<u>(7,719,465)</u>
Total net position (deficit)	<u>(8,053,205)</u>

Total liabilities, deferred inflows of resources and net position	<u>\$ 10,371,387</u>
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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, 2020

Operating revenues	
Electric services	
Residential and Commercial	\$ 2,930,540
Government	529,463
Other	(60,330)
Bad Debt Expense	(138,713)
Telecommunications	14,096
Irrigation	3,819
Total operating revenues	<u>3,278,875</u>
Operating expenses:	
Fuel	1,236,488
Purchased power	732,920
Depreciation	350,259
Maintenance	268,110
Administrative and general	297,978
Transmission and distribution	287,445
Customer accounting and collection	190,550
Other production	108,164
Asset retirement obligation expense	3,922
Emergency repairs post Hurricane María	286,581
Contribution in lieu of taxes	69,986
Total operating expenses	<u>3,832,403</u>
Operating loss	<u>(553,528)</u>
Non-operating revenues and (expenses), net:	
Grants from U.S. Federal Government, net of allowance	40,895
Interest income and other	13,322
Interest expense and other	(445,574)
Total nonoperating revenues and (expenses), net	<u>(391,357)</u>
Loss before capital contributions	(944,885)
Capital contributions	<u>7,538</u>
Change in net position (deficit)	(937,347)
Net position (deficit), at beginning of year, as restated (See Note 4)	<u>(7,115,858)</u>
Net position (deficit), at end of year	<u>\$ (8,053,205)</u>

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, 2020

Cash flows from operating activities:	
Cash received from customers	\$ 3,328,692
Cash paid to suppliers	(2,520,223)
Cash paid to employees	(435,644)
Cash paid to customers	(18,498)
Cash received from insurance companies	<u>74,375</u>
Net cash flows provided by operating activities	<u>428,702</u>
Cash flows from noncapital financing activities:	
Proceeds received from U.S. Federal Government	29,207
Expenses paid and claimed to insurance companies	(93)
Proceeds from notes payable	1,611
Principal paid on notes payable	<u>(660)</u>
Net cash flows provided for noncapital financing activities	<u>30,065</u>
Cash flows from capital and related financing activities:	
Construction expenditures	(258,073)
Proceeds received from contributed capital	846
Interest received from Loan Payable under Paycheck Protection Program	451
Interests paid	(758)
Power revenue bonds:	-
Proceeds from insurance companies to pay insured revenue bonds	139,165
Principal paid on insured revenue bonds maturities	(139,165)
Proceeds from insurance companies to pay interest on insured revenue bonds	87,243
Interest paid on insured revenue bonds	<u>(87,243)</u>
Net cash flows used for capital and related financing activities	<u>(257,534)</u>
<u>Cash flow from investing activities:</u>	
Investment in Certificates of Deposits	<u>(21,311)</u>
Net cash flows used by investing activities	<u>(21,311)</u>
Net decrease in cash and cash equivalents	179,922
Cash and cash equivalents at beginning of year	<u>418,984</u>
Cash and cash equivalents at end of year	<u>\$ 598,906</u>
Cash and cash equivalents:	
Unrestricted	\$ 435,603
Restricted	<u>163,303</u>
	<u>\$ 598,906</u>

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, 2020

Reconciliation of operating loss to net cash provided	
by operating activities:	
Operating loss	\$ (553,528)
Adjustments to reconcile operating loss to net cash	
provided by operating activities:	
Depreciation	350,259
Provision for uncollectible accounts and others	138,713
Asset retirement obligation expense	3,921
Other miscellaneous	28,672
Changes in operating assets and liabilities:	-
Receivables	(80,391)
Fuel inventory	53,574
Materials and supplies	1,711
Prepayments and other assets	7,777
Deferred outflows of resources	51,583
Accounts payable and other accrued liabilities	199,384
Net pension liability	314,940
Customer deposits and others	14,884
Other post-employment benefits liability	20,153
Claims and judgement	11,564
Compensated absences to be liquidated after one year	6,188
Deferred inflow of resources	(142,639)
Unearned revenues	<u>1,937</u>
Total adjustments	<u>982,230</u>
Net cash flows provided by operating activities	<u>\$ 428,702</u>
Supplemental cash flows information:	
Noncash transactions:	
Capital contributions	<u>\$ 6,692</u>
Contributions in lieu of taxes, billings and offset effect	<u>\$ (69,986)</u>
Change in fair value of derivative instruments	<u>\$ (12,562)</u>
Changes in deferred loss resulting from debt refunding	<u>\$ 5,440</u>
Unpaid construction expenditures	<u>\$ 348,850</u>

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)

Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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 and 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. 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") to restructure the Authority's debt and other liabilities. 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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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, 2020

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, created by the Authority’s Governing Board pursuant to Resolution No. 3661 adopted on October 16, 2009, is a single-member, limited liability company, and the Authority is the sole member with shared management representatives.

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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, 2020

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, 2020 is as follows (in thousands):

Statement of net position:

Total assets:	
Current assets	\$ 9,382
Non-current assets	979
Capital assets, net of depreciation	<u>48,715</u>
Total assets	<u>\$ 59,076</u>
Liabilities:	
Current liabilities	\$ 4,225
Non-current liabilities	<u>28,783</u>
Total liabilities	<u>33,008</u>
Net position	
Net investment in capital assets	34,733
Unrestricted (deficit)	<u>(8,665)</u>
Net position	<u>\$ 26,068</u>

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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, 2020

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

Reporting Entity – (continued)

Statement of revenues, expenses and changes in net position:

Operating revenues	\$ 14,095
Operating expenses	<u>(12,960)</u>
Operating loss	<u>1,135</u>
Non-operating expenses	<u>(274)</u>
Change in net position	861
Net position, beginning balance	<u>25,207</u>
Net position, ending balance	<u>\$ 26,068</u>
Statement of cash flows:	
Net cash provided by operating activities	\$ 3,562
Net cash used in capital and related financing activities	(2,788)
Net cash provided from investing activities	<u>1,331</u>
Net increase in cash	2,105
Cash, at beginning of year	<u>4,837</u>
Cash, at end of year	<u>\$ 6,942</u>

Complete, separately issued, audited financial statements of PREPA Holdings can be obtained at: 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.

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, 2020

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 that are limited to the purposes specified in the applicable agreements. (See Note 7).

Restricted investments

Restricted investments include certificates of deposits with original maturities of six months, set aside for construction and other specific purposes as delimited by the applicable agreements. (See Note 7).

Accounts receivable

Accounts receivable consist of monthly or bi-monthly 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 applicable 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 the likelihood of 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 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 its generating stations. Fuel

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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

inventory is valued using the weighted average cost method. At the time of consumption, an expense is recorded at the weighted average cost.

Materials and Supplies Inventory

The materials and supplies inventory support the operations and maintenance of the generation, transmission and distribution assets. The inventory is accounted for on an average cost basis of accounting. As of June 30, 2020, a reserve of approximately \$48 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 in the transferor's records. For the fiscal year ended June 30, 2020, the Authority received approximately \$7.5 million in capital contributions, of which approximately \$6 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, 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.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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, 2020, 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 November 11, 2021, 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 2.90% for June 30, 2020.

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:

<u>Category</u>	<u>Useful Life (in years)</u>
Production	20 to 80
Distribution	10 to 50
Transmission	20 to 55
General and administrative	10 to 40
Fiber network	5 to 23
Irrigation systems	14 to 100

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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

Deferred Outflows/Inflows of Resources

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

- Difference between expected and actual experience, changes in assumptions and 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.
- For asset retirement obligations, measured at the amount of the corresponding liability.

Deferred inflows of resources represent inflows of resources 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, any corresponding deposit is applied to the account outstanding balance.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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, 2020, the customer deposits and customer overpayments of approximately \$229 million and \$80.5 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. See 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".

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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

Asset Retirement Obligations

Effective July 1, 2019, the Authority accrues asset retirement obligations (“ARO”) under GASB No. 83, *Accounting and Financial Reporting for Certain Asset Retirement Obligations*, which requires that a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets recognize a liability and a deferred outflow of resources for such obligations. The measurement of such liability is based in the best estimate of the current value of outlays expected to be incurred at the end of the current reporting period.

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.



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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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

Net Position

The Authority classifies its net position as follows:

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

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

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

When both restricted and unrestricted resources are available for a specific use, it is the Authority's policy to use restricted resources first, then unrestricted resources, as they are needed. However, after the Oversight Board filed the Title III Petition on July 2, 2017, the Authority 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 also 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, 2020, 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

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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

Classification of Operating and Nonoperating Revenues and Expenses – (continued)

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, three new cost recovery riders were implemented: contribution in lieu of taxes (“CILT”), and two additional riders 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.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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

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.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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

Accounting Pronouncements Issued But Not Yet Effective

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

- GASB Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of 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.
- 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,

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Notes to the Financial Statements

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

Accounting Pronouncements Issued But Not Yet Effective – (continued)

- 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 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 is 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.
  - 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 ceased 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

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Notes to the Financial Statements

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

Accounting Pronouncements Issued But Not Yet Effective – (continued)

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. 84, *Fiduciary Activities*
- 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. 2017 3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- 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*.
- GASB Implementation Guide No. 2019 3, *Leases*.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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

Accounting Pronouncements Issued But Not Yet Effective – (continued)

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.
- 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

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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

Accounting Pronouncements Issued But Not Yet Effective – (continued)

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, 2020, the Authority has an accumulated deficit of approximately \$8.0 billion.
- 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 for the Authority's uninsured 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



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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 3 - Going Concern Uncertainty-(continued)

Going Concern Consideration-(continued)

emergence of the COVID-19 pandemic which has had a negative effect on the Authority's collections and revenues, further weakening its liquidity position. And most recently, in February 24, 2022, Russia's invasion of Ukraine placed renewed emphasis on the worldwide dependence on fossil fuels, and the resulting supply disruption directly affected the Authority's operations by significantly increasing fuel purchase costs.

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 and operational efficiency; (3) supporting the transfer of the 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.

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 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 June 28, 2022 (the "Certified 2022 Fiscal Plan"). On January 27, 2022, the Oversight Board also certified the 2022 Commonwealth Fiscal Plan (the "Commonwealth Fiscal Plan"). The Authority's Certified 2022 Fiscal Plan, the Commonwealth Fiscal Plan, and the energy public policy and legal framework established by the Government of Puerto Rico lay out the Authority's 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 2022 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 financial operating deficit, depends on a number of factors and risks, some of which are not wholly within the Authority's control.

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Notes to the Financial Statements

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Note 3 - Going Concern Uncertainty-(continued)

Restructuring Support Agreement and Authority's Plan of Adjustment of Debts

After termination of the 2019 Restructuring Support Agreement on March 8, 2022 and 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. During the last quarter of fiscal year 2022, by order of the Title III Court, the Government Parties and certain Authority stakeholders commenced mediation regarding disputes relating to the Authority's financial obligations, with the intent of developing a plan of adjustment for the Authority. The Title III Court set a deadline of August 15, 2022, which is subject to automatic extension through September 9, 2022, as needed based on the mediation team's discretion, for the Oversight Board to file the relevant papers for its proposed path forward to efficiently conclude the Authority's Title III (the Mediation Termination Deadline). The Mediation Termination deadline was subject to multiple extensions, the last one being until September 16<sup>th</sup>, 2022 with an automatic extension through September 30<sup>th</sup>, 2022. As of the date of these financial statements, the Title III court has not entered an order adjudicating these controversies or determining a path forward, and the Oversight Board has not filed a plan of adjustment for the Authority. Before the culmination of the extension period through September 30<sup>th</sup>, 2022, additional events took place, for further details refer to Note 20.

Note 4 - Correction of Immaterial Error and Adoption of New Accounting Pronouncement

During the fiscal year ended June 30, 2020, the Authority identified a misstatement related to prior year financial statements and adopted the provisions of GASB No. 83, "Accounting and Financial Reporting for Certain Asset Retirement Obligations". These actions resulted in restatements of the beginning net position of the Authority's financial statements. The impact of correction of immaterial error and adoption of new accounting pronouncements to net position (deficit) were as follows (in thousands):

	Net Position (Deficit)
As previously reported	\$ (6,804,693)
Correction of accounts receivables and allowance from U.S. Federal Government's Grants	\$ (232,516)
Implementation of GASB 83	<u>(78,649)</u>
Beginning balances, as restated	<u>\$ (7,115,858)</u>

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 4 - Correction of Immaterial Error and Adoption of New Accounting Pronouncement-(continued)

a) Correction of immaterial error

The beginning balance of accounts receivable from insurance companies and FEMA, net, was overstated. The effect of this correction resulted in an increase of the Authority's net deficit of approximately \$232.5 million.

b) Adoption of new accounting pronouncement GASBS No. 83

This statement requires the recording of asset retirement liabilities as well as deferred outflows of resources, on governments' legal obligations to perform future asset retirement activities related to its tangible capital assets. The Authority restated its beginning net position for approximately \$78.6 million in order to recognize the effect of this adoption.

Note 5 - Deposits

As of June 30, 2020, the carrying amount and bank balance of cash deposits held by the Authority in commercial banks is as follows (in thousands):

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Unrestricted cash	\$ 435,603	\$ 444,117
Restricted cash and time deposits	\$ 163,303	\$ 163,303
Restricted investments	\$ 21,311	\$ 21,311

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.

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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		\$ 181,889
Residential, industrial, and commercial		1,043,833
Unbilled services		187,963
Municipalities		
Accounts receivable	180,647	
Accounts payable offset (See Note 9)	<u>(176,881)</u>	3,766
Telecommunications and others		<u>23,436</u>
		1,440,887
Allowance for uncollectible accounts		<u>(806,274)</u>
Total accounts receivable, net		<u>\$ 634,613</u>

Insurance companies		3,415
Grants from U.S. Federal Government, net		<u>130,940</u>
Total accounts receivable from insurance companies and FEMA		<u>\$ 134,355</u>

Noncurrent:

Electric and related services:

Governmental agencies and municipalities	\$ 127,427	
Other receivables related to government	<u>95,104</u>	\$ 222,531
Allowance for uncollectible accounts		<u>(222,531)</u>
Total non-current accounts receivables, net		<u>\$ -</u>

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Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 6 - Accounts Receivable from Services and Accounts Receivable from Insurance Companies and FEMA – (continued)

As of June 30, 2020, receivables from the municipalities amounted to \$180.6 million, of which the Authority has the right to offset with CILT payable approximately \$176.9 million. See Note 9.

The Authority has recorded Grants receivable from U.S. Government of approximately \$157.6 million, and an allowance of \$26.7 million for certain funds that remain under FEMA's review in the accompanying statement of net position (deficit).

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 \$222.3 million for the fiscal year ended June 30, 2020, of which \$127.4 million is in consideration of the financial difficulties of the Commonwealth, its component units and municipalities. The remaining \$95.1 million represents the allowance for the outstanding claim that the Authority had for deposits previously held with Government Development Bank for Puerto Rico ("GDB"), which has been restructured and replaced with a claim of the Authority in the Public Entity Trust that was established as part of the GDB restructuring proceedings under Title VI of PROMESA. See Note 12.

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Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 7 - Restricted Cash, Cash Equivalents and Investments

As of June 30, 2020, 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”) and by other commercial financial institutions, consisting primarily of commercial bank deposits, money markets, time deposits and certificates of deposit (in thousands):

	<u>Restricted Cash and Cash Equivalents</u>	<u>Restricted Investments</u>
Construction fund	\$ 84,846	\$ 1,157
Front-End transition fund for T&D System transfer	59,379	-
Reserve maintenance fund	-	16,829
Reserve account in the sinking fund	17,100	-
PREPA client fund	-	3,325
Other restricted funds	<u>1,978</u>	<u>-</u>
 Total	 <u>\$ 163,303</u>	 <u>\$ 21,311</u>

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 eligible 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, 2020, 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.

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 7 - Restricted Cash, Cash Equivalents and Investments – (continued)

Front-End Transition Fund – To pay for transition services as stipulated in the newly signed contract for the transformation of the Authority’s T&D System, or the T&D Contract (as defined in Note 18). These transition services will be paid from the defined contract effective date, up to the service commencement date, as stipulated in the T&D Contract.

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.

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.

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Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 8 - Capital Assets

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

	Balance June 30, 2019	Additions	Retirements and Disposals	Transfers and adjustments	Balance June 30, 2020
Non-depreciable capital assets:					
Land and land improvements	\$ 158,844	\$ -	\$ -	\$ 56	\$ 158,900
Construction work in process	<u>186,384</u>	<u>151,422</u>	<u>-</u>	<u>(8,256)</u>	<u>329,550</u>
Total non-depreciable capital assets	<u>345,228</u>	<u>151,422</u>	<u>-</u>	<u>(8,200)</u>	<u>488,450</u>
Depreciable capital assets:					
Production	4,928,469	65,407	-	(8,769)	4,985,107
Distribution	4,852,478	3,030	(425)	16,132	4,871,215
Transmission	2,442,893	6,768	(223)	(34,111)	2,415,327
General and administrative	1,595,633	-	-	7,032	1,602,665
Fiber network	73,359	1,196	(1,296)	-	73,259
Irrigation systems	<u>35,505</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,505</u>
Total depreciable capital assets	<u>13,928,337</u>	<u>76,401</u>	<u>(1,944)</u>	<u>(19,716)</u>	<u>13,983,078</u>
Accumulated depreciation:					
Production	(2,588,072)	(99,300)	-	(3,749)	(2,691,121)
Distribution	(1,925,434)	(142,779)	425	905	(2,066,883)
Transmission	(666,882)	(55,585)	223	2,487	(719,757)
General and administrative	(972,095)	(49,090)	-	(244)	(1,021,429)
Irrigation systems	(23,358)	(468)	-	-	(23,826)
Fiber network	<u>(29,347)</u>	<u>(3,037)</u>	<u>1,398</u>	<u>(260)</u>	<u>(31,246)</u>
Total accumulated depreciation	<u>(6,205,188)</u>	<u>(350,259)</u>	<u>2,046</u>	<u>(861)</u>	<u>(6,554,262)</u>
Total depreciable capital assets, net	<u>7,723,149</u>	<u>(273,858)</u>	<u>102</u>	<u>(20,577)</u>	<u>7,428,816</u>
Total capital assets	<u>\$ 8,068,377</u>	<u>\$ (122,436)</u>	<u>\$ 102</u>	<u>\$ (28,777)</u>	<u>\$ 7,917,266</u>



Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 8 - Capital Assets – (continued)

Construction work in progress on June 30, 2020, consists principally of expansions and upgrades to the electric generation, transmission, and distribution systems. Depreciation and amortization expense during fiscal year 2020 was approximately \$350.3 million. As of June 30, 2020, 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, 2020, were as follows (in thousands):

Accounts payable, accrued expenses, and withholdings		\$ 1,032,800
Contribution in lieu of taxes		
Accounts payable	176,881	
Accounts receivable offset (See Note 6)	<u>(176,881)</u>	-
Accrued pension plan contribution and withholding from employees		479,028
Other post employment benefit obligations		7,937
Accrued compensation and other		<u>2,460</u>
 Total		 <u><u>\$ 1,522,225</u></u>

Note 10 - Long-Term Liabilities

Long term debt activity for the fiscal year ended June 30, 2020, was as follows (in thousands):

	Balance at June 30, 2019	Increases	Decreases	Balance at June 30, 2020	Due within one year
Bonds payable	\$ 8,338,448	\$ 139,165	\$ (146,882)	\$ 8,330,731	\$ 1,666,169
Notes payable	722,770	1,611	(660)	723,721	696,652
Loans payable	-	451	-	451	-
Compensated absences	30,266	19,814	(13,626)	36,454	19,030
Claims and judgments	276,667	11,564	-	288,231	-
Net pension liability	4,567,321	594,280	(279,340)	4,882,261	-
OPEB liability	<u>360,877</u>	<u>27,878</u>	<u>(12,570)</u>	<u>376,185</u>	<u>7,937</u>
 Total long-term liabilities	 <u><u>\$ 14,296,349</u></u>	 <u><u>\$ 794,763</u></u>	 <u><u>\$ (453,078)</u></u>	 <u><u>\$ 14,638,034</u></u>	 <u><u>\$ 2,389,788</u></u>

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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, subject to Authority's rights in the Title III case, until new terms for the Authority's long-term debt are negotiated in the Authority's Title III cases.

Note 11 - Notes and Loan Payable

Notes Payable

The following is a summary of notes payable as of June 30, 2020 (in thousands):

	<u>Maturity Date</u>	<u>Effective Interest Rate</u>	<u>Current portion</u>	<u>Long-Term Debt</u>	<u>Total</u>
Notes payable, unrestricted:					
Revolving line of credit of \$250 million to finance working capital	January 2015	8.32% (V)	\$ 146,042	\$ -	\$ 146,042
Revolving line of credit of \$550 million to finance working capital	August 2014	7.25% (V)	549,950	-	549,950
Revolving line of credit of \$27 million to finance improvements in Aguirre and San Juan	20 years following completion of the construction	2.00% (V)	-	14,230	14,230
Note Payable of \$16 million (PREPA Holdings) to finance the general working capital and capital expenditures	February 2023	5.00% (V)	<u>660</u>	<u>12,839</u>	<u>13,499</u>
Total notes payable			<u>\$ 696,652</u>	<u>\$ 27,069</u>	<u>\$ 723,721</u>

(V) - variable interest rate

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 11 - Notes and Loan Payable— (continued)

Notes Payable – (continued)

The schedule of maturities of notes payable with interest thereon as of June 30, 2020, is as follows (in thousands):

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 696,652	\$ 51,945	\$ 748,597
2022	660	907	1,567
2023	12,179	577	12,756
2024	-	271	271
2025	-	271	271
2026-2030	-	1,355	1,355
2031-2035	-	1,355	1,355
2036-2040	14,230	1,355	15,585
Total notes payable	723,721	<u>\$ 58,036</u>	<u>\$ 781,757</u>
Less amount due within one year	<u>(696,652)</u>		
Notes payable, less amount due within one year	<u>\$ 27,069</u>		

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 case. Accordingly, subsequent events related to the Title III case may affect the carrying amounts, interest rates and repayment terms. See Note 3 for additional information on the Authority's Title III case 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 a liquified natural gas ("LNG") facility in connection with the Authority's business operations, and to pay costs related to the agreement. As of June 30, 2020, this line of credit is under the lead of Solus Alternative Asset Management; and its outstanding balance is approximately \$146.0 million, subject to Authority's rights in the Title III case.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 11 - Notes and Loan Payable – (continued)

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, 2020, this line of credit is under the lead of Cortland Capital Market Services, LLC; and its outstanding balance is approximately \$550.0 million, subject to Authority's rights in the Title III case.

During fiscal year 2020, the Authority borrowed from PR Infrastructure Financing Authority an additional \$1.6 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, the projects' construction completion date is estimated to be March of 2024; the outstanding balance of the revolving line of credit as of June 30, 2020, is approximately \$14.2 million and its estimated maturity date is March of 2044. The increase in the loan amount resulted from the reimbursement of costs incurred by the Authority during prior and current fiscal years.

On December 31, 2015, PREPA Net converted a former non-revolving, senior secured, construction credit facility to a term loan bearing interest at the higher of 5% per annum or 350 basis points over 3-month LIBOR (5% as of June 30, 2020), and payable in eighty-three (83) monthly principal plus interest payments, with a final balloon payment for the entire outstanding principal plus accrued interest at the maturity date of February 1, 2023. As of June 30, 2020, the outstanding principal amount due is approximately \$13.5 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.

Loan Payable under Paycheck Protection Program

On April 22, 2020, PREPA Net applied for and was approved a \$450,554 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 pandemic and administered by the Small Business Administration. The loan accrues interest at 1% and will be

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 11 - Notes and Loan Payable – (continued)

Loan Payable under Paycheck Protection Program – (continued)

payable on each payment date. The principal amount of the loan of \$25,031 shall be payable in eighteen (18) consecutive monthly installments commencing on November 1, 2020. PREPA Net has ten (10) months after the last day of the loan forgiveness covered period to apply to the loan forgiveness and it will not be required to make any payments until the forgiveness amount is remitted to the lender by Small Business Administration. PREPA Net is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. PREPA Net submitted the loan forgiveness, but it is still waiting for the lender's response. The loan is uncollateralized and is fully guaranteed by the Federal government.

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 under the 1974 Agreement, are subject to a security interest, if any, 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, 2020, the Authority was not in compliance with some of these debt covenants. On July 2, 2017, the Oversight Board filed the Title III Petition and the Authority's repayment obligation relating to its Power Revenue Bonds has been stayed as a result, and are subject to Authority's rights in the Title III case.

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Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 12 - Bonds Payable – (continued)

Power Revenue Bonds Payable – (continued)

On June 30, 2020, power revenue bonds payable consisted of (in thousands):

Bond Issues	Date of Issue	Effective Interest Rate		Fiscal Year of Last Scheduled Maturity	Principal Outstanding
Issue of 2002, Series JJ	January 3, 2002	5.4%	(F)	2018	\$ 42,315
Issue of 2002, Series LL	July 2, 2002	5.5%	(F)	2019	77,905
Issue of 2002, Series MM	October 3, 2002	5.0%	(F)	2023	56,200
Issue of 2003, Series NN	August 19, 2003	5.2%	(F)	2033	171,525
Issue of 2004, Series PP	August 26, 2004	5.0%	(F)	2025	84,765
		From 5.0% to		From 2018 to	
Issue of 2005, Series QQ, RR and SS	April 4, 2005	5.5%	(F)	2030	603,810
		From 3.4% to		From 2031 to	
Issue of 2007, Series TT, UU and VV	May 3, 2007	5.3%	(F)(V)	2037	1,946,010
Issue of 2008, Series WW	June 26, 2008	5.3%	(F)	2038	610,140
Issue of 2010, Series XX	April 7, 2010	5.3%	(F)	2040	822,210
Issue of 2010, Series YY	April 29, 2010	6.1%	(F)	2040	320,175
Issue of 2010, Series ZZ and AAA	May 5, 2010	From 5.1% to	(F)	From 2028 to	
		5.3%		2031	877,975
		From 5.1% to			
Issue of 2010, Series BBB and CCC	May 26, 2010	5.4%	(F)	2028	393,720
Issue of 2010, Series DDD	October 14, 2010	4.5%	(F)	2024	218,225
Issue of 2010, Series EEE	December 29, 2010	6.1%	(F)	2040	355,730
Issue of 2012, Series A	May 1, 2012	5.0%	(F)	2042	630,110
Issue of 2013, Series A	August 21, 2013	6.9%	(F)	2043	673,145
Issue of 2016, Series A	May 19, 2016	10.0%	(F)	2019	55,640
Issue of 2016, Series B	June 22, 2016	10.0%	(F)	2019	55,211
Issue of 2016, Series C, D and E	June 30, 2016	From 5.4% to	(F)	From 2020 to	
		10.0%		2022	263,803
					<u>8,258,614</u>
Total principal amount face value					8,258,614
Unamortized premiums and discounts					<u>72,117</u>
Power revenue bonds, net					8,330,731
Amount due within one year					<u>(1,666,169)</u>
Long-term portion of bonds payable					<u>\$ 6,664,562</u>

(V) - variable interest rate

(F) - fixed interest rate

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 12 - Bonds Payable – (continued)

Power Revenue Bonds Payable – (continued)

The schedule of maturities of bonds payable with interest thereon as of June 30, 2020, is as follows (in thousands):

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	\$ 1,666,169	\$ 371,477	\$ 2,037,646
2022	322,937	351,095	674,032
2023	317,030	334,113	651,143
2024	332,580	318,557	651,137
2025	294,575	301,957	596,532
2026-2030	1,859,845	1,264,224	3,124,069
2031-2035	1,472,875	802,533	2,275,408
2036-2040	1,429,730	404,335	1,834,065
2041-2043	<u>562,873</u>	<u>60,643</u>	<u>623,516</u>
Total	8,258,614	<u>\$ 4,208,934</u>	<u>\$ 12,467,548</u>
Plus or less: unamortized discount or premium	72,117		
Interest	<u>-</u>		
Total bonds payable	8,330,731		
Total current portion of bonds payable portion	<u>(1,666,169)</u>		
	<u>\$ 6,664,562</u>		

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 case. Accordingly, the effects of the Authority's Title III case may affect the carrying amounts, interest rates and repayment terms. See Note 3 for additional information on the Authority's Title III case 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 2020, these insurance companies made payments of approximately \$139 million in principal and approximately \$87 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 case. As such, payments of principal and interest made by the monoline insurance companies are not recorded or presented as debt service.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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 contingencies of approximately \$16.9 million that are accrued in the accompanying financial statements. As of June 30, 2020, the appeals with the IRS are still pending. See Note 20.

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, 2020, the following is the information on the derivative instruments outstanding (in thousands):

Item	Effective Date	Maturity Date	Terms	Counterparty Credit Rating	Notional Amount
A	May 3, 2007	July 1, 2029	Pay 4.08%; receive 67% 3M LIBOR + 0.52%	A2/A-/AA-	\$ 169,532
B	May 3, 2007	July 1, 2029	Pay 4.08%; receive 67% 3M LIBOR + 0.52%	Aa2/A-/AA-	83,343 <u>\$ 252,875</u>

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Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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, 2020, the combined negative fair value of the derivative instruments was \$53.9 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, 2020 (in thousands):

	Change in Fair Value		Fair Value		Notional
	Classification	Amount	Classification	Amount	
Associate Power Revenue Bonds					
Libor Bonds, Series UU	Deferred Outflows	\$ (8,421)	FV of derivative instruments	\$ (36,135)	\$ 169,532
Mini-BMS Bonds, Series UU	Deferred Outflows	(4,141)	FV of derivative instruments	(17,767)	83,343
		<u>\$ (12,562)</u>		<u>\$ (53,902)</u>	<u>\$ 252,875</u>

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, 2020, 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.

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 12 - Bonds Payable – (continued)

Interest Rate Swap Agreements – (continued)

*Credit Risk*

As of June 30, 2020, 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, AA- by Fitch and AAL by DBRS Morningstar. The other counterparty was rated A3u by Moody's, rated A- by S&P, A+ by Fitch and AH by DBRS Morningstar.

*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 2020, the payments of fixed rate interest from the Authority would have exceeded the amount received as variable interest from swap counterparties by approximately \$5.7 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, 2020, 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.

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 12 - Bonds Payable – (continued)

Interest Rate Swap Agreements – (continued)

*Rollover Risk (continued)*

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest-Rate Swap, net</u>	<u>Total</u>
2021	\$ -	\$ 1,826	\$ 8,491	\$ 10,317
2022	-	1,826	8,491	10,317
2023	-	1,826	8,491	10,317
2024	-	1,826	8,491	10,317
2025	-	1,826	8,491	10,317
2026-2029	<u>252,875</u>	<u>7,307</u>	<u>33,963</u>	<u>294,145</u>
Total	<u>\$ 252,875</u>	<u>\$ 16,437</u>	<u>\$ 76,418</u>	<u>\$ 345,730</u>

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, 2020, the Authority's Trustee's records indicate no defeased bonds.

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Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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 annually a publicly available financial report that includes financial statements and required supplementary information for the Pension Plan.

If a member's employment is terminated before he becomes eligible for any 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 the member's final average pay if the member retires with 30 years of creditable service. Members hired before January 1, 1993, are eligible for pension benefits from 62.5% to 72.5% of their final average pay if they retire with 25 to 29 years of credited service. Effective January 1, 2015, active members who began working with the Authority on or after January 1, 1993, with age not less than 55 years and 30 years of creditable service, will be eligible for pension benefits from 62.5% to 72.5% of their final average pay if they retire at age of 50 to 54 years.

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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.

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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, 2020, are summarized as follows:

Hire date	Prior to January 1, 1993	On or after January 1, 1993
		75% is limited to \$50,000 @
Benefit formula	75% @ 30 years of service at full retirement	30 years of service at full retirement
Benefit vesting schedule	10 years' service	10 years' service
Benefit payments	Monthly for life	Monthly for life
Retirement age	N/A	55
Monthly benefits, as a % of eligible compensation	Varies by age and years of service	Varies by age and years of service
Required employee contribution rates	9.06%	11.00%
Required Authority contribution rates	34.54%	34.54%

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Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

*Employees Covered*

As of the June 30, 2019 valuation date, the following members were covered by the benefit terms for the Pension Plan:

	<u>Number</u>
Retired participants and beneficiaries currently receiving benefits	12,568
Terminated participants and beneficiaries entitled to benefits but not yet receiving benefits	124
Active participants	<u>5,542</u>
Total	<u><u>18,234</u></u>

*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, 2020, the Authority's annual contribution was \$241.9 million.

B. Net Pension Liability

The net pension liability as of June 30, 2020, was measured as of June 30, 2019, and the actuarial valuation date was June 30, 2019.

*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.

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

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

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Reporting date	June 30, 2020
Single Equivalent Interest Rate	
Long-term expected rate of return	5.75%
Municipal Bond Index Rate	2.79%
Fiscal year in which Pension Plan's Fiduciary net position is projected to be depleted from future benefits payments for current members	2023
Actuarial Assumptions:	
Discount Rate	2.84%
Inflation	2.25%
Payroll Growth	0.00%
Salary Increase	2.5% to 7.25%, including inflation
Investment Rate of Return	5.75%, net of expenses, including inflation
Percentage Married	100% of employees, and wives are assumed to be 4 years younger than their husbands

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.



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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

*Mortality Assumptions*

The mortality rates were based on PUB 2010 Headcount-Weighted 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 2.84%. 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, 2023. 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, 2023, and the applicable municipal bond index rate of 2.79%, based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2019, was applied to all periods of projected benefit payments after June 30, 2023. The Single Equivalent Interest Rate ("SEIR") of 2.84% 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, 2019.

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.

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Bonds	30.00%	1.45%
U.S. Large Cap Equity	70.00%	4.97%
Total	<u>100.00%</u>	

C. Changes in the Net Pension Liability

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

	<u>Increase/(Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Pension Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance as of reporting period June 30, 2019	\$ 5,765,887	\$ 1,198,566	4,567,321
Changes for the year:			
Service cost	82,860	-	82,860
Interest	171,460	-	171,460
Differences between expected and actual experience	(1,958)	-	-
Changes in assumptions	339,551	-	339,551
Contributions - employer	-	224,436	(224,436)
Contributions - employee	-	18,203	(18,203)
Net investment income	-	34,440	(34,440)
Benefit payments, including refunds of employee contributions	(288,482)	(288,482)	-
Administrative expenses	-	(409)	409
Other changes	-	303	(303)
Net changes	<u>303,431</u>	<u>(11,509)</u>	<u>314,940</u>
Balance as of reporting period June 30, 2020	<u>\$ 6,069,318</u>	<u>\$ 1,187,057</u>	<u>\$ 4,882,261</u>

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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 2.84 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 (1.84 percent) or 1 percentage point higher (3.84 percent) than the current rate (in thousands):

	1% Decrease	Current	1% Increase
Discount Rate	1.84%	2.84%	3.84%
Net Pension Liability	\$ 5,814,624	\$ 4,882,261	\$ 4,133,299

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, 2019 (the "Measurement Date"):

- The discount rate used to determine the total pension liability was decreased from 3.05% to 2.84%.
- The municipal bond index rate decreased from 2.98% to 2.79%.
- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019 to PUB 2010 Headcount-Weighted Median Mortality Table projected generationally using Scale MP-2019.

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.

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Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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 fiscal year ended June 30, 2020, the Authority recognized pension expense of approximately \$480.3 million, subject to Authority's rights in the Title III case. On June 30, 2020, 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	\$ -
Employer contributions subsequent to the measurement date	241,829
Changes of assumptions	<u>346,556</u>
Total deferred outflows of resources	<u>\$ 588,385</u>

Deferred inflows of resources:

Changes in assumptions	\$ 58,020
Differences between expected and actual experience	27,023
Net difference between projected and actual earnings on pension plan investments	<u>6,623</u>
Total deferred inflows of resources	<u>\$ 91,666</u>

Contributions of approximately \$241.8 million were reported as deferred outflows of resources resulting from contributions made subsequent to the Measurement Date. Such contributions will reduce the net pension liability in fiscal year 2021. 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):

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 94,398
2022	115,690
2023	38,171
2024	<u>6,631</u>
	<u>\$ 254,890</u>

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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 expense. 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 OPEB Plan:

	<u>Number</u>
Inactive members or beneficiaries currently receiving benefits	8,135
Inactive members entitled to but not yet receiving benefits	-
Active members	<u>5,739</u>
Total	<u><u>13,874</u></u>

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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, 2020, was measured as of June 30, 2019, 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:

Valuation Date	June 30, 2019
Measurement Date (MD)	June 30, 2019
Reporting date	June 30, 2020
Actuarial Assumptions	
Inflation	2.25%
Real wage growth	0.25%
Wage inflation	2.50%
Salary Increase	2.5% to 7.25%, including inflation
Discount rate:	
Municipal Bond Index rate at MD	2.79%
Percentage Married	100% of employees, and wives are assumed to be 4 years younger than their husbands
Future participation and coverage elections	All future retirees are assumed to participate in the OPEB Plan
Future retirees spouse coverage after death	75%

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Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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, 2019.

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

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

The remaining actuarial assumptions used in the valuation for the reporting period ended June 30, 2020, 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):

Total OPEB liability as of reporting period June 30, 2019	\$ 360,877
Changes for the year:	
Service cost	3,059
Interest	10,567
Difference between expected and actual experience	-
Changes of assumptions or other inputs	14,252
Benefits payments	<u>(12,570)</u>
Net changes	<u>15,308</u>
Total OPEB liability as of reporting period June 30, 2020	<u><u>\$ 376,185</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.98% to 2.79%. The mortality rate assumptions were changed from PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019 to PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2019.

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Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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 2.79 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 (1.79 percent) or 1 percentage point higher (3.79 percent) than the current rate (in thousands):

	1% Decrease	Current	1% Increase
Discount Rate	1.79%	2.79%	3.79%
Total OPEB Liability	\$ 426,560	\$ 376,185	\$ 335,147

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

For the fiscal year ended June 30, 2020, the Authority recognized an OPEB expense of approximately \$8.5 million. On June 30, 2020, 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	\$ 7,937
Changes of assumptions	13,582
Total deferred outflows of resources	\$ 21,519

Deferred inflows of resources:

Differences between expected and actual experience	\$ 9,018
Changes of assumptions	3,870
Total deferred inflows of resources	\$ 12,888

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Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 13 - Employees' Retirement Benefits – (continued)

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

Benefit payments of approximately \$7.9 million were reported as deferred outflows of resources resulting from payments made subsequent to June 30, 2019, the Measurement Date. Such benefit payments will reduce the total OPEB liability in fiscal year 2021. 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):

Measurement period ended June 30,	Amount
2020	\$ (3,678)
2021	2,808
2022	1,564
	\$ 694

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.

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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, 2020, are as follows (in thousands):

Commonwealth of Puerto Rico and components units	\$ 459,477
Municipalities	<u>69,986</u>
Total	<u>\$ 529,463</u>

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, 2020, 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 thousand. 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, 2020, amount to approximately \$636 thousands.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 15 - Leases – (continued)

Operating Lease Agreement – (continued)

The schedule of the future minimum annual rental income thereon as of June 30, 2020, are as follows (in thousands):

Year Ending June 30,	Amount
2021	335
2022	335
2023	335
2024	335
2025	335
Thereafter	<u>3,883</u>
Total	<u>\$ 5,558</u>

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 2021 to 2025. The Authority also has a long-term terminal service agreement which includes the rental of six (6) bunker C tanks. The tanks are for the use of the Authority and for the use of the Authority's fuel suppliers through the inception of rental agreements entered into as subleases. The contract term is for nineteen months, starting on June 10, 2020, and ending in December 2021. The contract is a non-cancelable lease with future minimum lease payments. All fees remain in effect for the entire term of the agreement. For the fiscal year 2020, the minimum lease payment is \$22.7 million and \$11.3 million for 2021. From the total of six (6) bunker C tanks, three are subleased under a noncancelable one year contract, with an option to renew. There are no minimum rentals to be received in the future under these subleases, since their lease agreements are cancelable within a one-year period.

PREPA Net leases a communication station under a non-cancelable lease agreement payable by PREPA Net in monthly installments of approximately \$36.5 thousand. On September 11, 2020, this lease agreement was amended in order to increase PREPA Net's lease payments by 10% beginning January 1, 2022, and to extend the lease term to December 31, 2022.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 15 - Leases – (continued)

Operating Lease Commitments – (continued)

For the fiscal year ended June 30, 2020, consolidated rent expense amounted to approximately \$3.8 million and is included as general and administrative expenses in the accompanying statement of revenues, expenses, and changes in net position (deficit).

Minimum annual rental expenses for the five fiscal years subsequent to June 30, 2020, are as follows (in thousands):

Year Ending June 30,	Amount
2021	\$ 24,432
2022	12,601
2023	788
2024	544
2025	<u>250</u>
Total	<u>\$ 38,615</u>

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 T&D System is not available. The insurance program structure and coverage for the fiscal year 2020 remain similar to those from prior years for the major categories of risk. 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.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

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):

<u>Year Ended</u> <u>June 30,</u>	<u>Beginning</u> <u>Balance</u>	<u>Expense</u>	<u>Payments</u>	<u>Ending</u> <u>Balance</u>
2019	<u>\$ 3,652</u>	<u>\$ 36,290</u>	<u>\$ (36,984)</u>	<u>\$ 2,958</u>
2020	<u>\$ 2,958</u>	<u>\$ 27,153</u>	<u>\$ (27,881)</u>	<u>\$ 2,230</u>

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

Note 17 - Natural Disasters and Global Pandemic

September 2017 Hurricane María’s Impact on Electric System

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.

January 2020’s Earthquakes Impact on Electric System and Costa Sur Power Plant

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.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 17 - Natural Disasters and Global Pandemic – (continued)

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 early January 2020's 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.

COVID-19 Effects on the Authority's Operations

On March 11, 2020, the World Health Organization declared the COVID-19 as a global pandemic. The COVID-19 outbreak started disrupting supply chains and affecting production and sales across a range of industries and businesses in Puerto Rico and has contributed to significant price inflation. While the disruption was expected to be temporary, there is considerable uncertainty around the duration of the impact. 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. See Note 20.

Financial impact of the Natural Disasters and Global Pandemic

The 2017's Hurricanes and the January 2020's Earthquakes caused significant infrastructure damage and losses to the Authority's power grid and other assets.

During the fiscal year ended June 30, 2020, the Authority recognized revenues of approximately \$40.9 million, in approved grant awards from FEMA, in accordance with guidance established by GASB Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions". In addition, a total amount of approximately \$29.2 million were collected from FEMA from claims recognized during previous fiscal years. Approximately \$157.6 million of accounts receivable from

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 17 - Natural Disasters and Global Pandemic – (continued)

Financial impact of the Natural Disasters and Global Pandemic

FEMA, as well as a restated allowance of \$26.7 million are presented in the accompanying statement of net position (deficit). Also, the Authority capitalized approximately \$16.1 million in new infrastructure repairs.

Emergency repairs post the Hurricanes and the January 2020's Earthquakes of approximately \$286.6 million were incurred and are presented net of insurance recoveries of \$74 million in the accompanying statement of revenues, expenses, and changes in net position (deficit).

In addition, during the fiscal year ended June 30, 2020, out of the total capital contributions of approximately \$7.5 million presented in the accompanying statement of revenues, expenses and changes in net position (deficit), approximately \$6 million represented donations received from the USACE related to the natural disasters.

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. See Note 20.

Note 18 - Transformation of the Authority's System

Transformation of the Transmission and Distribution ("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. Refer to Note 20.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 18 - Transformation of the Authority's System-(continued)

Transformation of the Generation System of the Authority

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. See section "Transformation of the Authority's Generation" in Note 20.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations

Commitments

Power Purchase Agreements

Power purchase agreements as of June 30, 2020, were as follows (in thousands):

	Authority Shares	Type	Capacity (MWs)	Outstanding Commitment
AES Puerto Rico	100%	Coal	454.3	\$ 2,165,885
EcoEléctrica	100%	Gas	507	383,518
Humacao Solar Project, LLC	100%	Renewable	40	284,710
Pattern Santa Isabel, LLC	100%	Renewable	95	356,286
Oriana Energy, LLC (Yarotek)	100%	Renewable	45	341,425
San Fermín Solar Farm, LLC	100%	Renewable	20	124,699
AES Ilumina, LLC	100%	Renewable	20	111,211
Punta Lima Wind Farm, LLC	100%	Renewable	26	101,394
Horizon Energy, LLC	100%	Renewable	10	105,244
Coto Laurel Solar Farm, Inc.	100%	Renewable	10	62,681
Landfill Gas Technologies of Fajardo, LLC (Toa Baja)	100%	Renewable	2	13,501
Windmar Renewable Energy, Inc.	100%	Renewable	2	12,413
Landfill Gas Technologies of Fajardo, LLC (Fajardo)	100%	Renewable	2	<u>7,338</u>
Total				<u>\$ 4,070,305</u>

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 fiscal year ended June 30, 2020, the Authority recorded as expense \$732.9 million for its 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 agreements. In accordance with the Authority's current Fiscal Plan, the Authority has renegotiated several of the power purchase operating agreements ("PPOAs") to procure a reduction in their current prices and to assume or reject agreements in the Authority's Title III case. See Note 20.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations-(continued)

Commitments-(continued)

Construction and Other Commitments

As of June 30, 2020, the Authority has commitments of approximately \$823 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 \$264 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 the Title III Petition. 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 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 Act No. 104's provisions Act No. 104's Article 19 requires the Authority to cover the costs associated with judgments, expenses, and

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

attorneys' fees incurred by the Commonwealth in the legal representation of the Authority's 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 ("PRDLegLHR") for the accrued vacation balances over 450 hours based on the ten-year period beginning July 24, 1989. On September 26, 2012, a PRDLegLHR 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 member 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 aforementioned amount as a penalty, plus the legal interest since the day of the decision; and
  - c) 10% of the total amount for attorneys' fees.

On May 18, 2015, the Authority filed a suit to vacate PRDLegLHR'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 is accounted for in the accompanying financial statements.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Labor Related Claims – (continued)

- Christmas Bonus

On December 17, 2014, UTIER filed a claim against the Authority with the Puerto Rico Labor Relations Board (“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 PRLRB that the Authority should be ordered to pay the amount by which the Christmas bonus was reduced in December 2014.

On July 31, 2017, the Authority informed PRLRB that the Title III stay was in effect due to the filing of 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 filed with 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 regarding this matter.

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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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (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 accounted for 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 accounted for in the accompanying financial statements.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (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 alleged violations to collective bargaining agreement provisions by the Authority from December 11, 2006, through August 23, 2008. These alleged violations include issues regarding work schedules, daily relief time 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 accounted for 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 been stayed due to the Title III Petition. This loss 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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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Consumer Billing Litigation

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

This is a class action lawsuit against the Authority, William A. Clark, Edwin Rodríguez, and César Torres, as well as several laboratories, and oil supply companies. The plaintiffs claim that the defendants entered into a RICO conspiracy whereby the Authority paid for noncompliant fuel oil at compliant fuel oil prices, 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") and the unsecured creditors committee ("UCC") as co-plaintiff trustees on behalf of the Authority filed an avoidance action with the Title III Court and are currently in the avoidance action. The SCC, 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. On February 8, 2019, plaintiffs filed a motion in the District Court to lift stay as to all defendants except the Authority. On May 9, 2019, the petition was denied.

The Authority will litigate 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. Management's estimate of loss contingency has been accounted for in the accompanying financial statements.

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Notes to the Financial Statements

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Note 19 - Commitments, Contingencies and Other Obligations – (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. 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. Plaintiffs also claim unjust enrichment, damages of up to approximately \$600 million, antitrust violations, and requests permanent injunction. The case is stayed as a result of the Title III Petition's filing. 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 accounted for 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 Vitol's failure to disclose (a) certain corruption criminal charges to which Vitol S.A. pled guilty and (b) various other investigations. Vitol removed this suit to the U.S. District Court for the District of Puerto Rico ("District Court") and filed 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 attorneys' fees. The Authority sought the matter's remand 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.



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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

PREPA v. Vitol Inc. – (continued)

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. 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 case, due to the SCC in the Title III cases 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 case. 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) denies any monetary recovery by the Authority; (ii) orders 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. On May 2, 2022, the Authority filed its opening brief. On July 20, 2022, the parties informed the First Circuit that they have reached an agreement in principle to settle their dispute. Accordingly, the parties jointly request that the Court hold the appeal in abeyance and stay all deadlines to allow the parties to finalize their settlement agreement. The parties will inform the

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Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

PREPA v. Vitol Inc. – (continued)

Court of the status of their settlement discussions on or before August 18, 2022. Management's estimate of loss contingency has been accrued in the accompanying financial statements.

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 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 summary judgment. The Court of Appeals affirmed the summary judgment. 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.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

*PBJL Energy Corporation Litigation v. The Authority*

On December 20, 2011, the Authority and PBJL Energy Corporation (“PBJL”) entered into a Master Renewable Power Purchase and Operating Agreement (“PBJL MPPOA”) pursuant to which PBJL, in its discretion, could propose to the Authority solar photovoltaic (“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 any 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 discovery stage when, on August 30, 2017, the Puerto Rico Court of First Instance stayed this case due to the Title III Petition’s filing. 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.

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Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

*Whitefish*

On October 30, 2020, Whitefish Energy Holdings, LLC (“Whitefish”) filed an Administrative Expense Motion against the Authority in the Title III case, seeking allowance of an administrative expense claim based on services rendered to the Authority consisting of repairs in the aftermath of the Hurricanes. Whitefish alleged an entitlement to said administrative claim based on outstanding invoiced amounts and interest that continued to accrue at 1% monthly. On March 1, 2022, the Authority filed a motion to approve a settlement (the “Settlement Agreement”) with Whitefish. On March 21, 2022, the Title III Court issued an Order (the “March 21 Order”) approving such settlement. The Settlement Agreement resolves all matters in dispute arising under or in any way related to the Whitefish’s contract, invoices, and finance charges including interests and penalties asserted by Whitefish as an administrative claim. Part of the agreements approved by the Title III Court include that no further interest will accrue from the date of execution to the Settlement Agreement provided all payments by the Authority under the Settlement Agreement are timely and fully made. Management’s estimate of loss contingency has been accrued in the accompanying financial statements.

*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 amounts 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 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) (the “Criminal Case”). On May 18, 2022, the officials each entered into a conditional guilty plea on lesser charges. The Criminal Case is still pending, and no judgement has been issued accepting the plea, sentencing hearing is pending court order.

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For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

As to the Authority's first contract with Cobra, FEMA had issued a formal determination denying approximately \$46 million for three reasons. FEMA found about \$24 million was not authorized by the contract, because Cobra had more than the maximum number of line workers allowed on the job without written authorization from the Authority. About \$22 million was denied as charges unsupported by the terms of the contract. The Authority filed a first-level administration appeal of FEMA's determination, providing proof of the written authorization with respect to the \$24 million denial. On May 31, 2022, FEMA issued its First Appeal decision, granting the appeal in part and denied it in part. FEMA approved \$24 million and will amend PW 251 to re-obligate this funding. The Authority had previously received this funding from FEMA (through COR3), so the re-obligation will not result in a cash payment, but instead the Authority will not be required to return the funds previously disbursed to it. FEMA denied the remaining amounts under appeal. The Authority may file a Second Appeal to FEMA Headquarters (through COR3) or a Request for Arbitration with the U.S. Civilian Board of Contract Appeals within 60 days of the decision (July 30, 2022). FEMA is also working to determine the eligibility for reimbursement under the agency's Public Assistance program of the fees charged by Cobra for its work on the Authority's electric grid under the Authority's second contract with Cobra.

On January 19, 2022, the parties filed with the Title III Court a status report regarding the status of the criminal proceedings and FEMA's eligibility review, in which the Authority asserts the litigation stay should remain in effect and Cobra asserts the stay should be lifted. On January 26, 2022, the Title III Court entered an Order with respect to the January 19, 2022 status report leaving the stay in place and directing the parties to file a further status report addressing the status of FEMA's review of Cobra's contracts with the Authority, the status of any administrative appeals in connection with FEMA's determinations regarding the contracts, and the status of the Criminal Case. On June 7, 2022, Cobra filed a motion to lift the litigation stay on this contested matter. On June 14, 2022, the Oversight Board and FAFAA, on the Authority's behalf, filed an objection to Cobra's motion, to which Cobra replied on June 21, 2022. After a hearing on the matter, on June 29, 2022, the Court entered an order denying Cobra's motion to lift the litigation stay. The Court further ordered the parties to file a status report on the matter by January 6, 2023. If FEMA's review of the Cobra contract is completed before January 6, 2023, the parties must file a status report within 30 days of FEMA's ruling. Due to the circumstances, this case did not meet the probability criteria.

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For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Key Contested Motions and Adversary Proceedings in the Title III Cases

- 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 a 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 Agreement and assert they must be paid before any further payments are made to the 1974 Trustee or bondholders. The Authority, Oversight Board, and FAFAA jointly filed motions to dismiss the amended complaint on November 11, 2019, and, on December 5, 2019, Fuel Line Lenders replied. However, pursuant to the Title III Court order, the hearing regarding the pending motions to dismiss is adjourned without date.

- 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 as defined in the 1974 Agreement because contributions made to pensions and the retirement system allegedly qualify as Current Expenses under the 1974 Agreement. The PREPA ERS asserts these “Current Expenses” must be paid before any further payments are made to the 1974 Trustee or the Authority’s bondholders.

The Authority, Oversight Board, and FAFAA jointly filed a motion to dismiss the amended complaint, which the PREPA ERS opposed. Thereafter, the Title III Court adjourned the hearing on this matter without date.

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For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

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

- Lien Challenge

On July 1, 2019, the Authority, the Oversight Board, and FAFAA filed a complaint against 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 certain other funds under the 1974 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 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 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.

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For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Legal Contingencies – (continued)

Bodily Injuries Claims

The Authority is a defendant in several legal actions claiming physical bodily injuries suffered by individuals coming into contact with wires and similar accidents and events. Aggregate claims amount to approximately \$203 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 regulations under federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act, Resource Conservation and Recovery Act, Safe Drinking Water Act, Emergency Planning and Community Right-to-Know Act, and Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). The Authority monitors its compliance with laws and regulations and reviews its remediation obligations on an ongoing basis.

1999 Consent Decree

In 1993, the United States of America ("United States"), through the United States Department of Justice ("DOJ") and the United States Environmental Protection Agency ("EPA"), filed a complaint against the Authority in the United States District Court for the District of Puerto Rico (the "court") (Civil Action No. 93-2527 CCC). The complaint alleged environmental violations by the Authority under multiple federal environmental statutes, including those relating to air, water, and waste at the Palo Seco, San Juan, Aguirre, and Costa Sur generation facilities, and the Monacillos Transmission Center. In 1999, the court entered a consent decree in the case ("Consent Decree"). The Consent Decree requires that the Authority improve and implement programs and operations to ensure compliance with environmental laws and regulations.

In 2004, the court entered a Consent Decree modification ("2004 Modification"). The 2004 Modification required the Authority to reduce the sulfur content in the No. 6 fuel oil used in certain



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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

1999 Consent Decree – (continued)

generating units at its Costa Sur, Aguirre, Palo Seco, and San Juan Power Plants. Additionally, the 2004 Modification required the Authority to implement a nitrogen oxide emissions reduction program at certain units and to modify the optimal operating ranges for units subject to the Consent Decree.

In 2014, representatives from the Authority and the United States met to discuss terminating certain compliance programs/provisions under the Consent Decree and 2004 Modification. As a result, the United States requested that the Authority submit information regarding the Authority's compliance with the programs for its review and evaluation. In September 2014, the Authority submitted the information requested, and submitted a written partial termination request to the United States covering those programs/provisions.

As of the issuance of these financial statements, a draft modified Consent Decree is under review by the United States. After such negotiations conclude, the modified Consent Decree would need to be lodged with the court and must go through a public notice and comment process prior to 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 air quality (including opacity) and water quality requirements. Under the Consent Decree, the Authority is subject to stipulated penalties for deviations. The Authority had paid stipulated penalties of approximately \$37 thousand in fiscal year 2020.

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For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Compliance Programs

The Authority continues to develop and implement a comprehensive program to improve environmental compliance. This program has been, and continues to be, updated to conform to new regulatory requirements.

Mercury and Air Toxics Standards

The Mercury and Air Toxics Standard (“MATS”) establishes national emission standards for hazardous air pollutants, including emission limits and work practice standards, that apply to coal and oil fired electric utility steam generating units (“EGU”) in continental and non-continental areas. The Authority owns and operates 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 periods of noncompliance with the standard.

Should the Authority reach a settlement with the United States regarding MATS noncompliance, the resulting consent decree will almost certainly require the Authority to make various compliance related expenditures and may require the payment of civil penalties.

On August 24, 2020, PREB issued its final order on the Authority’s Integrated Resource Plan (“IRP”), approving in part of what was proposed by the Authority, and making certain modifications. The approved IRP is expected to inform the basis of a potential MATS compliance plan. The state implementation plan for sulfur dioxide (SO<sub>2</sub>) being developed by the Department of Environmental and Natural Resources (“DNER”), described below, is also expected to inform any such consent decree.

The Authority has not identified any contingent losses that would be considered probable of occurrence in relation to MATS noncompliance and the Authority’s IRP; therefore, no amount has been recorded in the accompanying financial statements.

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Notes to the Financial Statements

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Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Contingencies – (continued)

Compliance Programs – (continued)

SO<sub>2</sub> National Ambient Air Quality Standard Compliance

On January 9, 2018, EPA published in the *Federal Register* the third round of final area designations under the 2010 sulfur dioxide (“SO<sub>2</sub>”) national ambient air quality standards (“NAAQS”). The non-attainment designations took effect on April 9, 2018. EPA identified two (2) SO<sub>2</sub> non-attainment areas located in Puerto Rico, the San Juan Area, and the Guayama-Salinas Area. The Clean Air Act requires air agencies to take steps to control air pollution in SO<sub>2</sub> 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 SO<sub>2</sub> 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. 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 by May 2022, in order to avoid sanctions, including the loss of certain federal funding for Puerto Rico. DNER issued a proposed SIP for public comment and hearing on March 11, 2022, and held a public hearing on the proposed SIP on April 11, 2022. According to DNER and EPA, the Authority’s power plants are principal emitters of SO<sub>2</sub> in the identified areas. The Authority’s affected facilities in the non-attainment areas are the San Juan, Palo Seco and Aguirre Power Plants. Since the non-attainment designation, the Authority and DNER have been in communication so that the approved SIP considers the status of the implementation of the Authority’s IRP and projects, approved by PREB in August 2020, as well as reliability considerations. DNER has not advised the Authority as to the expected submission to EPA of DNER’s qualifying SIP.

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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Notes to the Financial Statements

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Note 19 - Commitments, Contingencies and Other Obligations – (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. Three different locations require the analysis of pollution remediation obligations, including the Protección técnica Ecológica Superfund site in Peñuelas (the “Proteco Site”), the Vega Baja Solid Waste Disposal Superfund Site (the “Vega Baja Site”), and the Palo Seco site.

The Proteco Site

On March 28, 2019, EPA issued a notice of potential liability and request for information to the Authority under CERCLA in relation to the Proteco Site. EPA alleges that the Authority is a potentially responsible party (“PRP”) for the Proteco Site as an arranger, who by contractor or arrangement, arranged for the disposal or treatment of hazardous substances at the Proteco Site. On June 28, 2019, the Authority received a special notice letter from EPA requesting that the Authority enter into an administrative settlement agreement and order on consent (“ASAO”) to conduct a remedial investigation and feasibility study (“RI/FS”) <sup>1</sup> of the Proteco Site (hereinafter, the “June 28, 2019, Special Notice Letter”). The Authority believes that a similar special notice letter was sent to other PRPs.

In September 2020, the Authority and other PRPs (“PRP Group”) entered into an ASAO (CERCLA-02-2020-2010) with the EPA to conduct the RI/FS. The ASAO requires payment from the PRP Group to EPA in the amount of approximately \$444,708 for past response costs. The agreement also requires that the PRP Group provide financial assurance, initially in the amount of approximately \$5 million (based on the estimated cost of work), for EPA’s benefit.

The 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 noncompliance with the ASAO.

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<sup>1</sup> An RI/FS is the regulatory-mandated process for collecting data to characterize site conditions, determining the nature of wastes at the site, assessing risk to human health and the environment (if any), and identifying and evaluating potential remediation options based on the collected data. See [Superfund Remedial Investigation/Feasibility Study \(Site Characterization\) | US EPA](#).

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Notes to the Financial Statements

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Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Pollution Remediation Obligation – (continued)

PROTECO – (continued)

The RI/FS is in the earliest stages.

As of the date of the issuance of these financial statements, 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.

The Vega Baja Site

In 2002, the Authority received a Special Notice Concerning Remedial Investigation/Feasibility Study for Soil at the Vega Baja Site. EPA has identified the Authority and six other entities as PRPs.

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"), 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 between the escrow account balance and \$250 thousand. Public agencies may elect to satisfy this performance guarantee requirement by providing separate performance guarantees which total the amount required to be maintained as set forth above, either individually 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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Notes to the Financial Statements

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Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Pollution Remediation Obligation – (continued)

The Vega Baja Site – (continued)

The Authority, on behalf of PRLA and PRHD, has requested disbursements be charged against the escrow account, and such payments have been processed. All payments required to be charged against the escrow account is 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 Environmental Escrow 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 required contingency plan for the Vega Baja Site.

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.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Pollution Remediation Obligation – (continued)

The Palo Seco Site

The Palo Seco Site is located in Toa Baja, Puerto Rico (near San Juan), and includes the Palo Seco Power Plant, a depot area, and the former Bayamón river channel.

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 (CERCLA-97-0302) for the investigation and possible remediation of seven areas of interest identified by EPA at the Palo Seco Site. The Administrative Order required the Authority to carry out a RI/FS.

Following the RI/FS, additional action was taken to address separate phase hydrocarbons at two of the areas of interest. On November 6, 2008, EPA and the Authority entered into an Administrative Order on Consent (“AOC”) to address the separate phase hydrocarbons (No. CERCLA-02-2008-2022). Subsequently, the Authority completed a removal action at one of the areas of interest to remove separate phase hydrocarbons. In July 2012, EPA issued for public comment its proposed plan for no further action at the site. In September 2012, EPA issued its Record of Decision for the site, which selected the “No Further Action” remedy.

The AOC included various conditions for the Authority to reimburse EPA for costs incurred by EPA in connection with the site. On December 4, 2015 and on May 11, 2016, EPA sent the Authority a cost package for response costs. The cost package included two components: (i) \$62,077.31 that EPA had incurred in connection with the oversight of the removal action performed under the AOC; and (ii) \$1,473,061.62 in costs that did not fall in that category (i.e., those not directly related to the AOC), including investigative and other response costs that, as of July 31, 2015, had been paid by EPA pursuant to CERCLA with respect to the site.

With respect to the first category of costs, on March 7, 2016, EPA sent the Authority a bill collection notice for the \$62,077.31 incurred by EPA in connection with the AOC. The Authority paid this amount on March 8, 2016.

With respect to the second category of costs, on July 10, 2017, a settlement agreement (CERCLA-02-2017-2014) was signed requiring the Authority to pay EPA 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. The third payment completed the Authority’s financial commitments under the settlement agreement.

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For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Pollution Remediation Obligation – (continued)

The Palo Seco Site – (continued)

In September 2020, the Authority prepared a request for proposals for the installation of a system to recover free product from groundwater monitoring wells constructed during the aforementioned RI/FS for \$100,000.00. The installation work was completed in April 2021. This project was financed as a Necessary Maintenance Expense.

Asset Retirement Obligations

As described in Note 2, effective July 1, 2019, the Authority adopted GASB Statement No. 83, Certain Asset Retirement Obligations. This standard requires the Authority to record a liability and deferred outflows associated with the retirement of tangible capital assets that it has an enforceable legal obligation to retire. GASB 83 requires governmental entities to record a liability and a corresponding deferred outflow at the time there is an external obligating event such as a federal or state regulation, a legally binding contract or court judgment and when there is an internal obligating event which exists at the time an asset is acquired or if constructed placed in service. In accordance with GASB 83, the Authority estimated and recorded its asset retirement obligations at the current value of outlays expected to be incurred using site specific cost studies performed by third-party consultants or published cost studies of similar sites. Current value is the amount that would be paid, if all equipment, facilities, and services included in the estimate were acquired at the end of the current reporting period. This approach includes probability weighting of potential outcomes when this information can be obtained at a reasonable cost.

The Authority recorded asset retirement obligations of applicable tangible assets such as thermal generation sites, hydroelectric power facilities, select transmission and distribution (T&D) system components, and other assets, following the requirements of GASB 83. The estimated remaining useful life of the associated tangible capital assets is up to 49 years. Federal energy laws and regulations, federal environmental laws and regulations, and Puerto Rico (Commonwealth) environmental laws and regulations issued by the Puerto Rico Department of Natural Environmental Resources (DNER) were reviewed to determine asset retirement obligations. The methodology used for developing ARO estimates included a combination of stochastic and deterministic methods. The Authority does not have assets restricted for payment of these liabilities.



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For the fiscal year ended June 30, 2020

Note 19 - Commitments, Contingencies and Other Obligations – (continued)

Asset Retirement Obligations – (continued)

The Authority had the following asset retirement obligations at June 30, 2020 (in thousands):

Asset retirement obligation:	2020
Balance at July 1, 2019	\$143,130
Additions	5,463
Payments	-
Balance at June 30, 2020	\$ 148,593

The Authority amortizes its deferred outflows using the straight-line method over the remaining useful life of the asset or lease term, if leased. The liability is reduced as actual decommissioning costs are paid. Amortization of the deferred outflow is recorded as operating and maintenance expense in the statements of revenue, expenses, and changes in net position (deficit).

Deferred outflows related to the Authority's assets retirement obligations are as follows for the fiscal year ended June 30, 2020 (in thousands):

Deferred outflows - ARO	2020
Balance at July 1, 2019	\$ 64,481
Additions	5,464
Amortizations	(3,922)
Balance at June 30, 2020	\$ 66,023

*This space is intentionally left in blank*

Puerto Rico Electric Power Authority  
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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 20 - Subsequent Events

Subsequent events were evaluated through September 30, 2022 to determine if any such events should either be recognized or disclosed in the 2020 basic financial statements.

The Authority's Fiscal Plan

On May 27, 2021, the Oversight Board approved the Certified 2022 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.

Key Contested Motions and Adversary Proceedings in the Title III Cases

- The Authority's Plan of Adjustment Mediation

On May 3, 2019, the Oversight Board, FAFAA, and the Authority (the "Government Parties"), entered into the 2019 RSA with a substantial portion of the Authority's bondholders and Assured Guaranty Corp. and Assured Guaranty Municipal Corp (the "Ad Hoc Group"). 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 was stayed. On March 8, 2022, FAFAA exercised its right to terminate the RSA with the support of the Oversight Board. FAFAA's termination results in the RSA being void and of no further force or effect as to all parties. On March 8, 2022, the Title III Court issued an Order (the "March 8 Order") directing the Oversight Board and FAFAA to file a joint status report regarding its efforts to progress negotiations or formulation regarding the parameters of a plan of adjustment for the Authority by March 18, 2022. The March 8 Order also directed the Oversight Board to inform the Court by May 2, 2022 of its proposed path forward to conclude the Authority's Title III case. On March 17, 2022, the

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 20 - Subsequent Events – (continued)

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

- The Authority’s Plan of Adjustment Mediation-(continued)

Government Parties informed the Title III Court that the optimal next step is to enter mediation with the Authority’s stakeholders.

On April 8, 2022, the Title III Court entered an order appointing three sitting bankruptcy judges as mediators for the Authority’s Title III Case and related proceedings on the terms set forth in a contemporaneously issued order establishing the terms and conditions of mediation. No party objected to the appointment of the mediation team. The Court also formally designated the following mediation parties: (a) the Oversight Board, (b) FAFAA, (c) the Ad Hoc Group of Authority Bondholders, (d) National Public Finance Guarantee Corporation, (e) Assured Guaranty Corp. and Assured Guaranty Municipal Corp., (f) Syncora Guarantee, Inc., (g) UTIER, (h) PREPA ERS, (i) the Official Committee of Unsecured Creditors, and (j) the Authority’s fuel line lenders.. The Title III Court had set a deadline of August 15, 2022 for the Oversight Board to file a pleading identifying its proposed path forward to efficiently conclude the Authority’s Title III case (the Mediation Termination Deadline).

The Mediation Termination deadline was subject to multiple extensions, the last one being until September 16<sup>th</sup>, 2022 with an automatic extension through September 30<sup>th</sup>, 2022. However, on September 19 2022, the mediation team filed its notice and report stating that the mediation had ended and informing that no consensus was reached in mediation between the parties, but that a settlement is still achievable if the terms and conditions of mediation are revised. Its noteworthy that on September 19 2022, the bondholders filed a Motion to Dismiss the Authority’s Title III case or for relief of the Automatic Stay. On September 20, 2022 the Oversight Board on behalf of the Authority filed a motion requesting the Title III court to establish a schedule to continue negotiations during litigation embracing solely the fundamental disputes over the claims the plan must restructure. On this same date, the Title III Court ordered the mediation team to submit a proposed continued mediation order that identifies an appropriate time period for the next phase of mediation and additional provisions necessary to address the obstacles that the Mediation Team identified in the Mediation Report. As such, on September 22, 2022, the mediation team proposed an amended order establishing terms and conditions of mediation which proposes a revised schedule for the Mediation that proceeds in parallel with the Court’s schedule for the consideration of various litigation issues that had been stayed pending the prior conduct of the Mediation. On September 22, 2022, the Title III Court ordered the parties to submit any objections or responses to the Mediation Team’s proposed amended terms and conditions. On September 23, 2022 the Oversight Board filed a response to the proposed mediation amendment agreeing in part and also proposing some changes.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 20 - Subsequent Events – (continued)

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

The Authority’s Plan of Adjustment Mediation-(continued)

On September 29<sup>th</sup> 2022, the Title III Court entered an Order amending the terms and conditions of mediation and establishing a new deadline until December 31<sup>st</sup> 2022, to terminate mediation, with an automatic extension until January 31<sup>st</sup> 2023. On that same date, the Title III court issued an Order directing the Oversight Board to file a proposed plan of adjustment for the Authority by December 1<sup>st</sup> 2022, that it believes could be confirmable, taking into account the litigation risk and economic issues that are in dispute, it must also include a disclosure statement and proposed confirmation schedule contemplating a June 2023 confirmation hearing.

- UTIER’s Challenge to Local Fiscal Laws

On August 7, 2017, UTIER filed an adversary proceeding—against the Authority, the Commonwealth, and certain individual plaintiffs—with the Title III Court challenging several Puerto Rico laws enacted to deal with the fiscal crisis, and certain Authority and Commonwealth fiscal plans and budgets. On April 26, 2021, the Authority moved to dismiss the matter. After the matter was fully briefed, on February 4, 2022, the Title III Court entered an order granting the Authority’s motion to dismiss UTIER’s adversary complaint for failure to state a claim upon which a relief can be granted. The dismissal is with prejudice, and it leaves the Commonwealth as the only named defendant. On March 2, 2022, UTIER appealed this decision to the U.S Court of Appeals for the First Circuit. However, on March 18, 2022, upon UTIER’s request, the First Circuit voluntarily dismissed the appeal.

Transformation of the Authority

- Transformation of the T&D System of the Authority

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

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 20 - Subsequent Events – (continued)

Transformation of the Authority – (continued)

- Transformation of the T&D System of the Authority-(continued)

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 to 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.

- Transformation of the Authority’s Generation

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 no determination has been announced as of the date of these financial statements.

Approval of \$9.6 Billion to Repair Grid

In October 2020, FEMA approved approximately \$9.6 billion in federal grants for approximately \$10.5 billion in total project costs to enable 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 federal funding is subject to the Authority contributing a 10% cost share. The FEMA funding will help protect the electrical system from future catastrophic events.

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Notes to the Financial Statements

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Note 20 - 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 were 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. The order was up held on appeal by the Federal Court of Appeals for the District of Columbia Circuit on June 14, 2022. 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. FERC issued a notice that motions to intervene in the proceeding and comments on the Application were to be filed by October 20, 2021. Since then, FERC has issued several data requests to NFEnergía, filing the last supplemental responses in February 2022. The Application currently before FERC is pending consideration, 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.

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

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 20 - Subsequent Events – (continued)

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

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. No appeal to the Supreme Court of Puerto Rico was taken.

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 July 1, 2017, October 1, 2017, January 1, 2018, April 1, 2018, and January 1, 2020 interest payment dates, in the total amount of \$18.9 million, and denying the Authority's request for BAB Subsidy Payments for July 1, 2018, October 1, 2018, January 1, 2019, April 1, 2019, July 1, 2019, October 1, 2019, and April 1, 2020 the interest payment dates, in the total amount of \$23.7 million. Since that date and until July 2022, the Authority has continued to file for BAB Subsidy Payments, and the IRS has continued to deny such requests; the aggregate amount of those additional requests for BAB Subsidy Payments which have been filed with the IRS by the Authority is \$30.6 million.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 20 - Subsequent Events – (continued)

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

The Authority has appealed all of these IRS determinations; the appeals are still pending.

Natural Disasters and Global Pandemic

In August 2020, the first Costa Sur unit damaged in the January 2020's earthquakes was returned to service and the second unit came online in January 2021. As of the issuance of these financial statements, the Authority had received a total of approximately \$1.9 billion from FEMA and approximately \$198 million from several insurance companies in respect of damages resulting from the hurricanes, the January 2020's earthquakes and the COVID-19 pandemic.

Allocation of \$76 million for Pandemic Mitigation

On October 23, 2021, the Governor announced that he had authorized the allocation to the Authority of \$76 million from the American Rescue Plan Act funds to help mitigate the effects of the pandemic. The moneys will be used to purchase of fuel and cover a portion of the maintenance of the Authority's generation assets.

Renegotiation of Power Purchase Operating Agreements "PPOAs"

To better align the Authority's finances with the objectives of the Authority's Certified 2022 Fiscal Plan (and prior certified fiscal plans for the Authority) pursuant to the Title III process, beginning in late 2019 the Authority negotiated with nine (9) counterparties to amend existing PPOAs relating to operating renewable energy projects 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 estimate (inclusive of savings) for the amended contracts in the aggregate is \$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 facilities 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.



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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 20 - Subsequent Events – (continued)

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 a 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.

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 PREB that it had made offers to counterparties for Solar PV projects for an additional capacity of 112.1 MW. PPOAs for the total amount of 844 MW of Solar PV and 200 MW of energy storage resources were submitted to PREB for its approval. On February 2, 2022, PREB entered an order approving the PPOAs for the total amount of 844 MW, and the Oversight Board approved them on March 25, 2022. The PPOAs are 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 integration studies that LUMA is performing.

Further, on October 15, 2021, the Authority filed before the PREB a *Motion Submitting Tranche 2 Request for Proposals for Renewable Energy Generation and Energy Storage Resources (RFP)* ("Tranche 2 RFP Submittal Motion"). As part of the Tranche 2 RFP Submittal Motion, the Authority submitted a draft *Request for Proposals No. 128568 Renewable Energy Generation and Energy Storage Resources Tranche 2 of 6* ("Tranche 2 RFP") for the PREB's revision and subsequent publication. On October 29, 2021, the PREB informed the Authority that, it determined to appoint an independent coordinator (the "PREB-Independent Coordinator") for the Tranche 2 RFP, but that the Authority will keep a significant role in the Tranche 2 RFP process. PREB further stated that it would set the detailed powers and duties of the PREB-Independent Coordinator as well as the role of the Authority in the Tranche 2 RFP process in a separate resolution.

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 20 - Subsequent Events – (continued)

Tranches to Procure Renewable Energy and Battery Storage Systems- (continued)

On January 27, 2022, the PREB formally appointed the Tranche 2 PREB-Independent Coordinator. Said order did not include the detailed powers and duties for the Authority or LUMA in the Tranche 2 RFP process but anticipated that the PREB would shortly adopt a separate resolution establishing the responsibilities of LUMA and the Authority. On June 9, 2022, the PREB adopted the resolution that created a 6-member selection committee for the evaluation of Tranche 2 RFP bids and selection of proposals and outlined the responsibilities and duties of the Authority and of LUMA in the Tranche 2 RFP process. The selection committee will consist of (i) the Executive Director of the P3 Authority or his/her delegate; (ii) one (1) officer of the Authority directly concerned with the RFP process or his/her delegate; (iii) one (1) member of the Authority's Governing Board, selected from the members appointed by the Governor at his sole discretion; (iv) two (2) officials from other government entities, chosen by PREB for their knowledge and/or experience in similar transactions; and (v) one (1) representative from LUMA, chosen by LUMA for their knowledge and/or experience in similar transactions.

The Authority's responsibilities and duties include providing necessary information, document review and comments, legal advice, and other guidance concerning lessons learned as part of the Tranche 1 process for collaboration with the PREB-Independent Coordinator as part of the Tranche 2 RFP process. LUMA's responsibilities and duties include providing necessary data, guidance and collaboration with the PREB-Independent Coordinator including any required studies to evaluate the interconnection of projects of the Tranche 2 RFP.

The PREB reiterated that it will make all final decisions required during the Tranche 2 RFP process and neither the Authority nor LUMA shall delay that process and expressly warned the Authority and LUMA that noncompliance with the PREB's orders or applicable legal requirements may carry the imposition of administrative fines of up to \$25,000 per day, per violation and/or other sanctions that the PREB may deem appropriate.

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 Commonwealth bond and other debt by 80% and saves Puerto Rico more than \$50 billion in future aggregate debt service payments. In addition, the Title III Court entered its findings of fact and conclusions of law (the "Findings of Fact") in connection with the *Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* (the Commonwealth Plan of Adjustment), and on March 15, 2022, entered an order confirming the Commonwealth Plan of Adjustment (the "Commonwealth Confirmation Order"). Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First

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Notes to the Financial Statements

For the fiscal year ended June 30, 2020

Note 20 - Subsequent Events – (continued)

Approval of the Commonwealth Plan of Adjustment of Debts-(continued)

Circuit. Also, on February 22, 2022, the Oversight Board certified a revised budget for the Puerto Rico government which includes the new debt payments. The First Circuit denied all parties' motions for a stay of the Commonwealth POA pending appeal, which allowed the Commonwealth POA to become effective despite the appeals. On March 15, 2022 (the "Effective Date"), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied or waived by the Oversight Board, and the POA became effective. On April 26, 2022 and July 18, 2022, the First Circuit issued opinions affirming the Title III Court's order confirming the Plan of Adjustment.

Russia's War on Ukraine- Fuel Supply Chain Effects on the Authority's Operations

On February 24, 2022, Russia invaded Ukraine. The war placed renewed emphasis on the worldwide dependence on fossil fuels, and the resulting supply disruption caused a significant increase in energy prices for consumers. Puerto Rico is not exempt from this price increase. Puerto Rico also faces a shortage of LNG supply. LNG sellers have advised the Authority that, at this stage, and for the foreseeable future, LNG delivery to Puerto Rico is seriously jeopardized and have encouraged the Authority to adjust its plans accordingly. Ensuring that the Authority has the necessary LNG supplies is critical to meeting its customers' energy demands. Due to the LNG shortage, the Authority has had to buy diesel and bunker C as replacement. These are less efficient, more polluting, and expensive fuels whose prices have also increased. Moreover, buying diesel and bunker C fuel to replace the gas-fired generation entails additional fuel purchase costs, which are ultimately borne by the Authority's ratepayers. As this is an ongoing issue, it is difficult to determine the extent of the impact the war will continue to have on the fuel supply and its effect on the Authority's operations.

September 2022 Hurricane Fiona Impact on Electric System

On September 18, 2022, Hurricane Fiona made landfall in Puerto Rico by the municipality of Cabo Rojo. Hurricane Fiona reached Puerto Rico as a Category 1 hurricane with winds of 85 mph and gusts of up to 103 mph. Despite the strong winds, most of the damage throughout the Island was caused by the heavy rains. Most of these rains were concentrated in the southern, southeastern area of Puerto Rico. Hurricane Fiona caused a general blackout throughout Puerto Rico, due to the damages caused to the electric power system. As of the date of these financial statements, the Authority and LUMA, are still assessing the damages.

Puerto Rico Electric Power Authority  
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Schedule of Changes in the Authority's Net Pension Liability  
and Related Ratios (Unaudited)  
(In thousands)  
For the fiscal year ended June 30, 2020

	For measurement period ended June 30,					
	2019	2018	2017	2016	2015	2014
Total pension liability						
Service cost	\$ 82,860	\$ 80,783	\$ 95,768	\$ 79,927	\$ 86,627	\$ 38,420
Interest on total pension liability	171,460	184,768	168,407	209,459	205,706	249,451
Difference between expected and actual experience	(1,958)	(50,005)	(21,443)	(19,815)	11,763	47,103
Changes in assumptions	339,551	253,387	(284,071)	947,510	(60,243)	1,796,904
Benefit payments	(288,482)	(274,818)	(268,469)	(254,624)	(279,479)	(216,811)
Contribution Refunds	-	-	(709)	(1,200)	(1,126)	(795)
Net change in total pension liability	<u>303,431</u>	<u>194,115</u>	<u>(310,517)</u>	<u>961,257</u>	<u>(36,752)</u>	<u>1,914,272</u>
Total pension liability - beginning	<u>5,765,887</u>	<u>5,571,772</u>	<u>5,882,289</u>	<u>4,921,032</u>	<u>4,957,784</u>	<u>3,043,512</u>
Total pension liability - ending (a)	<u>\$ 6,069,318</u>	<u>\$ 5,765,887</u>	<u>\$ 5,571,772</u>	<u>\$ 5,882,289</u>	<u>\$ 4,921,032</u>	<u>\$ 4,957,784</u>
Plan's fiduciary net position						
Adjustment to beginning Plan net position	\$ -	\$ -	\$ (58)	\$ -	\$ 1,672	\$ -
Contributions-employer	224,436	129,728	120,326	113,384	99,179	100,145
Contributions-members	18,203	22,985	24,871	26,470	28,242	36,871
Net investment income	34,440	94,616	134,564	18,700	69,991	179,191
Benefit payments	(288,482)	(274,818)	(268,469)	(254,625)	(279,479)	(216,811)
Administrative expense and other	(106)	(156)	(230)	(385)	(598)	(348)
Employee Contribution Refunds	-	-	(709)	(1,200)	(1,126)	(795)
Transfers from other systems	-	-	162	309	437	1,275
Impairment loss on deposits held in GDB	-	-	-	(4,129)	-	-
Net change in plan fiduciary net position	<u>(11,509)</u>	<u>(27,645)</u>	<u>10,457</u>	<u>(101,476)</u>	<u>(81,682)</u>	<u>99,528</u>
Plan fiduciary net position-beginning	<u>1,198,566</u>	<u>1,226,211</u>	<u>1,215,754</u>	<u>1,317,230</u>	<u>1,398,912</u>	<u>1,299,384</u>
Plan fiduciary net position-ending (b)	<u>\$ 1,187,057</u>	<u>\$ 1,198,566</u>	<u>\$ 1,226,211</u>	<u>\$ 1,215,754</u>	<u>\$ 1,317,230</u>	<u>\$ 1,398,912</u>
Net pension liability-ending (a)-(b)	<u>\$ 4,882,261</u>	<u>\$ 4,567,321</u>	<u>\$ 4,345,561</u>	<u>\$ 4,666,535</u>	<u>\$ 3,603,802</u>	<u>\$ 3,558,872</u>
Covered-employee payroll	\$ 218,151	\$ 247,705	\$ 258,210	\$ 270,705	\$ 287,143	\$ 341,910
Plan's fiduciary net position as a percentage of the pension liability	19.56%	20.79%	22.01%	20.67%	26.77%	28.22%
Net pension liability as a percentage of covered-employee payroll	2,238%	1,844%	1,683%	1,724%	1,255%	1,041%

See accompanying notes to required supplementary information and independent auditors' report

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

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

For the fiscal year ended June 30, 2020

Fiscal Year Ended June 30,	Actuarially Determined Employer Contribution	Actual Employer Contribution	Actual Employer Deficiency/ (Excess)	Covered Employee Payroll	Actual Contributions as a percentage of Covered employee payroll
2020	\$ 241,856	\$ 241,829	\$ 27	\$ 213,353	34.54%
2019	224,368	75,349	149,019	218,151	34.54%
2018	124,634	82,232	42,402	247,705	33.20%
2017	147,607	120,326	27,281	258,210	46.60%
2016	113,384	113,384	-	270,705	41.88%
2015	99,179	99,179	-	287,143	34.54%
2014	100,145	100,145	-	341,910	29.29%
2013	89,481	89,481	-	347,094	25.78%
2012	85,361	85,361	-	357,758	23.86%
2011	85,313	85,313	-	358,458	23.80%
2010	69,926	69,926	-	354,955	19.70%

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, 2020

	Measurement period ended June 30, 2019	Measurement period ended June 30, 2018	Measurement period ended June 30, 2017
Total OPEB liability			
Service cost	\$ 3,059	\$ 2,929	\$ 3,235
Interest	10,567	11,446	10,674
Difference between expected and actual experience	-	(18,671)	(5,274)
Changes of assumptions or other inputs	14,252	8,368	(18,948)
Benefits payments	<u>(12,570)</u>	<u>(17,785)</u>	<u>(17,952)</u>
Net change in total OPEB liability	<u>15,308</u>	<u>(13,713)</u>	<u>(28,265)</u>
Total OPEB liability - beginning	<u>360,877</u>	<u>374,590</u>	<u>402,855</u>
Total OPEB liability - ending (a)	<u>\$ 376,185</u>	<u>\$ 360,877</u>	<u>\$ 374,590</u>
Covered-Employee Payroll	\$ 218,151	\$ 247,705	\$ 258,210
Total OPEB liability as a percentage of Covered- Employee Payroll	172.44%	145.69%	145.07%

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)

Notes to the Required Supplementary Information (Unaudited)

For the fiscal year ended June 30, 2020

Note 1 - Benefit Changes

There was 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, 2019:

- The discount rate used to determine the total pension liability was decreased from 3.05% to 2.84%.
- The municipal bond index rate decreased from 2.98% to 2.79%.
- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019 to PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2019.

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.

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, 2020

Note 2 - Changes in Assumptions – Pensions-(continued)

- 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%.
- 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 contribution 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, 2020, 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

The following were the changes in assumptions for the measurement period ended June 30, 2019:

- Since the prior measurement date, the discount rate changed from 2.98% to 2.79% due to a change in the Municipal Bond Rate.



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, 2020

Note 4 - Changes in Assumptions – OPEB-(continued)

- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Below-Median Mortality Table projected generationally using Scale MP-2019. PUB 2010 Headcount-Weighted Median Mortality Table projected generationally using Scale MP-2019.

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

- 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.

The following were the changes in assumptions for the measurement period ended June 30, 2017:

- 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.