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

Audited Basic Financial Statements and Required Supplementary Information

For the fiscal year ended June 30, 2023

(With Independent Auditors' Report Thereon)

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KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

# Independent Auditors' Report

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

## Report on the Audit of the Financial Statements

*Qualified Opinion*

We have audited the financial statements of the Puerto Rico Electric Power Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2023, and the related notes to financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority, and changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of PREPA Holdings, LLC, which represent 0.8% and 0.4%, respectively, of the total assets and total revenues of the Authority, as of and for the year then ended June 30, 2023. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for PREPA Holdings, LLC, is based solely on the report of the other auditors.

*Basis for Qualified Opinion*

The Authority's accrued liability for claims and judgments as of June 30, 2023, 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 employees' files that were necessary to support management's assumptions in the accounting estimate were either incomplete or unavailable. Also, as a result of the Authority's ongoing transition to private operators, we were unable to obtain sufficient appropriate audit evidence regarding materials and supplies with a carrying amount of approximately $257 million. Accordingly, we were unable to determine whether any adjustments might have been necessary.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

*Emphasis of Matter*

*Substantial Doubt About the Entity's 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 $10.1 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 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 is not modified with respect to this matter.

*Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

*Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis, 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, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 section of our report. We do not express an opinion or provide any assurance on the information.

We have applied certain limited procedures to the 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 GAAS, 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 June 30, 2026 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
June 30, 2026

License Number LLP-21
Expires December 1, 2028

DLLP21-539
Puerto Rico Electric Power Authority

## 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, 2023. 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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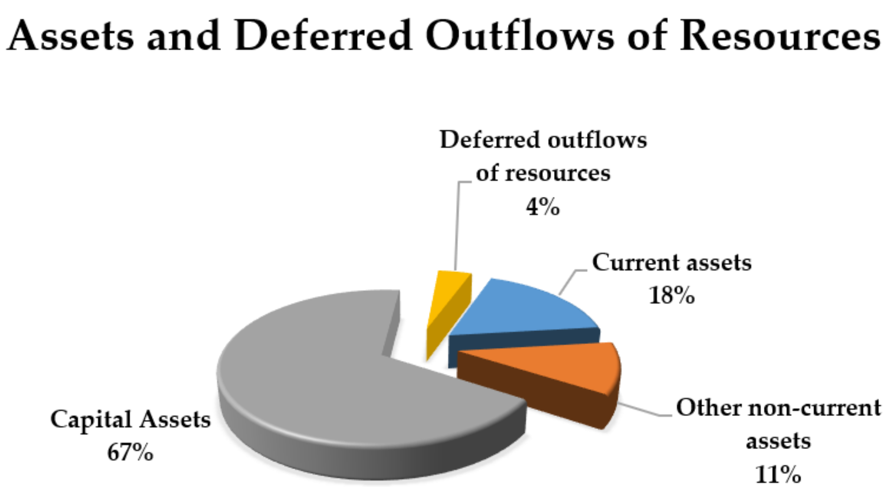
## Financial Analysis

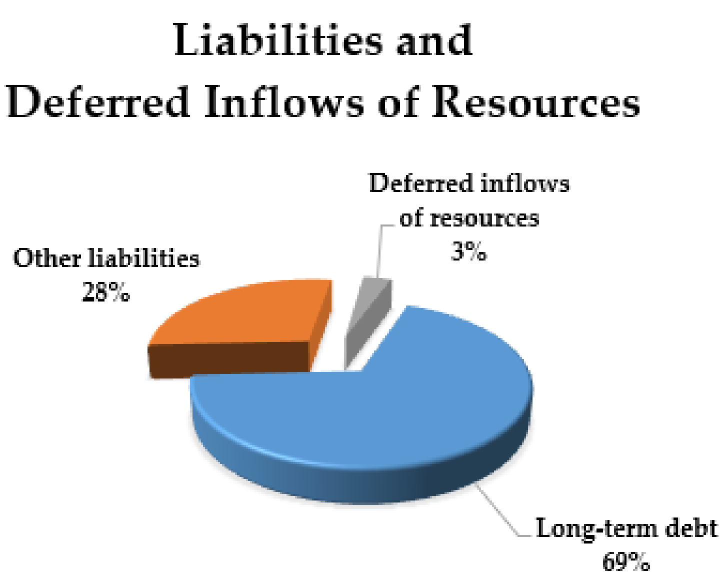
The Authority's condensed statements of net position (deficit) as of June 30, 2023, and 2022, were as follows (in thousands): [1]

| | 2023 | 2022[2] |
|---|---|---|
| **Assets and deferred outflows of resources** | | |
| Current assets | $ 2,034,101 | $ 1,561,789 |
| Other non-current assets | 1,229,007 | 847,266 |
| Capital assets | 7,675,543 | 7,679,698 |
| Total Assets | 10,938,651 | 10,088,753 |
| Deferred outflows of resources | 459,291 | 635,293 |
| Total assets and deferred outflows of resources | $ 11,397,942 | $ 10,724,046 |
| **Liabilities, deferred inflows of resources and net position (deficit)** | | |
| Long-term debt | $ 14,787,801 | $ 15,501,936 |
| Other liabilities | 6,040,717 | 5,175,184 |
| Total liabilities | 20,828,518 | 20,677,120 |
| Deferred inflows of resources | 711,536 | 179,047 |
| Total liabilities and deferred inflows of resources | 21,540,054 | 20,856,167 |
| Net position (deficit): | | |
| Net investment in capital assets | (605,428) | (796,063) |
| Restricted | 178,897 | 131,982 |
| Deficit | (9,715,581) | (9,468,040) |
| Total net position (deficit) | (10,142,112) | (10,132,121) |
| Total liabilities, deferred inflows of resources and net position (deficit) | $ 11,397,942 | $ 10,724,046 |

[1] The liabilities are subject to the Authority's debt restructuring pursuant to Title III of PROMESA; and therefore, subject to the Authority's rights in the Title III case.
[2] The 2022 column includes certain reclassifications to make it comparable to the 2023 column. The 2022 figures do not include the effect of the corrections disclosed in Note 4, as those relate to years prior to 2022.

Financial Analysis – (continued)



2023 Compared to 2022

As of June 30, 2023, and 2022, the Authority's total assets and deferred outflows of resources amounted to approximately $11,398 million and $10,724 million, respectively, an increase of approximately $673.9 million, or 6.3 percent. The net increase 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 $247.8 million, or 91 percent. Several factors caused this change, such as: (1) higher sales revenues, during fiscal year 2023, operating revenues increased by approximately $138.2 million; (2) cash receipts on reimbursements from the federal and state government as financial support to mitigate the impact caused by natural disasters and to support the Authority's restructuring increased from $192.1 million in fiscal year 2022 to $553.9 million in fiscal year 2023; (3) improved collections of receivables, as net receivables decreased during fiscal year 2023 (see explanation below).

- An increase in restricted cash and cash equivalents of approximately $383.1 million, or 47 percent. Since July 1, 2023, GeneraPR, LLC ("GeneraPR") has been responsible for the management and operation of the Legacy Generation Assets pursuant to the operation and maintenance agreement for the private operation of the Legacy Generation Assets ("GenCo OMA"). The GenCo OMA requires the Authority to maintain several restricted operational reserve accounts. These accounts were initially funded on June 20, 2023, with funds from a $447.4 million loan from the Commonwealth of Puerto Rico ("the Commonwealth").

- An increase in net receivables of approximately $227.1 million, or 27 percent, primarily the effect of an increase in accounts receivables balances and a reduction in the net deficit by $359.3 million (see Note 4), the increase in receivables from the United States Government; net improvement in collections from government clients and the reduction of crude oil prices. The assignment of budgets to governmental agencies, aligned to their energy consumption, made it possible to improve the Authority's collections. This improvement became possible following the Commonwealth exit from bankruptcy. Another contributing factor was the decline in global crude oil prices towards the end of the fiscal year. Billings for the last month of the fiscal year dropped by $97.5 million compared to the same period in fiscal year 2022. However, a slight increase in payment delinquencies was observed in the general customer sector. Additionally, receivables from the U.S. Government increased, directly related to an increase in non-operating revenues and capital contributions from federal grants. These grants were recognized as eligibility requirements were met for certain projects in the generation, transmission and distribution business segments.

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2023 Compared to 2022 – (continued)

- A decrease in fuel inventory of approximately $81.4 million, or 31 percent. The global crude oil price decline during the third and fourth quarters of fiscal year 2023 was driven by several key factors. First, during fiscal year 2022, the oil prices spiked above $100 per barrel after the Russia-Ukraine conflict disrupted global supply. During fiscal year 2023, prices remained relatively high (averaging around $75 to $80 per barrel) but started to ease as inflation concerns and global economic slowdown weakened demand expectations.

- An increase in materials and supplies of approximately $77.1 million, or 43 percent. Several factors affected the amount of materials and supplies during fiscal year 2023. Some factors are due to current conditions of the infrastructure. To mitigate the risk associated with supply chain disruptions, LUMA Energy, LLC and LUMA Energy Servco, LLC ("LUMA or the "Transmission and Distribution System Operation and Maintenance Agreement Operator" ("T&D OMA Operator")) has almost doubled its inventory levels of critical materials.

- Net capital assets remained constant compared to prior year. This was mainly due to the effect of capital assets additions of approximately $574.6 million, net of depreciation and amortization charges of $344.8 million and the recording of an impairment loss of approximately $104.1 million, which significantly increased compared to fiscal year 2022, due to the passage of Hurricane Fiona. During fiscal year ended June 30, 2023, the Authority recognized subscription assets with a gross value of approximately $16.3 million, an amortization of approximately $5.3 million, resulting in a net value of approximately $11 million related to the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 96, "*Subscription Based Arrangements*", which requires the recognition of a right-of-use of subscription assets.

- A decrease in deferred outflows of resources of approximately $176 million, or 28 percent. This was due to the net effect of a decrease of approximately $166.6 million in deferred outflows related to pensions and other post-employment benefits. As a result of the Authority operational restructuring and the transition of Authority employees to the private sector, changes in assumptions were observed in the reporting period ended June 30, 2023. Also, deferred loss resulting from debt refunding decreased by $4.3 million; deferred outflows related to asset retirement obligations increased by approximately $11.6 million, while the combined negative fair value of the derivative instruments held by the Authority decreased by approximately $12.9 million.

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2023 Compared to 2022 – (continued)

As of June 30, 2023, the Authority's total liabilities and deferred inflows of resources amounted to approximately $21.5 billion, an increase of approximately $683.9 million, or 3 percent, over the June 30, 2022, amount of $20.9 billion. The net increase in total liabilities and deferred inflows of resources is primarily due to the net effect of the following:

- An increase in accrued interest of approximately $422.2 million, or 17 percent, mainly related to $336.3 million increase in bond interest payable from approximately $2.2 billion in fiscal year 2022 to approximately $2.5 billion in fiscal year 2023; and the increase by approximately $87.8 million in interest payable on the Authority's fuel lines of credit. As disclosed further under the Capital Assets and Debt section in this Management, Discussion and Analysis ("MD&A"), pursuant to Title III of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), interest payments are stayed as a result of the Title III Petition (as defined below) and are subject in all respects to Authority's rights in the Title III case. During the fiscal year ended June 30, 2023, a total of approximately $70.2 million of interest payments were made by the monoline insurance companies on certain insured power revenue bonds (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 the Authority's rights in the Title III case.

- An increase in unearned revenues of approximately $188.9 million, or 765 percent, due to the receipt of working capital advances ("WCA") from the Federal Emergency Management Agency ("FEMA"), related to design and engineering work for the permanent works reconstruction of the electrical system after the passage of the Hurricane Maria.

- A decrease in net pension liability by approximately $1,041.4 million, or 21 percent, was primarily due to the resignation of approximately 1,360 employees from the Authority who were mostly hired by the T&D OMA Operator. Most of these employees also withdrew their contributions from the Employees' Retirement System of Puerto Rico Electric Power Authority (the "PREPA ERS"), thereby reducing the Authority's pension liability. The transition to the T&D OMA Operator occurred before the measurement date of June 30, 2022. The decrease in net pension liability, causes a positive impact to the Authority's net position (deficit) at year end, which, according to GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions*," will also be reflected in the fiscal years subsequent to the reporting date (June 30, 2023), when the deferred amounts are amortized. Additionally, given the significant reduction in the PREPA ERS investments from $554.5 million in fiscal year 2021 to $179.6 million by the end of fiscal year 2022, the net investment income decreased from $163.2 million in fiscal year 2021 to $21.4 million in fiscal year 2022.

2023 Compared to 2022 – (continued)

- A decrease in other post-employment liability by approximately $88.8 million, or 26 percent, mainly due to transition of personnel, as explained above, which caused changes in the actuarial assumptions to decrease by $65.4 million from the amounts reported at the end of fiscal year 2022.

- A decrease in the fair market value of the outstanding interest rate swap agreements as of June 30, 2023 of approximately $12.9 million or 73 percent.

- An increase in deferred inflows of resources by approximately $532.5 million or 297 percent, mainly related to GASB Statement No. 68 and 75 pension and other pension benefit adjustments of approximately $534 million, mainly due to transition of the Authority's personnel, as explained above.

- Increase the amounts due to primary government (i.e., the Commonwealth) by approximately $447.4 million or 60 percent. On June 16, 2023, the Authority and the Commonwealth entered into a loan agreement of $447.4 million to establish and fund the service accounts in accordance with the GenCo OMA.

The largest portion of the Authority's net position (deficit) is the unrestricted net position (deficit) of approximately $9.7 billion. An additional portion of the Authority's net position (deficit) consists of $178.9 million in restricted assets and liabilities for capital and infrastructure 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 2023 increased by $204.2 million, or 2 percent, when compared to its net deficit at the end of fiscal year 2022. In contrast, during fiscal year 2022 the net deficit increased by $903.3 million when compared to fiscal year 2021. Although the Authority incurred a net deficit, the magnitude of the increase diminished considerably. This was the net effect of decreased operating expenses due to a reduction in net pension liability after the resignment of a significant portion of the employees as explained above. Also, due to increased non-operating income and capital contributions from federal and state grants, net of emergency costs and repairs to assets in the aftermath of weather and other natural emergencies. These events caused the Authority's change in net position for the year ended June 30, 2023 to be less than the change in net position during the fiscal year ended June 30, 2022, showing an improvement of approximately $699.1 million during the fiscal year ended June 30, 2023.

Net investment in capital assets consists of capital assets such as land, infrastructure, buildings, and equipment, among others, less any outstanding related debt used to acquire these assets. As of June 30, 2023, net investment in capital assets was negative $605.4 million. This negative balance remained consistent with the negative balance of approximately $796.1 million reported at the end of fiscal year 2022. The net effect during fiscal year 2023 was an increase in capital assets of approximately $4.2 million. This increase resulted mainly from capital

2023 Compared to 2022 – (continued)

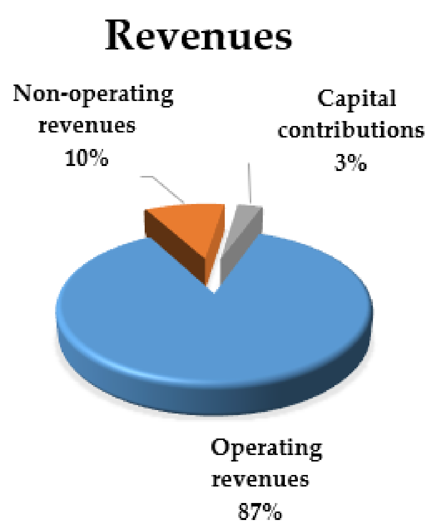
assets additions of approximately $574.6 million, net of depreciation and amortization charges of $344.8 million and the recognition of an impairment loss of approximately $104.1 million due to Hurricane Fiona.

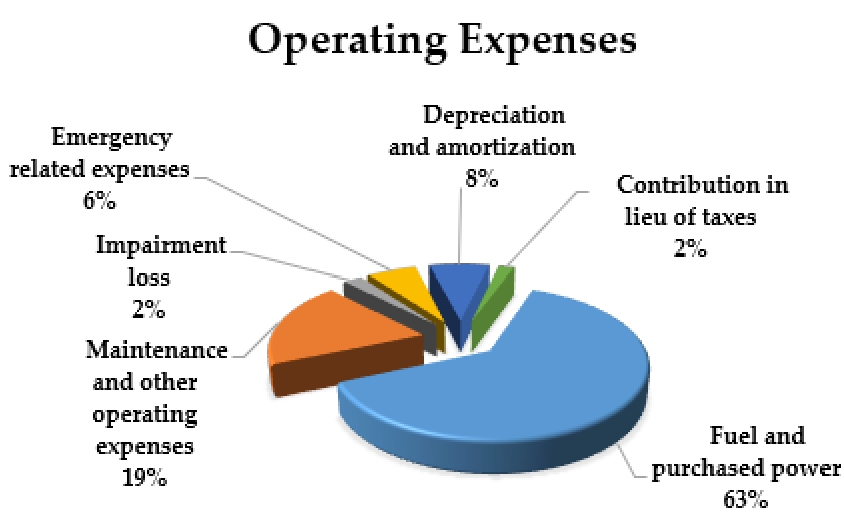
The Authority's condensed statements of revenues, expenses, and changes in net position (deficit) for the fiscal years ended on June 30, 2023, and 2022, were as follows (in thousands):

| | 2023 | 2022[3] |
|---|---|---|
| Revenues: | | |
| Operating revenues | $ 4,142,968 | $ 4,004,807 |
| Operating expenses: | | |
| Fuel and purchased power | 2,874,436 | 2,897,294 |
| Maintenance and other operating expenses | 870,226 | 1,383,801 |
| Impairment loss | 104,146 | 75,805 |
| Emergency related expenses | 282,402 | 49,970 |
| Depreciation and amortization | 344,843 | 347,188 |
| Contribution in lieu of taxes | 89,573 | 91,826 |
| Total operating expenses | 4,565,626 | 4,845,884 |
| Non-operating revenues and (expenses): | | |
| Non-operating revenues | 491,528 | 294,601 |
| Interest and other expenses | (425,516) | (413,586) |
| Non-operating revenues and (expenses), net | 66,012 | (118,985) |
| Loss before capital contributions | (356,646) | (960,062) |
| Capital contributions | 152,475 | 56,773 |
| Change in net position (deficit) | (204,171) | (903,289) |
| Net Position (deficit) at beginning of year, (See Note 4) | (9,937,941) | (9,228,832) |
| Net position (deficit) at end of year | $ (10,142,112) | $ (10,132,121) |

[3] The 2022 column reflects certain reclassifications to enhance comparability with the 2023 column. The 2022 figures do not include the effect of the corrections disclosed in Note 4, as those relate to years prior to 2022.

2023 Compared to 2022 – (continued)



<u>2023 Compared to 2022 – (continued)</u>

For the fiscal years ended June 30, 2023, and 2022, the Authority's operating revenues amounted to approximately $4.1 billion and $4 billion, respectively, an increase of approximately $138.2 million, or 3 percent. This was mainly caused by the net effect of:

- An increase in operating revenues from residential, commercial and government customers of $59 million or 1 percent, almost remaining consistent with prior year's revenues. Fuel costs, as well as purchase power cost are directly charged to customers, therefore any change in their market prices directly impacts the Authority's billings for the electric services. As mentioned above, the global crude oil price declined during the third and fourth quarters of fiscal year 2023, remaining consistent with prior year's prices for three quarters of the year, therefore no significant impact was reflected in operating revenues.

- As discussed in the accounts receivable section above, an increase in collections from the governmental customers was experienced during 2023, causing a decrease of $77.9 million in the bad debt expense from $147.3 million in fiscal year 2022 to $69.5 million in fiscal year 2023.

The increase of $185 million in net Non-Operating revenues (expenses), is mainly due to the net effect of the following:

- During fiscal year ended June 30, 2023 and 2022, the Authority continued to participate in voluntary non-exchange transactions for the receipt of federal grant funds from FEMA after the passage of the Hurricanes Irma, Maria and Fiona (the "Hurricanes"), and after several earthquakes hit Puerto Rico during January 2020 (the "January 2020 earthquakes"). Allowable costs were billed for reimbursement and revenues were recognized based on eligibility requirements of expenses incurred. Federal grants recognized as non-operating revenues increased by approximately $138.2 million, or 60 percent, from approximately $232 million in fiscal year ended June 30, 2022, to approximately $370.1 million in fiscal year ended June 30, 2023. FEMA reimbursements recognized as revenues during fiscal year 2023 for services rendered for repairs post-Hurricanes saw a notable increase of approximately $93.4 million compared to fiscal year 2022. Reimbursements for peaking units acquired during the emergencies of the Earthquakes and Hurricane Fiona rose significantly by approximately $139.2 million in fiscal year 2023, aligned with additional funds granted and approved for reimbursement request for each emergency during the current fiscal period. On the other hand, there was a decrease of approximately $87.6 million in revenues recognized concerning pandemic-related approved funds. Additionally, the amount received from insurance proceeds related to these prior events increased by approximately $33 million in the fiscal year 2023.

- During fiscal year 2023, the Authority recognized a gain of approximately $10 million from the legal settlement in the case of Whitefish LLC. The Settlement Agreement resolves all matters in dispute

2023 Compared to 2022 – (continued)

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 in the Title III case.

- In the current fiscal year, interest expense in notes payable has increased by approximately $26.6 million, or 41 percent, compared to the previous year, primarily due to the rise in interest rates driven by the changes in the London Interbank Offered Rate ("LIBOR") and prime rates. From fiscal year 2022 to fiscal year 2023, the LIBOR and prime rates experienced a significant increase, which has subsequently impacted Authority's borrowing costs.

The increase of $95.7 million in capital contributions is mainly due to the following:

- Increase in capital contributions by $95.7 million, or 169 percent, compared to the prior year mainly reflects the shift from emergency-related reimbursements to capital-related FEMA funding for permanent work. According to the Authority's fiscal year 2018 audited financial statements, Hurricanes Irma and Maria caused significant damage to the electric system, resulting in an impairment loss of approximately $1.14 billion. From 2018 through 2023, Puerto Rico predominantly received FEMA Category B funding, which relates to emergency protective measures and is therefore accounted for as non-operating revenues. The recognized impairments evidence permanent damage to the Authority's infrastructure. Thus, grants restricted to capital acquisition, construction, or improvements are reported as capital contributions. The increase was primarily driven by higher capital activity related to generation assets and transmission and distribution projects. Capital contributions associated with the acquisition and major repairs to generation units increased by approximately $38.4 million. Additional capital contributions of approximately $11.5 million were recognized for architectural and engineering services related to the development of transmission and distribution restoration projects. Capital contributions associated with streetlighting installation also increased by approximately $27.8 million, while those related to major repairs to distribution poles and conductors increased by approximately $9.8 million.

The Authority's operating expenses amounted to approximately $4.6 billion and $4.8 billion for the fiscal years ended June 30, 2023, and 2022, respectively, representing a decrease of approximately $280.3 million, or 6 percent. The decrease in operating expenses is mainly due to the net effect of the following:

- An increase in other production expenses by approximately $23.9 million or 38 percent, mainly related to the payment of $15 million in mobilization expenses to GeneraPR.

- A net decrease in net pension and other pension benefits by approximately $638 million, or 151 percent. As explained above, this was primarily due to the resignation of approximately 1,360 employees from the Authority as a result of the Authority's restructuring activities. (See Note 13 of the accompanying financial statements).

2023 Compared to 2022 – (continued)

- Increase in asset impairment costs of approximately $28.3 million or 37 percent. During fiscal year 2023, an impairment loss for the T&D assets was recorded of approximately $104.1 million. On September 18, 2022, Hurricane Fiona made landfall in Cabo Rojo, Puerto Rico, as a Category 1 hurricane. The heavy rains caused widespread damage, including a general blackout and significant harm to critical T&D assets, the generation fleet, dams, hydroelectric systems, irrigation systems, and reservoirs. These damages to the Authority's capital assets led to the evaluation for impairment of the affected areas and assets, and following GASB Statement No. 42, to the recognition of an additional impairment for fiscal year 2023.

- Increase in emergency repair costs of $232.4 million or 465 percent. This increase was led by (1) non-capitalizable operating costs after Hurricane Fiona due to the hiring and contracting of personnel and technical and professional services in response to the emergency, there was an increase in the T&D business segment in the aftermath of the Natural Disasters from the current and most recent years; (2) $62.7 million were used for the purchase of fuel for the peaking units acquired during the emergencies of the Earthquakes and Hurricane Fiona; and (3) the recognition of approximately $63.3 million in management costs related to the administration of federal disaster recovery funds. FEMA provides contributions for management costs to the subrecipients of federal awards associated with Public Assistance ("PA") projects. These costs include indirect costs, direct administrative costs, and other administrative expenses related to a specific project under a major disaster or emergency. These management costs are based on actual costs incurred, up to 5 percent of the total project amount obligated for the subrecipients.

- Increase in administrative and general operating expenses of approximately $157.6 million or 75 percent. This increase was primarily driven by salary adjustments for the T&D OMA Operator.

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## Capital Assets and Debt

### *Capital Assets*

Capital assets as of June 30, 2023, and 2022, amounted to approximately $7,675.5 million and $7,679.7 million respectively. The Authority's total capital assets increased by only $4.2 million approximately mainly because of the net effect of capital assets additions of $574.6 million, reduced by $344.8 million in depreciation and amortization and the recording of an impairment loss, net of approximately $104.1 million.

Major capital[4] assets projects undertaken by Authority during the fiscal year ended June 30, 2023, included the following:

- An investment of $25.5 million for the engineering, parts, and services required for the upgrade and replacement of the turbine control systems for San Juan Combined Cycle Units 5 & 6. This investment also included purchase orders for the replacement of the condensers' online continuous cleaning systems.
- An investment of $8.1 million was made in Aguirre Units 1 and 2 for the replacement and upgrade of boiler circuit components, the acquisition and installation of a service air compressor, and works to turbo-generation components.
- An investment of $4.4 million was made for the rehabilitation and other works at Costa Sur Units, along with $4.1 million allocated for scheduled maintenance at Palo Seco Steam Plant Unit 4.
- The Authority invested $4.3 million in upgrades to the power turbine section of Unit 2A at the Mayaguez Power Plant.
- An investment of $3.8 million was allocated for the rehabilitation and upgrades of the Aguirre Combined Cycle Power Plant.
- Additional investments of $2.3 million were made for the rehabilitation and construction of water tanks across various generator plants, while $2.1 million was allocated for upgrades to the control systems of the Aguirre Combined Cycle Units to protect against cyberattacks.
- An investment of approximately $218.5 million in distribution system related activities, such as the following: (a) replacement of more than 6,400 broken and damaged distribution poles and conductors,

[4] Pursuant to Generally Accepted Accounting Principles ("GAAP"); not pursuant to the 1974 Trust Agreement.

Capital Assets and Debt – (continued)

*Capital Assets - (continued)*

(b) emergency repair works associated with Hurricane Fiona, (c) installation of over 1,700 distribution automation devices, including engineering activities to enable the deployment of such devices, comprising intelligent switch fuses, fault indicators and reclosers on select feeders.

- An investment of approximately $99.9 million in the following customer related activities: (a) upgrades and replacements of more than 55,000 distribution streetlight luminaires, (b) updates to print and delivery of bills and back-office systems to improve the accuracy and timeliness of customer invoices, (c) activities related to the implementation of the advanced metering infrastructure program, a technology to collect detailed metering information and comprises smart meters, a digital communications network.

- An investment of approximately $68.6 million in transmission system activities, including: (a) completion of engineering standards, specification, and testing program processes for telecom networks and fiber installations, and (b) mitigation activities in battery, microwave, substation telecom, and fiber damages due to Hurricane Fiona.

- An investment of $57.3 million in substation works including replacement of 23 battery banks, 16 transmission brakers, 12 distribution breakers and 1 distribution transformer. Also, protection upgrades were completed for 20 breakers, three transmission lines and two transformers.

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

*Debt*

As of June 30, 2023, and 2022, the Authority had total outstanding notes and bonds payable of approximately $9.063 billion and $9.086 billion, respectively, all of which are subject to adjustment under PROMESA Title III. On July 20, 2021, Moody's Investors Service ("Moody's") withdrew its ratings on the Authority's bonds, joining Standard & Poor's ("S&P") which withdrew its rating in the Authority's bonds in February of 2018. Fitch Ratings ("Fitch") also withdrew its rating for the Authority's uninsured bonds on July 5, 2023.

On June 16, 2023, the Authority and the Commonwealth entered into a loan agreement of $447.4 million to establish and fund the service accounts in accordance with the GenCo OMA.

During fiscal year 2023, the Authority borrowed an additional $845 thousand under a $27 million revolving line of credit, with a maturity date of 20 years after the construction completion date and an effective interest rate of

Capital Assets and Debt – (continued)

*Debt - (continued)*

2% per annum, to finance works to the Aguirre Power Complex Water Supply and the San Juan Waste Water Treatment Plant. As of the date of these financial statements, this project's construction completion date is estimated to be July 2026; therefore, the estimated maturity date of this borrowing under the line will likely be around July 2046. The increase in the loan amount resulted from the reimbursement of costs incurred by the Authority during prior and current fiscal years.

During fiscal year 2022, the Authority entered into a financing facility for the works completed in the conversion of San Juan Combined Cycle Units 5 and 6 to natural gas burning power generation. The note payable started on August 2021 for the amount of $42.7 million, of which $28.6 million, plus accrued interest were outstanding at the end of fiscal year 2023. See Note 11 for further details.

As of June 30, 2023, the Authority had not paid approximately $3.4 billion in principal amount due on its bonds and notes, reflecting an increase of approximately $328.8 million from the amounts due as of June 30, 2022. 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 the outcome of the Authority's Title III case.

During the fiscal year ended June 30, 2023, the monoline insurers of certain of the Authority's power revenue bonds paid a total of $123.3 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, subject to the outcome of the Authority's Title III case, the amounts paid by the monoline insurers continue to be presented as due and payable by the Authority.

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*

Pursuant to Act No. 37 of 2017 ("Act 37-2017") the Authority's Governing Board (the "Governing Board") composition consists 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.

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Currently Known Facts or Conditions That May Have a Significant Effect on the Puerto Rico Electric Power Authority's Financial Condition or Results of Operations – (continued)

*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 that are designated as covered instrumentalities under PROMESA, including the Authority; (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.

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 provided its powers and responsibilities. Act 2 2017 expanded FAFAA's powers to mandate that FAFAA shall be the only Government 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.

Act 5 2017, as amended by Act No. 46 2017, authorizes the Governor to continue extending the emergency period declaration for additional 6-month periods as long as the Oversight Board exists. The emergency period expired on December 31, 2025, and is currently pending renewal.

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)

*Commencement of the Authority's 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. The Authority's Title III case was consolidated for procedural purposes only and is being jointly administered with the other Title III cases for the Commonwealth and certain other instrumentalities in the United States District Court for the District of Puerto Rico (the "Title III Court"). 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 then Governor signed into law Act No. 120 of 2018, known as the Puerto Rico Electric System Transformation Act ("Act 120-2018"). Act 120-2018 established the legal framework for the transformation of the Authority via a series of public-private partnerships in accordance with the Public Private Partnership Act of 2009 (the "P3 Act"). 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. Both before and 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 and the volatility of oil prices. Its principal challenges, some of which are interrelated, have been: (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 liquidity; (vi) restructuring its debts and addressing its lack of access to the capital markets; and (vii) addressing the impact on Puerto Rico's economy and the Authority's infrastructure after a series of the natural disasters and the global pandemic. Refer to Note 17.

Currently Known Facts or Conditions That May Have a Significant Effect on the Puerto Rico Electric Power Authority's Financial Condition or Results of Operations – (continued)

*Going Concern, Financial Condition, and Liquidity Risk – (continued)*

The Authority's current focus, as evaluated by its Governing Board, is on supporting efforts to maximize federal funding allocations to invest in the repair and strengthening of its T&D system and other energy and water assets, implementing short-term operational and managerial reforms to enhance service quality and operational efficiency, facilitating the transfer of T&D system and generation operating and maintenance responsibilities to professional private operators, and supporting efforts to restructure its legacy debt and pension obligations. In addition, the Puerto Rico Energy Bureau (the "PREB") reinitiated a rate review process, with updated provisional rates effective September 1, 2025. On April 15, 2026, PREB issued its final rate order setting electric rates for fiscal years 2026, 2027, and 2028. Several parties including LUMA, GeneraPR, and the Authority have filed motions for reconsideration of PREB's order. (see Note 20 for the Rate Case status update).

*Subsequent Events*

The most significant subsequent events are the following:

The Authority's Plan of Adjustment Process

On December 16, 2022, the Oversight Board filed a plan of adjustment for the Authority (as amended or supplemented, the "Plan") and a disclosure statement (as amended or supplemented, the "Disclosure Statement"), incorporating settlements with major creditor parties (see Note 20 for additional detail).

On August 25, 2023, the Oversight Board submitted its third amended plan (as modified, amended, or supplemented, the "Amended Plan"), incorporating prior settlements and a new restructuring support agreement with major bondholders holding over 40% of the Authority's uninsured bonds. The supplemental Disclosure Statement was approved on November 17, 2023, and the confirmation hearing for the Amended Plan took place March 4–18, 2024. The Court took the matter under advisement.

Following the Lien Challenge decision (see Note 19), the Court stayed bondholder and confirmation-related matters (the "Litigation Stay") and ordered mediation (see Note 20). The stay has since been extended *sine die*, with certain exceptions (see Note 20 for details). The mediators are Hon. Shelley C. Chapman (Ret.) and Hon. Brendan L. Shannon. On March 31, 2026, the Court entered an order extending the appointment of Hon. Shelley C. Chapman (Ret.) as lead mediator through October 1, 2026. The current mediation termination deadline is October 31, 2026.

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)*

The Authority's Plan of Adjustment Process – (continued)

On February 6, 2025, the Oversight Board certified the Authority's 2025 fiscal plan, and in its February 11, 2025 informative motion, it noted key findings: (i) system reliability has deteriorated; (ii) cost projections reflect unconstrained private operator estimates; (iii) real system needs exceed prior estimates constrained by the 2017 rate order; (iv) sustainable debt service rate increases are not feasible; and (v) the Oversight Board intends to confirm an amended plan that pays settling creditors as proposed and pays non-settling bondholders' allowable secured and other claims in full.

In February 2025, certain bondholders sought to lift the Litigation Stay to pursue various motions, including an administrative expense claim and a request to appoint a receiver. By order dated, March 20, 2025 the Court continued the litigation stay except for the following matters (as detailed in Note 20):

- Filing of an amended plan and disclosure statement;
- Litigation of the administrative expense motion; and
- Prosecution of the Classification Motion concerning the Authority's Bond Trustee's claim in the Commonwealth case.

On March 28, 2025, the Oversight Board filed the latest versions of the Authority's Plan and disclosure statement. Plan related litigation is currently stayed as part of the Litigation Stay discussed above. See Note 20 for details on such proposed Plan.

On June 30, 2026, the Oversight Board publicly disclosed that it had presented to the Lead Mediator a settlement proposal for PREPA Bondholders. The proposal is for the payment of cash or issuance of new bonds, or a combination of both, in the amount of $3 billion, in exchange for the release of the Authority's prepetition bond obligations. The Oversight Board has not determined the source of the funds for any proposed payment. The offer states that any debt to be issued would be comprised of collateralized bonds with terms still to be determined. The Oversight Board also indicated that it is willing to negotiate a contingent value instrument for the Bondholders.

The Transformation of the Generation Assets of the Authority

The legacy generation asset 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 to administer

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)*

The Transformation of the Generation Assets of the Authority – (continued)

the Authority's base-load generation plants and combustion turbine peaking units ("Legacy Generation Assets").

In January 2023, both the P3 Authority board of directors and the Governing Board approved the GenCo OMA. On January 24, 2023, GeneraPR, the selected proponent, the P3 Authority, and the Authority, executed the GenCo OMA.

On July 1, 2023, GeneraPR assumed the management and operation of the Legacy Generation Assets pursuant to the GenCo OMA.

Generation Procurement

The Authority's Integrated Resource Plan ("IRP") mandated significant renewable energy integration, including a requirement that by 2025, at least 40% of energy connected to the T&D system must come from renewable sources. To achieve this, the IRP directs the Authority to implement a competitive solicitation process for renewable generation and energy storage resources, supporting Act 17-2019 targets.

The PREB established a schedule for procuring minimum quantities of renewable and storage resources through a Request for Proposals ("RFP") process. In line with this schedule, the Authority issued the Tranche 1 RFP on February 22, 2021, to solicit proposals for renewable energy, energy storage, and virtual power plant ("VPP") resources. Tranche 1 included three workstreams: utility-scale solar photovoltaic ("PV") and battery energy storage system ("BESS") projects selected by the Authority, a second set of utility-scale BESS projects mandated by the PREB, and VPPs.

For Tranche 1, in December 2021, the Authority submitted initial purchase power and operating agreement ("PPOAs") totaling 844 MW and energy storage services agreements ("ESSAs") for 220 MW of BESS to the PREB for approval. The PREB approved eighteen PPOAs and ESSAs on February 2, 2022. The Oversight Board approved PPOAs on March 25, 2022. LUMA completed interconnection studies from January to June 2022. The Authority signed eleven PPOAs and two ESSAs between June and August 2022, with the PREB and the Oversight Board approvals finalized by December 2022. In June 2022, the PREB ordered the Authority to select additional BESS projects, initiating a second contract finalization process. A grid service agreement ("GSA") for a 17 MW VPP was finalized in November

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)*

Generation Procurement– (continued)

2022 and approved by the PREB and the Oversight Board by early 2023. The VPP developer later decided to withdraw from Tranche 1.

As of June 30, 2023, the Authority had executed eleven PPOAs and two ESSAs under Tranche 1, representing contractual obligations. Subsequent to this date, five additional ESSAs were executed. The Authority continues finalizing nine additional ESSAs totaling 695 MW. Contracts require commercial operation within 24 months of the closing date, which occurs after conditions precedent are met. Parties must use commercially reasonable efforts to achieve closing within 180 days of signing, with a maximum of 240 days; amendments under negotiation would extend this to 300 days. On April 24, 2023, the PREB authorized extending the automatic termination date to May 31, 2023, as negotiations continued. Closing dates were anticipated between May and June 2023, with possible extensions through September 2023.

Tranche 2 RFP launched in October 2021, and proposals were due December 2022. Evaluation was ongoing as of June 30, 2023. Subsequent approvals occurred in 2024–2025, with three contracts approved and one executed by September 2025. Tranche 3 RFP was issued in July 2023 but terminated in October 2024 due to high pricing. Tranche 4 RFP was issued in October 2024, resulting in one BESS bid approved by the PREB in December 2024 and by the Oversight Board in May 2025.

For a legislative update: Act 1-2025 amended Puerto Rico's energy policy, eliminating interim renewable targets (40% by 2025, 60% by 2040) while maintaining the goal of 100% renewable energy by 2050. See Note 18 and 20.

Loan agreement to cover pension related costs

The Commonwealth FY24 Amended Budget Resolution, provided for a new appropriation in the amount of three hundred million dollars ($300 million) to be loaned to the Authority for (i) funding Authority pension obligations, and (ii) certain accrued benefit withdrawal requests. In accordance with the FY24 Amended Budget Resolution, on December 15, 2023, the Commonwealth, as lender, and the Authority, as borrower, executed the $300 million loan agreement. In accordance with the terms of such loan agreement, on December 18, 2023, the Authority requested the Commonwealth to deliver the initial $115 million, which were received on December 19, 2023. The Authority received subsequent amounts of $35 million on April 11, 2024, and three payments of $50 million each on June 6, 2024, September 11, 2024, and October 23, 2024, fully drawing the initial amount of the Loan. In December 2024, the

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)*

Loan agreement to cover pension related costs – (continued)

Authority stated it would use $74 million in FEMA reimbursements to cover pension obligations through March 2025, subject to PREB and the Oversight Board approvals. On December 26, 2024, PREB authorized the use of $74 million, and on January 10, 2025, the Oversight Board approved a revised fiscal year 2025 budget for the Authority, reflecting the $74 million in FEMA reimbursements earmarked to cover several months of pension payments.

The Commonwealth agreed to, and the Oversight Board approved, additional $25 million loan advances in April, May, June, July, August, September, and October 2025. These subsequent loans advances were intended to continue supporting pension payments during those months, bringing the total loan amount of up to $475 million with a funding covenant date extended to November 30, 2025. As of the date of these financial statements, a total of $457.1 million has been disbursed by the Commonwealth.

Early Warning System

On April 26, 2023, the Authority's Governing Board, through Resolution 5040, authorized an RFP process for the design and build project of the Early Warning System, with a federally approved funding amount of $100 million. On February 9, 2024, the Authority made the award notification to two awardees, with the contested bid process concluded without any disputes being filed. Contracts were executed on August 7, 2024, to implement the Early Warning System across all thirty-seven dams in Puerto Rico. As of the issuance of these financial statements, the Authority has mobilized DAM Groups 1, 3, 5, and 6, and installation activities are underway following receipt of required designs, materials, and equipment. The project is in its second year of execution, and the Authority has received approximately $30 million in refunds to date.

SOW for Acquisition of temporary generation units - FEMA

On January 14, 2024, the Authority sought PREB's approval to acquire and own the temporary generation units installed at the Palo Seco (150 MW) and San Juan (200 MW) plants, following FEMA's authorization of funding under the Direct Federal Assistance program and subsequent approval of the Authority's scope of work ("SOW"), which enabled execution of the Asset Purchase Agreement with NFE Power PR, LLC on March 15, 2024. On June 7, 2024, the Authority issued an RFP to procure three GE TM2500 units and later requested FEMA approval to change the turbine model; however, the RFP was cancelled on January 20, 2026. See Note 20.

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)*

AES PPOA

On October 11, 1994, the Authority entered into a Power Purchase and Operating Agreement (the 'AES PPOA') with AES Puerto Rico, L.P. (AES-PR). The AES PPOA was subsequently amended on November 16, 1999, and July 17, 2015. On November 7, 2023, the Authority filed a petition with the PREB seeking approval of a third amendment to the AES PPOA. The PREB issued a Resolution and Order on February 27, 2024, approving the final version of the proposed amendment. The third amendment to the AES PPOA was executed on March 1, 2024. See Note 20.

Cobra Settlement

On July 22, 2024, the Authority, Cobra Acquisitions LLC ("Cobra"), and the Oversight Board executed a Release and Settlement Agreement resolving all claims between the Authority and Cobra within the Authority Title III proceeding, granting Cobra an allowed administrative expense claim of approximately $170 million plus approximately $18.4 million in previously withheld FEMA-funded amounts, for total settlement proceeds of approximately $188.4 million payable in three installments. The Title III Court approved the Settlement Agreement on September 18, 2024, after which the Authority paid $150 million to Cobra using a Central Government appropriation included in the amended FY2024 Commonwealth Budget for "Disaster Response Claims Settlements for the Authority," and on October 21, 2024, Cobra disclosed receipt of the approximately $18.4 million in Withheld FEMA Funds, supported by a letter of credit securing its indemnification obligations to the Authority with respect to potential municipal tax claims; the remaining $20 million will be payable within seven days after the effective date of the Authority's plan of adjustment, and the financial impacts of the settlement will be recognized in the period in which the Settlement Agreement was approved and the related obligations became effective.

Federal Disaster Funding Recovery and Cost-Share Requirements

Following Hurricanes Irma and María, federal programs authorized about $15.7 billion for Puerto Rico's electric system recovery as of May 31, 2026, with approximately $12.5 billion dedicated to permanent work projects. This funding covers repairs, replacements, and upgrades to transmission, distribution infrastructure, substations, generation assets, and other systems components, as well as resiliency measures through programs like FEMA Public Assistance ("FEMA PA"), Hazard Mitigation, Community Development Block Grant ("CDBG") disaster recovery, and the U.S. Department of Energy

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)*

Federal Disaster Funding Recovery and Cost-Share Requirements – (continued)

("DOE"). Obligated funds reflect approved amounts but are contingent on project implementation, eligibility, and compliance reviews.

The FEMA PA Program requires subrecipients to cover 10% of costs locally, and the Authority anticipates incurring this obligation for permanent-work projects. In 2024, the Authority received $500 million through the CDBG Program to help offset FEMA-related local match requirements. As of May 31, 2026, the Authority has received approximately $140.4 million in CDBG-DR funds under the ER1 Program to support the local cost-share requirement. The Authority is working with federal and local agencies to ensure proper application of these funds under all relevant rules and conditions.

After June 30, 2023, the Authority received updates from Central Office of Recovery, Reconstruction and Resiliency ("COR3") about FEMA PA WCA provided to the Authority and LUMA. From July 1, 2023 to May 31, 2026, COR3 advanced $1.2 billion in FEMA funds to LUMA. Of this, $506.2 million was reconciled through Requests for Reimbursement, and $250.1 million was returned as unused advances. Of the returned funds, $107.7 million was remitted on February 6, 2026 in response to COR3 directives requiring the return of unreconciled funds.

LUMA T&D OMA Related Matters & Litigation

Notice of Disputes Issued by P3A

On July 22, 2025, the Puerto Rico Public-Private Partnerships Authority ("P3A") issued a formal notice of disputes to LUMA, warning that the company must correct several alleged failures or face possible termination of its Operations and Maintenance Agreement ("OMA") to run Puerto Rico's T&D system. The disputes cited include issues with federal funding, budget management, outage response, vegetation control, financial reporting, and pole attachments (Refer to Note 20). The notice triggered the agreement's dispute-resolution process and stated that if LUMA did not remedy the violations within the required timeframe, P3A could seek termination and damages.

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Currently Known Facts or Conditions That May Have a Significant Effect on the Puerto Rico Electric Power Authority's Financial Condition or Results of Operations – (continued)

*Subsequent Events – (continued)*

Breach of Contract Litigation

On August 25, 2025, LUMA filed a lawsuit against P3A and the Authority in the Title III Court, alleging P3A and the Authority breached the O&M agreement by refusing to mediate disputes over whether certain issues should be resolved through mediation or by an independent expert. LUMA sought provisional relief to halt P3A's technical dispute process until this "Threshold Dispute" was resolved. The court directed the parties to submit a joint status report, and on September 3, 2025, it stayed the technical process while adopting P3A's proposed briefing schedule, which set deadlines for jurisdictional arguments in September. On September 16, 2025, P3A objected to LUMA's motion, arguing the Title III Court lacks jurisdiction or should abstain from hearing the matter, that the matter belongs in Puerto Rico courts under the forum selection clause, and that sovereign immunity applies outside Commonwealth proceedings. P3A also accused LUMA of forum shopping and emphasized that the dispute is procedural with no impact on the Authority's Title III case. On December 19, 2025, the Title III Court dismissed LUMA's adversary proceeding and denied its request for provisional relief. The Court held that it has jurisdiction over the dispute but chose to abstain under PROMESA section 309. On January 15, 2026, LUMA filed a notice of appeal to the United States Court of Appeals for the First Circuit. The appeal is now pending before the First Circuit. LUMA filed its opening brief on May 1, 2026, and P3A's filed its opposition brief on June 17, 2026.

DACO Stay Violation Motion

On July 22, 2025, Puerto Rico's Department of Consumer Affairs ("DACO") filed a petition in the Superior Court of San Juan seeking to invalidate liability waivers in the LUMA T&D OMA and a PREB resolution that granted LUMA broad immunity from consumer damage claims, naming the Authority, LUMA, and P3A as defendants. In response, LUMA filed a motion in the Title III Court on September 18, 2025, arguing that DACO's action violated the automatic stay under PROMESA and the Bankruptcy Code because the O&M agreement is part of the Authority's property and cannot be altered outside the Title III process. DACO and Instituto de Competitividad y Sostenibilidad Económica de Puerto Rico ("ICSE") opposed the motion on October 2, 2025, contending that the case involves consumer protection under Puerto Rico law and falls within the police powers exception to the automatic stay, while also challenging LUMA's standing. LUMA replied on October 9, 2025, to which ICSE and DACO replied on October 15 and October 16, respectively. On October 27, 2025, the Title III Court denied LUMA's motion, ruling that the police powers exception applies. LUMA subsequently appealed the decision to the U.S. Court of Appeals for the First Circuit on October 31, 2025. LUMA did not seek a stay pending appeal. The appeal was

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)*

LUMA T&D OMA Related Matters & Litigation – (continued)

DACO Stay Violation Motion – (continued)

fully briefed and oral argument took place on June 4, 2026, and the matter is now pending adjudication. Prior to oral argument, on May 11, 2026, the First Circuit requested that the Oversight Board address by May 26, 2026 the issues presented in the appeal, the potential ramifications of any decision for the Authority Title III proceedings, and the relationship between the appeal and other pending matters. The Oversight Board did so on May 26, 2026. DACO filed its response to the Oversight Board's brief on June 2, 2026.

On December 1, 2025, the Supreme Court of Puerto Rico (the "TSPR", by its acronym in Spanish) ruled that the PREB's previously authorized liability waiver in the LUMA T&D OMA was unconstitutional because the PREB did not have statutory authority to grant such immunity, violating separation of powers. The Authority maintains that under the LUMA T&D OMA, any costs from LUMA's negligence —including damage to customers appliances—are "Disallowed Costs" and must be covered by LUMA, not the Authority or ratepayers.

The TSPR's determination is regarding the effectiveness of a contractual clause and not about assigning liability in cases involving damage to third-party property. LUMA did not request reconsideration within the period established by the TSPR, and therefore the Court's determination is final. There are no allegations against the Authority in the case, and the TSPR's decision currently does not entail any non-contingent economic impact to the Authority.

LUMA Administrative Expense Motion

On October 23, 2025, LUMA filed a motion seeking court approval of an administrative expense claim and the ability to transfer funds for payment such claims against the Authority. LUMA contends that it is owed more than $103 million for operational costs incurred by LUMA Energy Servco, LLC, along with over $182 million in vendor accounts payable that have been outstanding for more than 30 days. The Motion has been adjourned several times. The Authority's objection deadline is currently September 1, 2026, and LUMA's reply in support of its motion is due on September 8, 2026. The matter will be heard at the September 16, 2026 omnibus hearing absent further adjournments.

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)*

LUMA T&D OMA Related Matters & Litigation – (continued)

Litigation Regarding the Nullification of the Supplemental Agreement Extension

P3A and the Authority filed a complaint on December 11, 2025, in the Puerto Rico Court of First Instance seeking a ruling that the November 30, 2022 Extension Letter—intended to indefinitely extend the T&D OMA's Supplemental Agreement ("Supplemental Agreement")—is null and without legal effect because it lacked proper P3A Board authorization, PREB certification, legislative approval, a defined term, and compliance with the Civil Code. The Authority and P3A also asked the Puerto Rico Supreme Court to take the case directly. On December 15, 2025, LUMA removed the matter to the Title III Court, claiming diversity jurisdiction and authority under PROMESA.

On December 16, 2025, the Government of Puerto Rico, acting through the Governor, filed a parallel civil action in the Puerto Rico Court of First Instance asserting substantially similar claims that the Extension Letter was executed unlawfully, is null and void, and that the LUMA T&D OMA terminated years ago. The Government also filed an intrajurisdictional certification requesting that the Puerto Rico Supreme Court assume jurisdiction over those issues in the first instance. LUMA similarly removed this action to the Title III Court on December 18, 2025, prompting the Puerto Rico Supreme Court to stay consideration of the intrajurisdictional certification while removal proceedings are pending, with members of the court signaling an intent to reassume jurisdiction if the action is remanded.

On January 12, 2026, P3A moved to remand its case, arguing that diversity jurisdiction is absent, PROMESA's police-power exception bars removal, equitable and abstention principles favor returning the case to Commonwealth court, and the parties' forum selection clause requires it. Also, on January 12, 2026, the Government filed a motion to remand its action to Commonwealth court, arguing that removal was improper based on PROMESA's police power exception and abstention principles. On February 2, 2026, the Oversight Board, LUMA, and the Authority's bondholders ("Bondholders") opposed both remand motions, contending that the LUMA T&D OMA is among the Authority's most critical assets and that resolution of these disputes directly impacts the administration of the Authority's Title III case. P3A filed a reply in support of remand on February 16, 2026. On March 2, 2026, LUMA filed a motion to supplement its opposition to the motions for remand, which the Court allowed on March 4, 2026. On April 10, 2026, the Government and P3A filed responses to LUMA's motion to supplement.

Separately, the Oversight Board moved to intervene in the Government action and the Authority's bondholders filed motions to intervene in both adversary proceedings. The Government and P3A

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)*

LUMA T&D OMA Related Matters & Litigation – (continued)

Litigation Regarding the Nullification of the Supplemental Agreement Extension – (continued)

filed limited oppositions to each and the Oversight Board filed a limited objection to the Bondholders' intervention. On April 14, 2026, in the Government action, the Court granted in part and denied in part the intervention of the Bondholders and the Oversight Board. The Court permitted the Bondholders to intervene for the limited purpose of addressing the merits as framed by the parties (but not to expand the scope of the litigation). The Court permitted the Oversight Board to intervene to address solely issues related to remand of the action. In both instances, the Court stated that it would consider the briefing within that scope retroactively. The P3A case included an identical order for the bondholders' intervention.

On May 8, 2026, the Court entered an order remanding both the P3A and Government actions to the Commonwealth Court in 7 days of the date of the orders ("Remand Orders"). On May 13, 2026, two days before the Remand Orders was set to take effect, LUMA filed a notices of appeal and motions for stay pending appeal in both actions. The Title III Court stayed the Remand Orders pending its decision on LUMA's motions for stay pending appeal. LUMA's motion for a stay was denied by the Title III Court on June 1, 2026; however, the Title III Court extended the stay of the Remand Orders to allow LUMA to seek a stay pending appeal from the First Circuit, directing the clerk of the court to effectuate the remand of the adversary proceedings on June 22, 2026, and then close them.

On June 3, 2026, in the First Circuit appeals of the Remand Orders, LUMA filed emergency motions for a stay pending appeal and for an immediate administrative stay or expedited briefing. P3A and the Government objected to the motions on June 8, 2026. LUMA filed replies in support of their motions on June 11, 2026.

On June 19, 2026, the First Circuit denied LUMA's emergency motions for a stay pending appeal, and concluded that the requests for expedited briefing of the motion or, alternatively, an administrative stay are moot given the denial. Also on June 19, 2026, the First Circuit issued a briefing schedule for these appeals: LUMA's briefs are due July 29, 2026 and responses to LUMA's brief are due 30 days after LUMA files its opening brief.

On June 23, 2026, LUMA filed its Answer and Counterclaim in the Puerto Rico Court of First Instance, denying the key allegations in the complaint and asserting that the November 30, 2022 extension of the Supplemental Agreement was properly authorized and executed. LUMA also

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)*

LUMA T&D OMA Related Matters & Litigation – (continued)

Litigation Regarding the Nullification of the Supplemental Agreement Extension – (continued)

brought counterclaims arguing that the plaintiffs' claims lack legal and factual basis and requesting dismissal of the complaint along with any other relief the court finds appropriate. Please see Note 20 below for further details.

Recent Geopolitical Events Impacting Fuel Markets

In early March 2026, coordinated military actions in the Middle East led to heightened geopolitical risk and significant volatility in global fuel markets. Brent crude increased 9%-14%, WTI rose 8%-12%, and European natural gas futures increased 20%-40%. Given the Authority's reliance on fuel-based generation, these prices movements may affect future purchased power and fuel costs. Although such costs are fully recoverable through the quarterly fuel rider, resulting in timing differences, the potential financial impact on the Authority or its customers cannot be reasonably estimated at this time.

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.

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

Statement of Net Position (Deficit)
(In thousands)
June 30, 2023

Assets and Deferred Outflows of Resources

| | |
|---|---|
| Current asstes: | |
| Cash and cash equivalents | $ 520,044 |
| Accounts receivable, net | 851,052 |
| Accounts receivable from insurance companies and U.S. Federal Government, net | 209,585 |
| Leases Receivables | 2,442 |
| Fuel inventory | 177,235 |
| Materials and supplies | 257,575 |
| Prepayments and other assets | 16,168 |
| Total current assets | 2,034,101 |
| Non-current assets: | |
| Restricted cash and cash equivalents | 1,203,588 |
| Long-term portion of leases receivable | 25,419 |
| Depreciable capital assets, net | 6,820,048 |
| Non-depreciable capital assets | 855,495 |
| Total non-current assets | 8,904,550 |
| Total assets | 10,938,651 |
| Deferred outflows of resources: | |
| Related to pensions | 328,786 |
| Related to other post-employment benefits | 16,934 |
| Related to asset retirement obligations | 98,725 |
| Related to debt refunding | 10,049 |
| Related to derivative instruments | 4,797 |
| Total deferred outflows of resources | 459,291 |
| Total assets and deferred outflows of resources | 11,397,942 |

(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, 2023

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

| | |
|---|---|
| Current liabilities: | |
| Accounts payable and accrued liabilities | $ 2,409,747 |
| Bonds payable | 2,647,983 |
| Notes payable | 706,074 |
| Lease liability | 2,942 |
| Subscription liability | 6,270 |
| Accrued interest | 2,894,915 |
| Customer deposits | 74,855 |
| Compensated absences | 5,502 |
| Unearned revenues | 213,576 |
| Total current liabilities | 8,961,864 |
| Non-current liabilities: | |
| Compensated absences | 2,940 |
| Customer deposits and others | 224,454 |
| Unearned revenues | 1,588 |
| Notes payable | 46,795 |
| Bonds payable | 5,662,605 |
| Lease liability | 9,745 |
| Subscription liability | 3,323 |
| Other post-employment benefits liability | 249,534 |
| Claims and judgments | 272,628 |
| Due to Primary Government | 1,197,400 |
| Asset Retirements Obligations | 194,505 |
| Fair value of derivative instruments | 4,797 |
| Net pension liability | 3,996,340 |
| Total non-current liabilities | 11,866,654 |
| Total liabilities | 20,828,518 |
| Deferred inflows of resources: | |
| Related to pension | 588,182 |
| Related to leases | 27,800 |
| Related to other post-employment benefits | 95,554 |
| Total deferred inflows of resources | 711,536 |
| Net position (deficit): | |
| Net investment in capital assets | (605,428) |
| Restricted | 178,897 |
| Unrestricted | (9,715,581) |
| Total net position (deficit) | (10,142,112) |
| Total liabilities, deferred inflows of resources and net position | $ 11,397,942 |

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, 2023

| | |
|---|---|
| Operating revenues | |
| Electric services | |
| Residential and Commercial | $ 3,776,207 |
| Government | 568,836 |
| Other | (155,394) |
| Bad Debt Expense | (69,485) |
| Telecommunications | 16,682 |
| Irrigation | 6,122 |
| Total operating revenues | 4,142,968 |
| Operating expenses: | |
| Fuel | 2,373,821 |
| Purchased power | 500,615 |
| Depreciation and amortization | 344,843 |
| Other production | 144,989 |
| Transmission, distribution and customer service | 563,266 |
| Administrative and general | 377,373 |
| Net Pension and OPEB expense (credit) | (215,402) |
| Emergency related expenses | 282,402 |
| Impairment loss | 104,146 |
| Contribution in lieu of taxes | 89,573 |
| Total operating expenses | 4,565,626 |
| Operating loss | (422,658) |
| Non-operating revenues and (expenses), net: | |
| Grants from U.S. Federal Government, net of allowance | 370,146 |
| Proceeds from insurance companies | 80,957 |
| Interest income and other | 25,819 |
| Interest expense and other | (425,516) |
| Other gains | 14,606 |
| Total nonoperating revenues and (expenses), net | 66,012 |
| Loss before capital contributions | (356,646) |
| Capital contributions | 152,475 |
| Change in net position (deficit) | (204,171) |
| Net position (deficit), at beginning of year (See Note 4) | (9,937,941) |
| Net position (deficit), at end of year | $ (10,142,112) |

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, 2023

| | |
|---|---|
| Cash flows from operating activities: | |
| Cash received from customers | $ 4,318,220 |
| Cash paid to suppliers and operators | (4,038,508) |
| Cash paid to employees | (119,832) |
| Cash paid to customers | (26,739) |
| Net cash flows provided by operating activities | 133,141 |
| Cash flows from noncapital financing activities: | |
| Proceeds received from the U.S. Federal Government | 1,267 |
| Proceeds from the Primary Government | 447,400 |
| Net cash flows provided for noncapital financing activities | 448,667 |
| Cash flows from capital and related financing activities: | |
| Construction expenditures | (599,593) |
| Reimbursement of Capital Expenditures from U.S Federal Government | 568,988 |
| Reimbursement from insurance companies | 80,957 |
| Proceeds received from contributed capital | 413 |
| Interests paid | (6,289) |
| Payment of leases and subscription based arrangements | (9,556) |
| Payment of notes payable for plant conversion to natural gas | (14,102) |
| Repayments of obligations from direct borrowings | (2,430) |
| Proceeds from state revolving funds | 845 |
| Power revenue bonds: | |
| Proceeds from insurance companies to pay insured revenue bonds | 123,270 |
| Principal paid on insured revenue bonds maturities | (123,270) |
| Proceeds from insurance companies to pay interest on insured revenue bonds | 70,217 |
| Interest paid on insured revenue bonds | (70,217) |
| Net cash flows used for capital and related financing activities | 19,233 |
| Cash flow from investing activities: | |
| Cash receipts on GDB Settlements | 4,625 |
| Interest income collected on leases of building premises from HUB | 528 |
| Rental income collected on leases of building premises from HUB | 1,433 |
| Interest income collected | 23,294 |
| Net cash flows used by investing activities | 29,880 |
| Net increase in cash and cash equivalents | 630,921 |
| Cash and cash equivalents at beginning of year | 1,092,711 |
| Cash and cash equivalents at end of year | $ 1,723,632 |
| Cash and cash equivalents: | |
| Unrestricted | $ 520,044 |
| Restricted | 1,203,588 |
| | $ 1,723,632 |

(Continued)

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

Statement of Cash Flows - (continued)
(In thousands)
For the fiscal year ended June 30, 2023

| | | |
|---|---|---|
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | $ | (422,658) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation | | 336,394 |
| Amortization of ROU and SBITA | | 8,449 |
| Provision for uncollectible accounts and others | | 69,485 |
| ARO expense | | 9,451 |
| Impairment loss | | 104,146 |
| Other miscellaneous | | (11,956) |
| Changes in operating assets and liabilities: | | |
| Receivables | | 178,979 |
| Fuel inventory | | 81,448 |
| Materials and supplies | | (81,704) |
| Prepayments and other assets | | (1,387) |
| Deferred outflows of resources related to pensions | | 166,646 |
| Deferred outflows of resources related to OPEB | | 3,711 |
| Accounts payable and other accrued liabilities | | 315,525 |
| Net pension liability | | (1,041,427) |
| Customer deposits and others | | (28,383) |
| Other post-employment benefits liability | | (88,787) |
| Claims and judgement | | (2,875) |
| Compensated absences to be liquidated after one year | | (44) |
| Deferred inflow of resources related to pensions | | 475,646 |
| Deferred inflow of resources, OPEB | | 58,317 |
| Unearned revenues | | 4,165 |
| Total adjustments | | 555,799 |
| Net cash flows provided by operating activities | $ | 133,141 |
| Supplemental cash flows information: | | |
| Noncash transactions: | | |
| Unpaid construction expenditures | $ | 198,535 |
| Amounts payable to the U.S. Federal Government | $ | - |
| Charge off of accounts receivable | $ | 67,764 |
| Change in fair value of derivative instruments | $ | 12,865 |
| Disaster claim settlement | $ | 9,981 |
| Uses of donated materials for capital items and others | $ | 4,631 |
| Changes in deferred loss resulting from debt refunding | $ | 4,339 |
| Recognition of right-of-use asset liability | $ | 2,175 |
| Provision for disallowance of U.S. Federal Grants | $ | 648 |
| Capital contributions | $ | (3) |
| Lease receivable recognized as deferred outflows | $ | (1,474) |
| Contributions in lieu of taxes, billings and offset effect | $ | (89,573) |
| Capitalization of construction work in progress | $ | 100,466 |

The accompanying notes are an integral part of these financial statements

Note 1 - Organization

The Puerto Rico Electric Power Authority's (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. 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 modified 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 special purpose entity had 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 had 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. After the termination of prior restructuring support agreements, Act No. 4's restructuring provisions are no longer applicable.

As discussed in Note 3, 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 Case") to restructure the Authority's debt and other liabilities. The Title III Case is pending. The accompanying basic financial statements do not include any adjustments that might result from the outcome of the Title III Case.

On June 1, 2021, pursuant to the Transmission and Distribution Contract ("LUMA T&D OMA"), LUMA Energy, LLC and LUMA Energy Servco, LLC ("LUMA or the "Transmission and Distribution System Operation and Maintenance Agreement Operator" ("T&D OMA Operator")) began managing and operating the T&D System. On July 1, 2023, GeneraPR LLC ("GeneraPR" or the "GenCo OMA Operator") assumed the management and operation of the Legacy Generation Assets pursuant to the Puerto Rico Thermal Generation Facilities Operation and Maintenance Agreement (the "GenCo OMA"). For further information on this refer to Note 18.

Note 1 - Organization – (continued)

The Authority's Reorganization Implementation

Pursuant to Act 17-2019, the Authority was required to restructure by unbundling its transmission and distribution ("T&D") system and Generation operations into separate and distinct entities. On December 29, 2022, the PREB approved an interim revised corporate structure, and the creation of the following subsidiaries: GenCo LLC, HydroCo LLC and PropertyCo LLC; these were all formed and registered subsequently with the Department of State on March 3, 2023, and further amended on June 2, 2023; and they all have a Limited Liability Company ("LLC") Agreement, a Single Member Declaration and are exempt from taxation in the Commonwealth. They will be managed by a Board of Managers, and its members shall be the Authority's Governing Board ("Governing Board"), appointed in accordance with such processes and requirements as set forth in the Act. On March 25, 2025, GenCo LLC's Board of Managers was appointed through a resolution approved by the Authority's Governing Board.

The new LLCs will be receiving cash transfers from the revenues earned by the Authority and registering interfund transactions accordingly, at the statement of net position level. These cash transfers are not defined as revenues for any of the entities. Efforts are currently ongoing to segregate balances among the Authority and the newly created entities.

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 generally accepted accounting principles in the United States of America ("GAAP") for governments as prescribed by the Governmental Accounting Standards Board ("GASB"). Accordingly, for the purpose of these financial statements, revenues are recognized when earned and expenses when incurred, regardless of when cash is received or paid. This basis of accounting may not be the case in other contexts, such as in connection with the "Trust Agreement" that governs the Authority's bonds. 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.

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

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 HUB Advanced Networks, LLC ("HUB"), 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.

Condensed financial information for PREPA Holdings as of and for the fiscal year ended June 30, 2023 is as follows (in thousands):[5]

| | | |
|---|---|---|
| Statement of net position: | | |
| Assets: | | |
| Current assets | $ | 14,116 |
| Capital assets, net of depreciation | | 49,968 |
| Non-current assets | | 25,420 |
| Total assets | $ | 89,504 |
| Liabilities: | | |
| Current liabilities | $ | 4,528 |
| Non-current liabilities | | 22,981 |
| Total liabilities | $ | 27,509 |
| Deferred inflows of resources, leases | $ | 27,801 |
| Net position: | | |
| Net investment in capital assets | $ | 39,169 |
| Unrestricted (deficit) | | (4,975) |
| Net position | $ | 34,194 |

[5] The liabilities are subject to the outcome of the Authority's Title III case.

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

Reporting Entity – (continued)

| | |
|---|---|
| Statement of revenues, expenses and changes in net position: | |
| Operating revenues | $ 16,682 |
| Operating expenses | (14,774) |
| Operating income | 1,908 |
| Non-operating revenues | 1,384 |
| Change in net position | 3,292 |
| Net position, beginning balance | 30,902 |
| Net position, ending balance | $ 34,194 |
| Statement of cash flows: | |
| Net cash provided by operating activities | $ 4,218 |
| Net cash used in non capital financing activities | (600) |
| Net cash used in capital and related financing activities | (5,200) |
| Net cash provided from investing activities | 2,089 |
| Net increase in cash | 507 |
| Cash, at beginning of year | 8,201 |
| Cash, at end of year | $ 8,708 |

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.

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

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. Some of the financial captions with significant estimation uncertainty are management's estimate of the liability for claims and judgements, pension liabilities, impairments, allowances and depreciation. For all the financial captions within these financial statements, actual results could differ from their corresponding estimates.

Cash and Cash Equivalents (including Restricted)

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

Restricted cash, and cash equivalents are amounts set aside for construction, debt service payments, Federal Emergency Management Agency ("FEMA") working capital advances ("WCA") or for other specific purposes that are limited to the purposes specified in the applicable agreements. See Note 7.

Accounts receivable

Accounts receivable consists 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 and billing adjustment, 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 ordinary course accounts receivable from the Commonwealth, its component units, and municipalities. There is uncertainty regarding to the collection of such receivables due to the fact that many of these amounts are disputed by the relevant agencies, component units and municipalities, in addition to the financial challenges that these entities are

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

Accounts receivable - (continued)

facing. Nevertheless, over the most current years some of these entities have entered into a negotiated settlements agreement with the Authority. 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 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, 2023, a reserve of approximately $51.9 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 capital-purpose grants, received by the Authority for constructing utility infrastructure which are recognized when all applicable eligibility and time requirements are met. See Note 17. Also, it accounts for 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.

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

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. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the cause of the diminished service utility of the capital asset.

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 non-operating revenue. Insurance recoveries are recognized when realized or realizable as a reduction to the corresponding loss. For the fiscal year ended June 30, 2023, the Authority reported impairment losses on several of its capital assets (see Note 8).

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 March 24, 2023, 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 2.78% for June 30, 2023.

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

Depreciation and Amortization – (continued)

Separately, right-to-use lease assets, right-to-use subscription 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:

| **Category** | **Useful Life (in years)** |
|---|---|
| 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 |

The remaining useful lives of capital assets may be adjusted periodically as the Authority undertakes its reorganization and infrastructure rebuilding efforts, which could impact the estimated lifespan of these assets.

Leases

The Authority follows GASB issued Statement No. 87, "*Leases*" under this Statement, a lessee is required to recognize a lease liability and an intangible right-of-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. For leases with a maximum possible term of 12 months or less at commencement, including any options to extend, regardless of their probability of being exercised, the Authority recognizes expense on a straight-line basis over the lease term.

The Authority monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured and a corresponding adjustment is made to the lease asset, respectively. There was no remeasurement of leases during fiscal year ended June 30, 2023.

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

Leases receivables

Lease receivables are measured at the present value of the lease payments expected to be received during the lease term. Lease receivables are reported as current and non-current lease receivables in the statement of net position.

Right-of-use lease asset

The right-of-use lease asset is initially measured as the initial amount of the lease liability plus ancillary cost to place the asset into use, plus lease payments and lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term. The lease asset is amortized into amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. Lease assets are reported as capital assets in the statement of net position.

Lease liability

At lease commencement, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, for all other leases, the lease liability is reduced by the principal portion of lease payments made at or before the lease commencement date.

Per GASB Statement No. 87, the future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee, the lessee's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) should be used.

Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Such amounts are recognized as expense in the period in which the obligation for those payments is incurred. The lease term includes the noncancelable period of the lease, plus any additional periods covered by either the Authority or lessee's unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain that the lessee will not exercise that option.

Lease liabilities are reported as current liabilities and noncurrent liabilities (long-term) in the statement of net position (see Note 15).

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

Subscription-Based Information Technology Arrangements

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)* was issued, effective for the Authority's fiscal year beginning July 1, 2022. The objective of this statement is to enhance consistency in accounting and financial reporting by requiring government entities to recognize a right-to-use subscription and corresponding subscription liability for such contracts with a specified term. The Authority adopted the provisions of GASB Statement No. 96 on July 1, 2022, and its financial statements for the fiscal year ended June 30, 2023 reflect the implementation of this statement.

The Authority contracts with various companies for the purchase and subscription to software, consulting and maintenance and technical support services. Contracts are reviewed to determine whether they meet the definition of a SBITA. For each SBITA, the Authority recognizes a right-of-use asset and liability. Right-of-use assets represent the Authority's right to use the underlying assets for the subscription term. SBITA liabilities are its obligation to make the subscription payments arising from the contract.

SBITA terms used in the recognition of right-of-use assets and liabilities include only options to extend the subscriptions that are reasonably certain to be exercised. Additionally, subscription terms underlying the right-of-use assets and liabilities consider terminations that are reasonably certain to be executed.

A short-term subscription is defined as a SBITA that, at the commencement date of the contract term, has a maximum possible term under the contract of 12 months or less, including any options to extend, regardless of their probability of being exercised. The Authority will not recognize a subscription liability or a right-of-use subscription asset on its balance sheet for short-term contracts. Instead, the Authority will recognize subscription payments as an expense on a straight-line basis over the contract term.

The Authority's agreements include contracts that have both subscription and associated non-subscription components. In situations where the contract clearly differentiates the subscription and non-subscription components, the Authority will account for the subscription component under GASB Statement No. 96 guidelines and expense the non-subscription components as they are incurred. For those contracts where the costs are not clearly differentiated, the Authority will account for them as a single contract.

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

Subscription-Based Information Technology Arrangements – (continued)

Subscription Asset

The subscription asset (right-of use) is initially measured as the initial amount of the subscription liability plus associated payments made at the commencement of the subscription term. The subscription asset is amortized into amortization expense on a straight-line basis over the shorter of the subscription term or the useful life of the underlying asset. Subscription assets are reported as capital assets in the statement of net position.

Subscription Liability

At the commencement, the Authority measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of the subscription payments made at or before the subscription commencement date.

Variable payment, excluding those dependent on an index or rate or those that are fixed in substance, are not considered when measuring the subscription liability. These amounts are recognized as expense in the period when the obligation for such payments is incurred.

Discount Rate

Per GASB Statement No. 96, the future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be the interest rate implicit in the SBITA. If the interest rate cannot be readily determined, the Authority's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the subscription payment amounts during the subscription term) should be used.

In subsequent financial reporting periods, the amortization of the discount on the subscription liability would be calculated and the amount reported as an outflow of resources (interest expense) for the period. Any payments made would be allocated first to the accrued interest liability and then to the subscription liability.

The Authority does not have access to the borrowing market. As a result, the Authority with the assistance of a third-party consultant, determined the Authority's discount rate. The determined rate for fiscal year ended June 30, 2023 was 4.9%.

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

Remeasurement and Reporting

The Authority monitors changes in circumstances that may require a remeasurement of subscriptions. When changes occur that are expected to significantly affect the amount of the subscription liability the liability is remeasured and a corresponding adjustment is made to the subscription asset, respectively. There was no remeasurement of subscriptions during fiscal year 2023.

Deferred Outflows/Inflows of Resources

Subscription assets are reported with capital assets and subscription liabilities are reported within current and non-current liabilities, as applicable, in the Statement of Net Position.

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 ("AROs"), 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.
- Related to lease activities, is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable and is amortized on a straight-line basis over the term of the lease.

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

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.

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, 2023, the customer deposits and customer overpayments of approximately $251.2 million and $41.8 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. Accrued benefits of the T&D OMA Operator are considered Pass-Through costs and are presented as part of the accounts payable and other accrued liabilities in the accompanying statement of net position (deficit).

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

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 customers 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.

Revenues for federal grants are recognized when all applicable eligibility requirements are met (typically, when related expenditures are incurred), and the resources are available. Federal funding allocations received in advance, before eligibility requirements are met, are considered unearned revenue.

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*".

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.

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

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. After the O&M Interim Service Commencement Date (refer to Note 18), the T&D OMA Operator manages the Authority legal matters with respect to the OMA services. The Authority consults with its 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, many legal claims are currently stayed because of the filing of the Title III Case and a determination of a favorable or unfavorable outcome cannot be reasonably determined. See Note 20.

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.

Asset Retirement Obligations

The Authority accrues AROs 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. Deferred outflows are amortized using the straight-line method over the remaining useful life of the asset or lease term, if leased. Amortization of the deferred outflows is recorded as part of the administrative and general expenses in the accompanying statements of revenues, expenses and changes in net position (deficit).

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

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

Fair Value Measurements – (continued)

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 input used may fall into different levels of hierarchy. In these cases, the financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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

Net Position

The Authority classifies its net position as follows:

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

Restricted net position – Consists primarily of cash restricted for construction purposes, net of its related debt or commitments to pay; and restricted funds assigned to the T&D OMA Operator and to the GenCo OMA Operator.

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

Net Position – (continued)

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 Case on July 2, 2017, the Authority stopped withdrawing funds from its restricted resources.

Classification of Operating and Non-operating 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 expenses, utilities, supplies, and other services, and necessary maintenance expenses.

Other revenues include charges related to administrative fines or penalties, irregularities in electric energy consumption and late payment penalties, net of customer subsidies/discounts and unbilled amounts. As a result of decrease in oil prices in the second half of fiscal year 2023, the unbilled amounts at year end dropped, causing a reduction in other revenues when compared to fiscal year 2022.

Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as federal grants. For the fiscal year ended June 30, 2023, the Authority received federal grants from the FEMA in aid for damage to the Authority's assets caused by the Hurricanes Irma, Maria and Fiona (the "Hurricanes"), the earthquakes and the global pandemic occurred in fiscal year 2020, as well as from an agreement with Puerto Rico Infrastructure Financing Authority ("PRIFA") for environmental and related repair works. The Authority has applied the provisions of GASB Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*", to account for these grants. GASB Statement No. 33 allows revenues to be recognized when eligibility requirements are met, and the resources are available, whichever occurs first. Nonexchange grants restricted for capital purposes are reported as capital contributions. See Note 14.

Non-operating expenses include interest on bonds and other related expenses that are defined as non-operating expenses under GAAP.

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

Classification of Operating and Non-operating Revenues and Expenses – (continued)

With regard to reporting of expenses, the Authority uses a combination of natural classification and functional classification. Expenses presented by natural classification are reported by the nature of each type of expense, are the most significant type of Authority expenses and are the ones for which separate riders are billed to its customers, Fuel, Purchase Power and contribution in lieu of taxes ("CILT"). Expenses presented by functional classification are aggregated and reported by the Authority activities for which they were incurred, in a similar manner to other like organizations. These expenses are charged to customers as part of the base rate included in customer bills.

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 recovery of the fuel and purchased power costs as ordered by the PREB. Fuel costs and purchased power costs are reflected in operating expenses as the fuel and purchased power are consumed.

Cost recovery riders currently in place are: CILT, two 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. Cost riders are subject to a reconciliation process either on a quarterly or annual basis and approved by the PREB. Costs related to these riders are presented as a reduction to the Authority's revenues.

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 for the Authority receiving a 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 are mitigated by external insurance coverage obtained by the Authority. For other business risks, however, the Authority has elected to be self-insured. See Note 16.

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

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. As of June 30, 2023, management had not amended or replaced these financial agreements for the purpose of replacing London Interbank Offered Rate ("LIBOR") with other reference rates, as addressed in GASB Statement No. 93, "*Replacement of Interbank Offered Rates*". Adjustable Interest Rate (LIBOR) Act (Title 12, Chapter 55 of the United States Code) states that for contracts that reference USD LIBOR and do not specify a replacement rate, the automatic transition to the Secured Overnight Financing Rate ("SOFR") or another rate selected by the Federal Reserve Board is mandated. As LIBOR data ceased being available after June 30, 2023, the Authority will perform an assessment of an appropriate benchmark in lieu of LIBOR for the subsequent fiscal years.

Accounting Pronouncements Issued But Not Yet Effective

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

- GASB Statement No. 99, "*Omnibus 2022*", which is effective for reporting period beginning after June 15, 2023. The primary objective for this statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (a) practice issues that have been identified during implementation and application of certain GASB Statements and (b) accounting and financial reporting for financial Guarantees. The Authority will adopt and appropriately reflect provisions of GASB Statement No. 99 on its financial statements.

- GASB Statement No. 100, "*Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62" (GASB 100)*, establishes enhanced accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for decision-making and accountability. This Statement is effective for fiscal years beginning after June 15, 2023.

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

Accounting Pronouncements Issued But Not Yet Effective – (continued)

- GASB Statement No. 102, *"Certain Risk Disclosures"* The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 103, *"Financial Reporting Model Improvements"* The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 104, *"Disclosures of Certain Capital Assets"* The objective of this Statement is to provide users of governmental financial statements with essential information about certain types of capital assets. Certain capital assets should be disclosed separately in the capital assets note disclosures, and additional notes disclosures are required for others. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

  Management has not yet determined the impact these statements may have on the Authority's basic financial statements.

Note 3 - Going Concern Uncertainty

Going Concern Consideration

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

- The Authority does not 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, 2023, the Authority has an accumulated deficit of approximately $10.1 billion.

Note 3 - Going Concern Uncertainty – (continued)

Going Concern Consideration – (continued)

- As noted in Note 1, on July 2, 2017, the Oversight Board filed the Title III Case. 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, joining Standard & Poor's ("S&P") which withdrew its rating for the Authority's bonds in February 2018. Fitch Ratings ("Fitch") also withdrew its rating for the Authority's uninsured bonds on July 5, 2023.

- 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 T&D System and other assets. On January 7, 2020, a magnitude 6.4 earthquake located near Puerto Rico's southwestern coast caused significant damage to two units at the Authority's Costa Sur power plant and left most of Puerto Rico without electric service for hours. The effects of the earthquake were quickly followed by the emergence of the COVID-19 pandemic which has had a negative effect on the Authority's collections and revenues, further weakening its liquidity position. Russia's February 2022 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 (if temporarily) increasing fuel purchase costs. Most recently the rise in global oil and natural gas prices following military actions involving the United States, Israel, and Iran, see Note 20.

- As disclosed in the February 2025 Fiscal Plan for the Authority:

  - The Authority continues to face significant financial and operational challenges. Despite holding over $1.2 billion in cash as of September 30, 2024, the majority of these funds are restricted or earmarked. Moreover, this cash balance would not exist without the loans and funding that have been provided by the Commonwealth.

  - As of December 31, 2024, only 22% of the allocated $14 billion in FEMA funds have been disbursed.

Note 3 - Going Concern Uncertainty – (continued)

Impact of Delays on Going Concern

As of December of 2025, $15.4 billion in FEMA funds have been allocated, from which only 28% have been disbursed. The delays in the disbursement of FEMA funds and the absence of rate adjustments have created significant uncertainty regarding the Authority's ability to generate sufficient operating cash flows to meet obligations over the next twelve months. Continued reliance on Commonwealth support and timely access to federal recovery funds are critical to sustaining operations. In addition, the Authority incurs significant upfront expenditures for federally funded projects, which are subject to reimbursement. Delays in receiving these reimbursements have further constrained available cash for operations and increased reliance on external financing. These timing differences are resulting in temporary cash shortages that are impacting the Authority's ability to meet near-term obligations and its overall going concern status.

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 and water 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.

Moreover, the PREB reinitiated a rate review process, with updated provisional rates that took effect on September 1, 2025. Subsequently, the PREB issued its final determination regarding the rate review process on April 15, 2026, which set rates for fiscal years 2026, 2027, and 2028. Several parties have filed motions for reconsideration of PREB's final rate order. See Note 20 for the Rate Case status update.

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, most recently on February 6, 2025 (the "Certified 2025 Fiscal Plan").

Note 3 - Going Concern Uncertainty – (continued)

The Authority's Fiscal Plan – (continued)

The Authority's Certified 2025 Fiscal Plan, the Commonwealth Fiscal Plan, and the energy public policy and legal framework established by the Government of Puerto Rico provide a roadmap to complete the transformation of Puerto Rico's energy system. If successfully implemented, a reformed energy system will lead to a modernized and reliable energy service across the island of Puerto Rico.

However, there is no certainty that the Certified 2025 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.

Authority's Title III Plan of Adjustment

On December 16, 2022, the Oversight Board, on the Authority's behalf, filed a plan of adjustment for the Authority. The Plan has been amended on several occasions. On March 28, 2025, the Oversight Board filed the latest versions of the Authority's Plan. There is no certainty that the Title III Court will confirm the proposed plan of adjustment, or that, if the plan or any subsequent, amended, or modified plan is confirmed, the plan of adjustment will be fully implemented or if fully implemented, will alleviate the substantial doubt about the Authority's ability to continue as a going concern. For additional information on the Authority's plan of adjustment, please refer to Note 20.

Note 4 - Corrections of Immaterial Errors

The Authority decreased the beginning net position (deficit) of $10,132 million as of July 1, 2022 by $194.2 million to record immaterial corrections related to errors from years prior to 2022 due to: (1) an increase in customer account receivables of $359.3 million related to subsequent re-billings to customers excluded from net realizable value computations; (2) a net decrease of $142.6 million in capital assets due to impairments from prior year natural disasters and construction work in progress charge-offs, net of capital contributions from federal awards; and (3) an increase of $28.5 million in account payables, net of an increase of $5.9 million in accounts receivables related to federal funds of $22.5 million from prior years. The customers' accounts receivable and capital assets corrections described in this note represent non-cash adjustments recorded in accordance with the accrual basis of accounting and, therefore, do not affect the Authority's cash flows. The net impact of these two adjustments does not constitute additional cash inflows; rather, they reflect a timing difference and an accrual accounting correction necessary to ensure conformity with U.S. GAAP.

Note 5 - Deposits

As of June 30, 2023, the carrying amount and bank balance of cash deposits held by the Authority in commercial banks is as follows (in thousands):

| | Carrying Amount | Bank Balance |
|---|---|---|
| Unrestricted cash | $ 520,044 | $ 520,693 |
| Restricted cash | $ 1,203,588 | $ 1,208,053 |

Custodial Credit Risk – Deposits in Commercial Banks

Custodial credit risk is the risk that in the event of a bank failure, the bank's deposits may not be returned. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized. The Authority's policy is to deposit funds with institutions that provide insurance or securities as collateral. Such collateral is held by the Department of the Treasury of the Commonwealth.

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Note 6 - Accounts Receivable from Services and Accounts Receivable from Insurance Companies and the U.S. Federal Government

Accounts receivable consist of (in thousands):

| | | |
|---|---|---|
| Current: | | |
| Electric and related services: | | |
| Commonwealth agencies and component units | | $ 149,791 |
| Residential, industrial, and commercial | | 1,456,371 |
| Unbilled services | | 189,300 |
| Municipalities | | |
| Accounts receivable | 98,946 | |
| Accounts payable offset (See Note 9) | (89,573) | 9,373 |
| Telecommunications and others | | 39,852 |
| | | 1,844,687 |
| Allowance for uncollectible accounts | | (993,635) |
| Total accounts receivable, net | | $ 851,052 |
| Insurance companies & grants from the U.S. Federal Government, net | | $ 209,585 |
| Noncurrent: | | |
| Electric and related services: | | |
| Governmental agencies and municipalities | $ 70,744 | |
| Other receivables related to government | 87,344 | $ 158,088 |
| Allowance for uncollectible accounts | | (158,088) |
| Total non-current accounts receivables, net | | $ - |

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Note 6 - Accounts Receivable from Services and Accounts Receivable from Insurance Companies and the U.S. Federal Government – (continued)

As of June 30, 2023, receivables from the municipalities amounted to $98.9 million, of which the Authority has the right to offset with CILT payable approximately $89.6 million. See Note 9.

In the accompanying statement of net position (deficit), the Authority has recorded insurance companies and grants receivable from U.S. Government of approximately $209.6 million, net of allowance.

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 $158.1 million for the fiscal year ended June 30, 2023, of which $70.7 million is in consideration of the financial difficulties of the Commonwealth, its component units and municipalities. The remaining $87.3 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 (“PET”) that was established as part of the GDB restructuring proceedings under Title VI of PROMESA. During fiscal year 2023, the Authority recorded a gain of approximately $4.6 million on collections from this claim with the PET, which also resulted in a reduction from the allowance as those were previously reserved.

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Note 7 - Restricted Cash, Cash Equivalents

As of June 30, 2023, the Authority had certain cash and cash equivalents held by the U.S. Bank National Association, the trustee under the Trust Agreement (the "1974 Trustee") and other cash and cash equivalents held by other financial institutions, consisting primarily of commercial bank deposits, money markets, time deposits and certificates of deposit (in thousands):

| | Restricted Cash and Cash Equivalents |
|---|---|
| Construction Fund - Trust Agreement | $ 6,741 |
| Reserve Maintenance Fund - Trust Agreement | 17,280 |
| Reserve Account in the Sinking Fund - Trust Agreement | 17,103 |
| Construction - Insurance Proceeds Fund | 29,095 |
| T&D Infrastructure Service Accounts - Federal | 398,011 |
| T&D Operation, Maintenance and Infrastructure Service Accounts | 193,060 |
| GenCo Operation and Maintenance Service Accounts | 495,377 |
| HydroCo Operation and Maintenance Service Accounts | 2,400 |
| Generation FEMA Grants & Advances Fund | 42,246 |
| EPA Trust Fund | 965 |
| Other Restricted Funds | 1,310 |
| Total | $ 1,203,588 |

Construction Fund - Trust Agreement – The proceeds of any Power Revenue Bonds issued or insurance proceeds received, as stipulated by the Trust 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).

Reserve Maintenance Fund - Trust Agreement – To pay the cost of unusual or extraordinary maintenance or repairs, not recurring, and renewals and replacements, including major items of equipment as stipulated in the Trust Agreement.

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

Reserve Account in the Sinking Fund - Trust Agreement – Amounts for principal and interest on Power Revenue Bonds as stipulated in the Trust Agreement.

Construction – Insurance Proceeds Fund - The balance held in this fund represents 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.

T&D Infrastructure Service Accounts – Federal – Moneys used for the initial funding of this fund were comprised of the Authority's unrestricted available cash on hand and funds loaned to the Authority by the Commonwealth (see Note 11, Due to Primary Government). The account is replenished periodically by the Authority pursuant to funding requirements set forth in the LUMA T&D OMA, and by FEMA WCA funds. The funds in this account are used for federally reimbursable capital and administrative expenditures on eligible and approved FEMA projects.

T&D Operation, Maintenance and Infrastructure Service Accounts – Moneys used for the initial funding of this fund were loaned to the Authority by the Commonwealth (see Note 11, *Due to Primary Government*). The account is replenished periodically by the Authority pursuant to funding requirements set forth in the LUMA T&D OMA. Funds in these accounts are used to pay for pass-through expenditures incurred by T&D OMA Operator in performing the O&M Services, the O&M Service Fee costs and expenses related to non-federal capital expenditures required to repair and maintain the T&D System, as well as for its operation and maintenance expenses, as defined in LUMA T&D OMA.

GenCo Operation and Maintenance Service Accounts – Moneys used for the initial funding of this fund, were comprised of the Authority's unrestricted available cash on hand and funds loaned to the Authority by the Commonwealth (see Note 11, Due to Primary Government). The accounts are replenished periodically by the Authority pursuant to funding requirements set forth in the GenCo OMA and the Puerto Rico PREPA-GenCo-HydroCo Operating Agreement ("PGHOA"). Funds in these accounts are used to pay for pass-through expenditures incurred by GenCo OMA Operator in performing the O&M Services, the O&M Service Fee costs and expenses related to the purchase, transportation, testing, delivery and storage of fuel for the Legacy Generation Assets, and costs related to forced outages, force majeure events or owner faults and cost in connection with the procurement and installation of any Capital Spare Parts by the Authority and the PREB.

HydroCo Operation and Maintenance Service Accounts – Moneys in this fund are held pursuant to the "PGHOA" for O&M costs related to the Authority's Hydropower assets.

Generation FEMA Grants & Advances Fund– Moneys in this fund were received from FEMA in advance for certain specified permanent works for recovery purposes.

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

EPA Trust Fund – As described in Note 19, the Authority and other potentially responsible parties ("PRP Group") entered into an administrative settlement agreement regarding the PROTECO site, a hazardous waste landfill that was closed in 1999. Moneys in the EPA Trust Fund are to be applied to complete the required environmental remediation work at the site.

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. As of June 30, 2023, the remaining balance from the Land Acquisition Project was approximately $1.3 million.

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## Note 8 - Capital Assets

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

| | Balance June 30, 2022 (See Note 4) | Additions | Retirements and disposals | Transfers and adjustment | Balance June 30, 2023 |
|---|---|---|---|---|---|
| Non-depreciable capital assets: | | | | | |
| Land and land improvements | $ 139,169 | $ - | $ - | $ 209 | $ 139,378 |
| Construction work in process | 267,350 | 538,958 | - | (90,191) | 716,117 |
| Total non-depreciable capital assets | 406,519 | 538,958 | - | (89,982) | 855,495 |
| Depreciable capital assets: | | | | | |
| Production | 4,846,769 | 13,448 | - | 105,365 | 4,965,582 |
| Distribution | 5,037,182 | - | - | (180,291) | 4,856,891 |
| Transmission | 2,501,696 | 1,882 | - | (37,864) | 2,465,714 |
| General and administrative | 1,610,600 | - | - | (834) | 1,609,766 |
| Fiber network | 79,377 | 2,207 | - | - | 81,584 |
| Irrigation systems | 37,221 | 674 | - | - | 37,895 |
| Leases and subscription arrangements | 16,040 | 17,455 | - | 981 | 34,476 |
| Total depreciable capital assets | 14,128,885 | 35,666 | - | (112,643) | 14,051,908 |
| Accumulated depreciation: | | | | | |
| Production | (2,605,377) | (109,116) | - | 190 | (2,714,303) |
| Distribution | (2,377,495) | (136,053) | - | 86,016 | (2,427,532) |
| Transmission | (857,638) | (52,869) | - | 23,768 | (886,739) |
| General and administrative | (1,094,056) | (34,681) | - | 1,299 | (1,127,438) |
| Fiber network | (36,104) | (3,181) | - | 1 | (39,284) |
| Irrigation systems | (24,736) | (494) | - | (1) | (25,231) |
| Leases and subscription arrangements | (2,884) | (8,449) | - | - | (11,333) |
| Total accumulated depreciation | (6,998,290) | (344,843) | - | 111,273 | (7,231,860) |
| Total depreciable capital assets, net | 7,130,595 | (309,177) | - | (1,370) | 6,820,048 |
| Total capital assets | $ 7,537,114 | $ 229,781 | $ - | $ (91,352) | $ 7,675,543 |

Note 8 - Capital Assets – (continued)

Construction work in progress on June 30, 2023, consists principally of repairs that enhance the useful life of assets, expansions and upgrades to the electric generation, transmission, and distribution systems.

Depreciation and amortization expense for the Authority's capital assets, right-of-use leased assets and right-of-use subscription assets of approximately $344.8 million are presented as a single line item in the accompanying statements of revenues, expenses, and changes in net position (deficit). For a separate note disclosure for right-of-use lease assets and subscription based assets, see Note 15.

The Authority applies GASB Statement No. 42 ("GASB No. 42"), *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*, which that the determination of whether a capital asset is impaired is a two-step process of (a) identifying potential impairments and (b) testing for impairment.

As of June 30, 2023, the Authority reported impairment losses from capital assets presenting the factor of physical damage mainly due to the aftermath of Hurricane Fiona (see Note 17), impacting its transmission and distribution assets for the amount of $104.1 million. Refer also to Note 4. Capital assets with a carrying amount of $3.4 million were temporarily idle. The Authority plans to repair these idle units with internal and/or federal funded sources. The Authority continues to evaluate the conditions and uses of its infrastructure and as part of its reorganization and transformation initiatives (Notes 17 and 18), there might be significant changes in future periods on the use of these assets that could result in additional impairment.

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## Note 9 - Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2023, were as follows (in thousands): [4]

| | | |
|---|---|---|
| Accounts payable, accrued expenses, and withholdings | | $ 1,275,994 |
| Contribution in lieu of taxes | | |
| Accounts payable | (89,573) | |
| Accounts receivable offset (See Note 6) | 89,573 | - |
| Payables to OMA Operators | | 154,228 |
| Accrued pension plan contribution and withholding from employees | | 972,774 |
| Other post employment benefit obligations | | 6,751 |
| Total | | $ 2,409,747 |

## Note 10 - Long-Term Liabilities

Long term debt activity for the fiscal year ended June 30, 2023, was as follows (in thousands): [5]

| | Balance at June 30, 2022 | Increases | Decreases | Balance at June 30, 2023 | Due within one year |
|---|---|---|---|---|---|
| Bonds payable | $ 8,317,857 | $ 123,270 | $ (130,539) | $ 8,310,588 | $ 2,647,983 |
| Notes and loan payable | 768,556 | 845 | (16,532) | 752,869 | 706,074 |
| Compensated absences* | 8,486 | - | (44) * | 8,442 | 5,502 |
| Claims and judgments | 275,503 | 4,348 | (7,223) | 272,628 | - |
| Net pension liability | 5,037,767 | 237,909 | (1,279,336) | 3,996,340 | 210,032 |
| OPEB liability | 343,767 | 10,228 | (97,710) | 256,285 | 6,751 |
| Due to Primary Government | 750,000 | 447,400 | - | 1,197,400 | - |
| Total long-term liabilities | $ 15,501,936 | $ 824,000 | $ (1,531,384) | $ 14,794,552 | $ 3,576,342 |

** The change in the compensated absences liability is presented as a net change.*

[4] Subject to the Authority's debt restructuring pursuant to Title III of PROMESA; and therefore, subject to the right of all parties-in-interest ("Title III Parties") in the Title III case.

[5] Subject to the Authority's debt restructuring pursuant to Title III of PROMESA; and therefore, subject to the rights of Title III Parties in the Title III case.

Note 10 - Long-Term Liabilities (continued)

Commencing with the filing of the Title III Case, 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 the outcome of the Authority's Title III case, until new terms for the Authority's long-term debt are restructured in the Authority's Title III case.

Note 11 - Notes and Loan Payable

Notes Payable

The following is a summary of notes payable as of June 30, 2023 (in thousands): [6]

| | Maturity Date | Effective Interest Rate | Current portion | Long-Term Debt | Total |
|---|---|---|---|---|---|
| Notes payable: | | | | | |
| Revolving line of credit of $250 million to finance working | August 2014 | 13.65% (V) | $ 146,042 | $ - | $ 146,042 |
| Revolving line of credit of $550 million to finance working capital | August 2014 | 12.25% (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% (F) | - | 17,989 | 17,989 |
| Note Payable of $16 million (PREPA Holdings) to finance the general working capital and capital expenditures | July 2023 | 5.00% (V) | 664 | 8,855 | 9,519 |
| Loan Payable on financed purchase of equipment | March 2026 | 1.96% (F) | 276 | 495 | 771 |
| Note Payable of $50 million for conversion of Units 5 & 6 of SJ Combine Cycle to Natural Gas | July 2026 | 6.40% (F) | 9,142 | 19,456 | 28,598 |
| Total Notes Payable | | | $ 706,074 | $ 46,795 | $ 752,869 |

[6] Subject to the Authority's debt restructuring pursuant to Title III of PROMESA; and therefore, subject to the rights of Title III Parties in the Title III case.

Note 11 - Notes and Loan Payable – (continued)

Notes Payable – (continued)

The schedule of maturities of notes payable with interest thereon as of June 30, 2023, is as follows (in thousands):

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 706,074 | $ 466,148 | $ 1,172,222 |
| 2025 | 9,439 | 1,986 | 11,425 |
| 2026 | 9,976 | 1,377 | 11,353 |
| 2027 | 990 | 979 | 1,969 |
| 2028 | 174 | 962 | 1,136 |
| 2029-2033 | 8,227 | 1,894 | 10,121 |
| 2034-2038 | - | 1,794 | 1,794 |
| 2039-2043 | - | 1,794 | 1,794 |
| 2044-2048 | 17,989 | 1,435 | 19,424 |
| Total notes payable | 752,869 | $ 478,369 | $ 1,231,238 |
| Less current portion of notes payable | (706,074) | | |
| Notes payable, long-term | $ 46,795 | | |

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, 2023, this line of credit is under the lead of Solus Alternative Asset Management; and its outstanding balance is approximately $146 million, subject to Title III Parties' rights in the Title III case.

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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, 2023, this line of credit is under the lead of Cortland Capital Market Services, LLC; and its outstanding balance is approximately $550 million, subject to Title III Parties' rights in the Title III case.

During the fiscal year ended June 30, 2023, the Authority borrowed from PRIFA an additional $845 thousand under a revolving line of credit of approximately $27 million, with a maturity date of 20 years after the construction completion date, and an effective interest of 2%, to finance improvements to the Aguirre Power Complex Water Supply and the San Juan Waste Water Treatment Plant. As of the date of these financial statements, the projects' construction completion date is estimated to be July of 2026; the outstanding balance of the revolving line of credit as of June 30, 2023, is approximately $17.9 million and its estimated maturity date is July of 2046. 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, HUB 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 (8.69% as of June 30, 2023), 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 June 30, 2023. As of June 30, 2023, the outstanding principal amount due is approximately $9.5 million. This note payable is collateralized by a first mortgage on the real property, assignment of all insurance policies, assignment of all material contracts with both related and third parties, and pledge of all cash, equipment, receivables, and personal property of HUB.

In addition, HUB is required to comply with certain affirmative, negative and other financial covenants during the term of the loan, which in the event of noncompliance provides the lender the right to declare the outstanding debt as due and payable and to terminate the agreement. As of June 30, 2023, HUB is in compliance with these covenants.

The loan contains provisions that in an event of default, HUB shall pay interest on the unpaid principal amount of the loan, from the date of such event of default until such event of default is cured, at the rate of 200 basis points above the rate that would otherwise be in effect. In addition, the lender may declare that outstanding amounts become immediately due if HUB is unable to make payment.

Note 11 - Notes and Loan Payable – (continued)

Notes Payable – (continued)

HUB refinanced the term loan due to bank that originally had a maturity on February 1, 2023. On July 28, 2023, HUB made one payment of $500 thousand to the principal balance of the term loan in order to refinance an approximate principal balance of $9 million. On March 20, 2023, a notification was received of an extension approved by the bank to continue the refinancing process up to June 30, 2023. For information on the refinancing, see Note 20.

On March 31, 2022, HUB entered a $1.1 million term loan for the acquisition of hybrid cloud equipment. The loan matures on March 31, 2026, and is payable in monthly installments of $24 thousand including interest at 1.96%. As of June 30, 2023, the outstanding principal amount due is approximately $772 thousand.

On March 5, 2019, the Authority and NFEnergía signed a contract for the supply of natural gas as well as for the design, engineering, construction, supply, installation, commissioning and testing works at the San Juan Power Plant required to make Natural Gas available to San Juan 5 & 6 units at the Delivery Point, and the conversion of such units to Natural Gas burning power generation. On August 1, 2021, NFEnergía achieved substantial completion of such units and starting on that date the Authority became liable for the manufacturing surcharge payments to NFEnergía. The note, for the amount of $42.7 million, accrues interest at .053% and shall be payable in consecutive monthly installments of $833 thousand, plus accrued interests, commencing in August 2021 and ending in July 2026, subject to the Authority's rights and obligations to pay the Discounted Surcharge Amount or the Full Surcharge Amount. The Authority, at any time during the sixty (60) calendar months, may elect to pay the remaining manufacturing surcharge. Depending on the source of revenue from which the Authority will be paying the remaining manufacturing surcharge, the Discounted or the Full Surcharge Amount would apply. The Discounted Surcharge Amount would apply when the source of revenue is the Authority's own revenue and profit from operations or fundings are provided by any Governmental Authority (including funds from FEMA), otherwise the Full Surcharge Amount would apply. Whenever the Discounted Surcharge Amount is applicable, the Authority would be liable for an Incremental Tax Adjustment, which will be the difference between the taxes the supplier will pay upon receipt of the Discounted Payment and the taxes that would have paid if the payments were received as and when due. As of June 30, 2023, the balance on this note is of $28.6 million, plus accrued interests.

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Note 11 - Notes and Loan Payable – (continued)

Due to Primary Government (PG)

Allocation for T&D

Since June 1, 2021, pursuant to the LUMA T&D OMA, LUMA has been engaged to manage and operate the T&D system. On that same date, an allocation of $750 million from the Commonwealth was made to the Authority to fund reserve accounts for fuel, purchase power, capital and operation and maintenance of the T&D system. These funds were recorded as a long term Due to Primary Government in the accompanying statement of net position (deficit). As of June 30, 2023, the outstanding balance for this debt is $750 million, included as part of the amounts Due to the Authority's Primary Government. The Authority shall return to the Commonwealth these funds, at the present value of the amount contributed, upon the effective date of termination of the Supplemental Agreement (as defined in Note 18) or the T&D OMA, for any of the reasons established therein, as applicable, other than due to the T&D OMA Operator achieving the Service Commencement Date.

Loan for Generation

On July 1, 2023, GeneraPR assumed the Legacy Generation Assets' operational control and management. On June 16, 2023, the Authority and the Commonwealth entered into a loan agreement of $447.4 million to establish and fund the service accounts in accordance with the GenCo OMA. The Authority agreed to pay interest, 2.5% per annum, in respect of the unpaid principal amount of the loan from July 1, 2059, until its maturity date, stated as 2067. Interest on the loan will accrue for each period as a function of the carrying amount and effective rate and shall be payable in cash in arrears on each Interest Payment Date. The Authority may elect to prepay the loan, in whole or in part from time to time, without premium or penalty. In the event that the Authority is no longer required to maintain the service accounts for any reason pursuant to the terms of the Generation Agreement, the Authority shall prepay the loan in whole or in part with any remaining funds in such account. Events of default includes failing to pay the loans principal or interest when those become due and payable, (for principal, either at maturity or by proceeding for redemption or otherwise). Also includes if the Authority defaults in the due and punctual performance of any of the conditions, agreements and provisions contained and as described in the Generation Agreement. There shall be no right of acceleration with respect to this loan. As of June 30, 2023, the outstanding balances for this loan payable is of $447.4 million is included as part of amounts Due to the Authority's Primary Government.

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Note 11 - Notes and Loan Payable – (continued)

Due to Primary Government (PG) – (continued)

Loan for Generation – (continued)

The schedule of maturities of the loan payable for Generation with interest thereon as of June 30, 2023, is as follows (in thousands):

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2059 | 50,000 | 11,185 | 61,185 |
| 2060 | 50,000 | 9,935 | 59,935 |
| 2061 | 50,000 | 8,685 | 58,685 |
| 2062 | 50,000 | 7,435 | 57,435 |
| 2063 | 50,000 | 6,185 | 56,185 |
| 2064-2067 | 197,400 | 12,240 | 209,640 |
| Total due to PG - Loan for Generation | 447,400 | $ 55,665 | $ 503,065 |
| Less current portion due to PG | - | | |
| Due to PG - Loan for Generation, long-term | $ 447,400 | | |

Note 12 - Bonds Payable

Power Revenue Bonds Payable

Prior to fiscal year 2017, the Authority issued Power Revenue Bonds to finance the cost of improvements. Net Revenues as defined by the Trust Agreement are subject to a security interest subject to review and subject to Title III Parties' rights in the Title III Case, under PROMESA, or bankruptcy law—in favor of the 1974 Trustee to repay Power Revenue Bonds principal and interest. The Trust Agreement provides for certain affirmative and negative covenants, among other requirements, subject to Title III Parties' rights in the Title III Case, under PROMESA, or bankruptcy law. On July 2, 2017, the Oversight Board filed the Title III Case and the Authority's repayment obligation relating to its Power Revenue Bonds has been stayed as a result and are subject to the outcome of the Authority's Title III Case.

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Note 12 - Bonds Payable – (continued)

Power Revenue Bonds Payable – (continued)

On June 30, 2023, power revenue bonds payable consisted of (in thousands):[7]

| 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 |
| Issue of 2005, Series QQ, RR and SS | April 4, 2005 | From 5.0% to 5.5% | *(F)* | From 2018 to 2030 | 603,810 |
| Issue of 2007, Series TT, UU and VV | May 3, 2007 | From 3.1% to 5.3% | *(F)(V)* | From 2031 to 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 5.3% | *(F)* | From 2028 to 2031 | 877,975 |
| Issue of 2010, Series BBB and CCC | May 26, 2010 | From 5.1% to 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 10.0% | *(F)* | From 2020 to 2022 | 263,803 |
| Total principal amount face value | | | | | 8,258,614 |
| Unamortized premiums and discounts | | | | | 51,974 |
| Power revenue bonds, net | | | | | 8,310,588 |
| Amount due within one year | | | | | (2,647,983) |
| Long-term portion of bonds payable | | | | | $ 5,662,605 |

*(V) - variable interest rate*
*(F) - fixed interest rate*

[7] Subject to the outcome of the Authority's Title III case.

Note 12 - Bonds Payable – (continued)

Power Revenue Bonds Payable – (continued)

The schedule of maturities of bonds payable with interest thereon as of June 30, 2023, is as follows (in thousands): [8]

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 2,647,983 | $ 2,852,443 | $ 5,500,426 |
| 2025 | 351,265 | 318,557 | 669,822 |
| 2026 | 368,445 | 301,957 | 670,402 |
| 2027 | 386,520 | 287,590 | 674,110 |
| 2028 | 405,650 | 272,711 | 678,361 |
| 2029-2033 | 1,595,060 | 897,739 | 2,492,799 |
| 2034-2038 | 1,335,465 | 721,360 | 2,056,825 |
| 2039-2043 | 1,168,226 | 322,785 | 1,491,011 |
| Total | 8,258,614 | $ 5,975,142 | $ 14,233,756 |
| Plus or less: unamortized discount or premium | 51,974 | | |
| Total bonds payable | 8,310,588 | | |
| Total current portion of bonds payable | (2,647,983) | | |
| Bonds payable, excluding current portion | $ 5,662,605 | | |

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 the fiscal year ended June 30, 2023, these insurance companies made payments of approximately $123.3 million in principal and approximately $70.2 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

[8] Subject to the outcome of the Authority's Title III case.

Note 12 - Bonds Payable – (continued)

Power Revenue Bonds Payable – (continued)

Authority presents amounts that may be 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.

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 these 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 Internal Revenue Service (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) 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 referred to in (ii) of the preceding sentence without change. The investigations resulted in contingencies of approximately $16.9 million that are accrued in the accompanying financial statements.

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 January 2023, 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 that have been filed with the IRS by the Authority is $37.4 million. The Authority has appealed all of the IRS determinations; the appeals are still pending. For further updates please refer to Note 20.

Note 12 - Bonds Payable – (continued)

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, 2023, the following is the information on the outstanding derivative instruments (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% | Aa2/A+/AA | $ 169,532 |
| B | May 3, 2007 | July 1, 2029 | Pay 4.08%; receive 67% 3M LIBOR + 0.52% | Aa2/A+/A+ | 83,343 |
| | | | | | $ 252,875 |

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, 2023, the combined negative fair value of the derivative instruments was $4.8 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, 2023 (in thousands):

| | Change in Fair Value | | Fair Value | | |
|---|---|---|---|---|---|
| Associate Power Revenue Bonds | Classification | Amount | Classification | Amount | Notional |
| Libor Bonds, Series UU | Deferred Outflows | $ 8,624 | FV of derivative instruments | $ (3,215) | $ 169,532 |
| Mini-BMS Bonds, Series UU | Deferred Outflows | 4,240 | FV of derivative instruments | (1,582) | 83,343 |
| | | $ 12,864 | | $ (4,797) | $ 252,875 |

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

Note 12 - Bonds Payable – (continued)

Interest Rate Swap Agreements – (continued)

The valuation methodology used to determine the Fair Value of the interest rate Swap agreements as of June 30, 2023, 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 spreads and (2) LIBOR spreads for comparable bonds.

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

*Credit Risk*

As of June 30, 2023, 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 Aa2 by Moody's, A+ by S&P and AA by Fitch. The other counterparty was rated Aa2 by Moody's, rated A+ by S&P and A- by Fitch.

*Termination Risk*

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

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

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Note 12 - Bonds Payable – (continued)

Interest Rate Swap Agreements – (continued)

*Basis Risk*

During the fiscal year ended June 30, 2023, the payments of fixed rate interest from the Authority would have exceeded the amount received as variable interest from swap counterparties by approximately $2.2 million. Due to the stay imposed by the Title III Case, this amount has been accrued in the accompanying financial statements.

*Rollover Risk*

Using rates as of June 30, 2023, 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.

| Fiscal Year Ending June 30, | Principal | Interest | Interest-Rate Swap, net | Total |
|---|---|---|---|---|
| 2024 | $ - | $ 14,023 | $ (3,706) | $ 10,317 |
| 2025 | - | 14,023 | (3,706) | 10,317 |
| 2026 | - | 14,023 | (3,706) | 10,317 |
| 2027 | - | 14,023 | (3,706) | 10,317 |
| 2028 | - | 14,023 | (3,706) | 10,317 |
| 2029 | 252,875 | 14,023 | (3,706) | 263,192 |
| Total | $ 252,875 | $ 84,138 | $ (22,236) | $ 314,777 |

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, 2023, the Authority's Trustee's records indicate no defeased bonds.

Note 13 - Employees' Retirement Benefits

Pension Plan

A. General Information about the Pension Plan

On June 1, 2021, the management and operations of the T&D System was transferred to LUMA and on July 1, 2023, the management and operations of the Authority's electrical power generation system were transferred to GeneraPR. Under the provisions of Act No. 120-2018, as amended, both private entities hired previous Authority's employees, and at the same time, some others were transferred to other governmental entities (the "Commonwealth mobility plan"). As a result of the two reorganization events described above, approximately 2,000 employees from the Authority were transferred to other Commonwealth instrumentalities.

The Employees' Retirement System of the Puerto Rico Electric Power Authority (the "PREPA ERS") issues annually a publicly available financial report that includes financial statements and required supplementary information for the Pension Plan. The PREPA ERS independent auditor's report for the year ended June 30, 2023, disclosed matters that create high uncertainty about PREPA ERS's ability to continue as a going concern, including the current status of the Authority after filling a petition for relief under Title III of PROMESA in the Title III Court, depletion of PREPA ERS's marketable securities, and PREPA ERS's insolvency. The Authority has been meeting the PREPA ERS's current pension obligations in a PayGo manner where current contributions are used to pay the benefits of current retirees. For additional PREPA ERS's funding status, refer to Note 20.

The Authority accounts for pensions based on actuarial valuations measured each June 30. As of June 30, 2023, the retirement plan of the Authority was administered as a trust and followed the guidelines in GASB Statement No. 68.

*Plan Description*

As of June 30, 2022, the measurement date, all of the Authority's permanent, full-time employees were eligible to participate in the Authority's Pension Plan, a single employer, defined benefit pension plan (the "Pension Plan") administered by the PREPA ERS. On June 14, 2021, the PREPA ERS's Regulations was amended to include under the definition of members, former employees under the Commonwealth mobility plan, acknowledging they continue to be the Authority's employees for those purposes and therefore not impacting its obligations towards them.

As of June 30, 2022, the measurement date, if a member's employment was terminated before he became eligible for any benefits under this Pension Plan, he would receive a refund of his member

Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

*Plan Description – (continued)*

contributions 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 PREPA 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.

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.

Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

Cost-of-Living Adjustment – (continued)

- 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.

Retirees' Summer Bonus

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

Funeral Benefit

Up to $1,000 in funeral benefit.

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Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

The Pension Plan's provisions and benefits in effect as of June 30, 2023, are summarized as follows:

| Hire date | Prior to January 1, 1993 | On or after January 1, 1993 |
|---|---|---|
| Benefit formula | 75% @ 30 years of service at full retirement | 75% is limited to $50,000 @ 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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Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

*Employees Covered*

As of the June 30, 2022, valuation date, the following members were covered by the benefit terms for the Pension Plan:

| | Number |
|---|---|
| Retired participants and beneficiaries currently receiving benefits | 12,509 |
| Terminated participants and beneficiaries entitled to benefits but not yet receiving benefits | 1,033 |
| Active participants | 3,560 |
| Total | 17,102 |

*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 PREPA 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, 2023, the Authority's accrued annual contribution was $210 million, of which $55.3 million were paid to the PREPA ERS. For further updates on PREPA ERS Solvency and Funding Status, please refer to Note 20.

B. Net Pension Liability

The net pension liability as of June 30, 2023, was measured as of June 30, 2022, and the actuarial valuation date was June 30, 2022.

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Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

*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.

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

| | |
|---|---|
| Valuation Date | June 30, 2022 |
| Measurement Date | June 30, 2022 |
| Reporting date | June 30, 2023 |
| Single Equivalent Interest Rate | |
| Long-term expected rate of return | 5.75% |
| Municipal Bond Index Rate | 3.54% |
| Fiscal year in which Pension Plan's Fiduciary net position is projected to be depleted from future benefits payments for current members | 2022 |
| Single Equivalent Interest Rate | 3.54% |
| Actuarial Assumptions: | |
| Discount Rate | 3.54% |
| 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 |

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Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

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.

*Mortality Assumptions*

The mortality rates were based on PUB 2016 General Employees Amount-Weighted Mortality Tables projected generationally using Scale MP-2021. This assumption measures the probabilities of each benefit payment being made after retirement.

*Changes of Benefit Terms*

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

*Discount Rate*

The discount rate used to measure the total pension liability was 3.54%. The projected assets will not be available to make any projected future benefit payments of current plan members. Therefore, the applicable municipal bond index rate of 3.54%, based on the Bond Buyers General Obligation 20-year Municipal Bond Index Rate as of June 30, 2022, was used to measure the total pension liability.

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Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

The long-term expected rate of return on the PREPA 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 PREPA 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.

Projection of cash flows used to determine the discount rate assumed that PREPA ERS's members contribute the mandatory contribution rate and the Employer will contribute the two-year average of actual contributions as of June 30, 2023. The market value of assets reported as of June 30, 2022, were reduced for Authority contribution receivables and internally managed loans. Projected future benefit payments for all current PREPA ERS's members were projected through 2138.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table. The basis for these assumptions is the Survey of Capital Market Assumptions, 2023 Edition, published by the Horizon Actuarial Services, LLC:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Core Bonds | 30.00% | 2.46% |
| U.S. Large Cap Equity | 70.00% | 6.20% |
| Total | 100.00% | |

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Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

C. Changes in the Net Pension Liability

As of June 30, 2022, the measurement date, the changes in the net pension liability for the Pension Plan follows (in thousands):

| | Increase/(Decrease) | | |
|---|---|---|---|
| | Total Pension Liability | Pension Plan Fiduciary Net Position | Net Pension Liability |
| Balance as of reporting period June 30, 2022 | $ 6,398,553 | $ 1,360,786 | 5,037,767 |
| Changes for the year: | | | |
| Service cost | 79,151 | - | 79,151 |
| Interest | 137,187 | - | 137,187 |
| Differences between expected | - | - | - |
| and actual experience | (175,660) | - | (175,660) |
| Changes in assumptions | (909,258) | - | (909,258) |
| Contributions - employer | - | 178,159 | (178,159) |
| Contributions - employee | - | 16,197 | (16,197) |
| Net investment income | - | (21,352) | 21,352 |
| Benefit payments, including refunds | - | - | - |
| of employee contributions | (325,587) | (325,587) | - |
| Administrative expenses | - | (219) | 219 |
| Other changes | - | 62 | (62) |
| Net changes | (1,194,167) | (152,740) | (1,041,427) |
| Balance as of reporting period June 30, 2023 | $ 5,204,386 | $ 1,208,046 | $ 3,996,340 |

*This space is intentionally left in blank*

Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

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

The following presents the net pension liability of the PREPA ERS, calculated using the discount rate of 3.54 percent, as well as what the PREPA ERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.54 percent) or one percentage point higher (4.54 percent) than the current rate (in thousands):

| 1% Decrease | Current | 1% Increase |
|---|---|---|
| 2.54% | 3.54% | 4.54% |
| $ 4,679,675 | $ 3,996,340 | $ 3,436,383 |

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

D. Changes in Assumptions

The following were the changes in assumptions for the period ended June 30, 2022 (the "Measurement Date"):

- The discount rate used to determine the total pension liability was increased from 2.19% to 3.54%.
- The municipal bond index rate increased from 2.18% to 3.54%.
- The mortality assumptions were changed from PUB 2010 head-count-weighted tables to PUB 2016 amount-weighted tables.

For any change in total pension liability due to changes in actuarial assumptions, recognition of the change would be spread over the remaining service life of the entire PREPA ERS membership.

*This space is intentionally left in blank*

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, 2023, the Authority recognized pension credit of approximately $190.9 million to its accrued pension liability. This was primarily due to the exit of employees from the system which reduced the pension liability of the PREPA ERS. This obligation decrease also includes $8 million of amounts paid by the Commonwealth on behalf of the Authority to address liquidity issues of the PREPA ERS. On June 30, 2023, 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: | | |
| Changes of assumptions | $ | 79,705 |
| Employer contributions subsequent to the measurement date | | 210,032 |
| Net difference between projected and actual earnings on plan investment | | 39,049 |
| Total deferred outflows of resources | $ | 328,786 |
| Deferred inflows of resources: | | |
| Differences between expected and actual experience | $ | 109,852 |
| Changes in assumption | $ | 478,330 |
| Total deferred inflows of resources | $ | 588,182 |

*This space is intentionally left in blank*

Note 13 - Employees' Retirement Benefits – (continued)

Pension Plan – (continued)

Contributions of approximately $210 million were reported as deferred outflows of resources resulting from Authority contributions made subsequent to the Measurement Date. Such contributions will reduce the net pension liability in fiscal year 2024. 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):

| Reporting Date Ending June 30, | Amount |
|---|---|
| 2024 | $ (438,810) |
| 2025 | (50,083) |
| 2026 | 301 |
| 2027 | 19,164 |
| | $ (469,428) |

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.

On June 1, 2021, the management and operations of the T&D System was transferred to LUMA and on July 1, 2023, the management and operations of the Authority's electrical power generation system were transferred to GeneraPR. Refer to Note 13 above for further details on this matter.

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Note 13 - Employees' Retirement Benefits – (continued)

Other Post- Employment Benefits ("OPEB") – (continued)

*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:

| | Number |
|---|---|
| Inactive members or beneficiaries currently receiving benefits | 6,295 |
| Inactive members entitled to but not yet receiving benefits | - |
| Active members | 3,560 |
| Total | 9,855 |

*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.

*This space is intentionally left in blank*

Note 13 - Employees' Retirement Benefits – (continued)

Other Post- Employment Benefits ("OPEB") – (continued)

B. Total OPEB Liability

The Authority's total OPEB liability ("TOL") as of June 30, 2023, was measured as of June 30, 2022, 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, 2022 |
| Prior Measurement Data | June 30, 2021 |
| Measurement Date (MD) | June 30, 2022 |
| Reporting date | June 30, 2023 |
| 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 | 3.54% |
| 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 |

The discount rate was based on the Bond Buyers General Obligation 20-year Municipal Bond Index Rate as of June 30, 2022.

Mortality rates were based on PUB 2016 General Employees Amount-Weighted Mortality Tables projected generationally using Scale MP-2021.

Other actuarial assumptions are based on recommended assumptions in the 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.

Note 13 - Employees' Retirement Benefits – (continued)

Other Post- Employment Benefits ("OPEB") – (continued)

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, 2022 (reporting period June 30, 2023) | $ | 343,767 |
| Changes for the year: | | |
| Service cost | | 2,793 |
| Interest | | 7,435 |
| Difference between expected and actual experience | | (46,984) |
| Changes of assumptions or other inputs | | (45,280) |
| Benefits payments | | (5,446) |
| Net changes | | (87,482) |
| Total OPEB liability as of June 30, 2022 (reporting period June 30, 2023) | $ | 256,285 |

Changes of assumptions and other inputs reflect a change in the discount rate from 2.18% to 3.54%.

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

The following presents the TOL of the OPEB Plan, calculated using the discount rate of 3.54 percent, as well as what the OPEB Plan's TOL would be if it were calculated using a discount rate that is one percentage point lower (2.54 percent) or one percentage point higher (4.54 percent) than the current rate (in thousands):

| | 1% Decrease | Current | 1% Increase |
|---|---|---|---|
| Discount Rate | 2.54% | 3.54% | 4.54% |
| Total OPEB Liability | $ 287,842 | $ 256,285 | $ 230,167 |

*This space is intentionally left in blank*

Note 13 - Employees' Retirement Benefits – (continued)

Other Post- Employment Benefits ("OPEB") – (continued)

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

For the fiscal year ended June 30, 2023, the Authority recognized an OPEB credit of approximately $24.5 million. On June 30, 2023, 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 | $ | 6,751 |
| Changes of assumptions | | 10,183 |
| Total deferred outflows of resources | $ | 16,934 |
| Deferred inflows of resources: | | |
| Differences between expected and actual experience | $ | 62,646 |
| Changes in assumptions | | 32,908 |
| Total deferred inflows of resources | $ | 95,554 |

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Note 13 - Employees' Retirement Benefits – (continued)

Other Post- Employment Benefits ("OPEB") – (continued)

Benefit payments of approximately $6.8 million were reported as deferred outflows of resources resulting from Authority payments made subsequent to the June 30, 2022 measurement date. Such benefit payments will reduce the total OPEB liability in fiscal year 2024. 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 |
|---|---|
| 2023 | $ (36,341) |
| 2024 | (32,392) |
| 2025 | (16,638) |
| | $ (85,371) |

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 customers for such overages/shortages.

On June 27, 2019, the PREB ordered the implementation of the Permanent Rate. This tariff structure included the implementation of riders to recover the cost of several subsidies and the CILT. These amounts receivable/payable are recognized when billed.

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Note 14 - Revenues – (continued)

Major Clients and Related Parties

Net operating revenues from major customers and related parties during the fiscal year ended June 30, 2023, are as follows (in thousands):

| | |
|---|---|
| Commonwealth of Puerto Rico and components units | $ 479,263 |
| Municipalities | 89,573 |
| Total | $ 568,836 |

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

On July 29, 2018, the Authority and PRIFA, 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, 2023, $278.2 thousand were received from this grant and included in in the statement of net position. For information regarding the revolving line of credit from PRIFA, refer to Note 11.

PRASA Memorandum of Understanding

In March 2023, a Memorandum of Understanding ("Interagency Agreement") was signed between the Authority and the Puerto Rico Aqueduct and Sewer Authority ("PRASA") to reconcile and solve all outstanding and disputed amounts and provide for the payment of certain outstanding balances owned by PRASA to the Authority for the provision of electrical services to PRASA and the purchase of water from the Authority. In this Interagency Agreement, the Authority agreed on adjusting from its books the balance of $21.8 million related to the preferential rate and PRASA agreed to pay to the Authority the undisputed amount of $37.7 million.

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Note 14 - Revenues – (continued)

Global Settlement Agreement

In June 2023, the Authority, the Puerto Rico Office of Management and Budget and the Puerto Rico Treasury Department entered into a Global Settlement Agreement. This agreement was to address the fact that certain agencies and instrumentalities of the Government of Puerto Rico, have outstanding debts with the Authority that covers the period up to May 31, 2021. Those outstanding debts were referred to as the "Claim" of approximately $73.3 million. Through this agreement, the above-mentioned parties have reached a consent to settle any and all claims between them pertaining to any and all outstanding debts, related to unpaid electrical and service charges up to a global amount of approximately $50.6 million.

Note 15 - Leases and Subscription Arrangements

Leases

The Authority is both a lessor and a lessee:

Lessor

The Authority is a lessor through HUB, which holds various lease agreements covering leases of networks and equipment and building premises. Lease receivables and deferred inflow of resources as of June 30, 2023 are as follows (in thousands):

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Note 15 - Leases and Subscription Arrangements - (continued)

Lessor - (continued)

| Description | Lease Receivable | Deferred Inflows of Resources |
|---|---|---|
| Leases of network and equipment considered as operating activities: | | |
| Lease agreement covering lease of fiber optic communicatin network. It commenced on November 29, 2021 and calls for first installment of $1.5 million and subsequent installments of $1.7 million up to November 29, 2031 at 1.70% of interest rate. | $ 15,325 | $ 15,466 |
| Lease agreement covering lease of dark fiber east and west routes. It commenced on February 1, 2017 and calls for monthly installments of $833 up to January 31, 2032 at 1.95% of interest rate. | 78 | 78 |
| Leases of building premises considered as non-operating activities: | | |
| Lease agreement covering building premises owned by HUB. It commenced on February 1, 2022 and calls for monthly installments of $38,302 up to January 31, 2037 at 1.95% of interest rate. | 5,597 | 5,516 |
| Lease agreement covering building premises owned by HUB. It commenced on April 8, 2016 and calls for monthly installments of $27,932 for the initial lease term of twenty (20) years, and $29,328 during the first extension period of five years (5), and $30,795 for the second extension period of five (5) years, at 1.95% of interestrate. The lease agreement provided for a rent-free period of one hundred fifty (150) days commencing on the date that the tenant accepted the possession of the building premises. Effective date of the lease agreement wasNovember 4, 2016. | 6,455 | 6,334 |
| Lease agreement covering building premises owned by HUB. It commenced on March 1, 2023 and calls for monthly installments of $8,566 up to March 31, 2028 at 6.58% of interest rate. The lease agreement provided for a rent-free period of the lesser of one hundred eighty (180) days commencing on the date that the tenant accepted the possession of the building premises; or the number of days commencing on the day on which the tenant shall accept possession of the premises and ending on the day on which tenant shall open for business. | 406 | 406 |
| | 27,861 | $ 27,800 |
| Less: Current portion | (2,442) | |
| Long-term portion | $ 25,419 | |

Note 15 - Leases and Subscriptions Arrangements - (continued)

Lessor - (continued)

Rental income in the above lease agreements considered as operating revenues and non-operating revenues amount to approximately $1.8 million and $1.5 million, respectively. Interest income from the above lease agreements amounts to approximately $519 thousand.

The schedule of future collections on the lease agreements considered as operating activities, are as follows (in thousands):

| Year ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $1,813 | $262 | $2,075 |
| 2025 | 1,844 | 231 | 2,075 |
| 2026 | 1,875 | 200 | 2,075 |
| 2027 | 1,907 | 168 | 2,075 |
| 2028 | 1,940 | 135 | 2,075 |
| 2029-2032 | 6,024 | 206 | 6,230 |
| | $15,403 | $1,202 | $16,605 |

The Authority is also a lessor under a lease agreement with PREPA Holdings LLC, as lessee. These lease agreements are excluded from the GASB Statement No.87 because the control is not conveyed to another legal entity; hence, this type of lease agreement is not reported as leases in the Authority's financial statements.

Lessee

Mainly through LUMA, the Authority is a lessee for various non-cancelable leases of buildings, vehicles, office space and land. These agreements are scheduled to expire from year 2023 to 2036. During fiscal year ended June 30, 2023, a right-of-use asset was recognized for $1.2 million on these leases. An amortization and interest expense for the year ended June 30, 2023, amounted to approximately $2.6 million and $626.5 thousand respectively, and are included in the accompanying statement of revenues, expenses and changes in net position.

The Authority does not have access to the borrowing market. As a result, during fiscal year ended June 30, 2022 a third-party consultant was engaged to determine the discount rate to be applied to the lease portfolio. The determined rate for fiscal year ended June 30, 2023 was 4.9%.

Note 15 - Leases and Subscriptions Arrangements - (continued)

Lessee - (continued)

Through HUB, the Authority leases a communication station under a non-cancelable lease agreement. On September 11, 2020, this lease agreement was amended in order to include certain modifications such as the term that was extended from January 1, 2021 to December 31, 2022, and had an increase of 10% in all rent amounts starting on January 1, 2022. The lease is payable in monthly installments of principal and interest of approximately $37 thousand up to December 31, 2021 and of approximately $40 thousand up to December 31, 2022. On June 15, 2023, once again this lease agreement was amended, effective January 1,2023, in order to include certain modifications such as the term that was extended from January 1, 2023 to December 31, 2024, and had an increase in 10% in all rent amounts starting on January 1,2024. The lease is payable in monthly installments of principal and interest of approximately $40 thousand up to December 31, 2024. Discount rate is of 1.15%. Lease amortization for this lease during the year ended June 30, 2023, amounted to approximately $479 thousand and is included in the accompanying statement of revenues, expenses and changes in net position.

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Note 15 - Leases and Subscriptions Arrangements - (continued)

Lessee - (continued)

The Authority had the following lease assets (lessee) as of June 30, 2023 (in thousands):

| | Balance, July 01, 2022 | Additions | Remeasurements | Deductions | Balance, June 30, 2023 |
|---|---|---|---|---|---|
| Lessee | | | | | |
| Lease Assets: | | | | | |
| Buildings | $ 1,497 | 716 | - | - | 2,213 |
| Copiers | 1,848 | - | - | - | 1,848 |
| Land, right-of use | 1,284 | 478 | - | - | 1,762 |
| Office | 10,718 | - | - | - | 10,718 |
| Communication station | 693 | - | 981 | - | 1,674 |
| Total Lease assets (right-of-use) | 16,040 | 1,194 | 981 | - | 18,215 |
| Less Accumulated Amortization | | | | | |
| Buildings | 430 | 549 | - | - | 979 |
| Copiers | 308 | 462 | - | - | 770 |
| Land, right-of use | 120 | 154 | - | - | 274 |
| Office | 1,564 | 1,477 | - | - | 3,041 |
| Communication station | 462 | 479 | | | 941 |
| Total Lease assets (right-of-use) | 2,884 | 3,121 | - | - | 6,005 |
| Total Lease assets, net | $ 13,156 | (1,927) | 981 | - | 12,210 |

The Authority had the following lease liability (lessee) during as of June 30, 2023 (in thousands):

| | July 01, 2022 | Additions | Remeasurements | Deductions | June 30, 2023 | Within one year |
|---|---|---|---|---|---|---|
| Lease liability | | | | | | |
| Buildings | $ 1,089 | 716 | - | 534 | 1,271 | 429 |
| Copiers | 1,558 | | | 441 | 1,117 | 463 |
| Land | 1,183 | 478 | | 130 | 1,531 | 181 |
| Office | 9,329 | | | 1,323 | 8,006 | 1,370 |
| Communication Statio | 239 | - | 981 | 458 | 762 | 499 |
| Total Lease liability | 13,398 | 1,194 | 981 | 2,886 | 12,687 | 2,942 |

Note 15 - Leases and Subscriptions Arrangements - (continued)

Lessee - (continued)

As of June 30, 2023, annual principal and interest for the lease liability are as follows (amounts in thousands):

| Year ending June 30, | Balance, Principal | Interest | Total |
|---|---|---|---|
| 2024 | $2,942 | $536 | $3,478 |
| 2025 | 2,679 | 410 | 3,089 |
| 2026 | 1,798 | 302 | 2,100 |
| 2027 | 1,424 | 224 | 1,648 |
| 2028 | 1,014 | 165 | 1,179 |
| 2029-2033 | 2,519 | 271 | 2,790 |
| 2034-2038 | 311 | 24 | 335 |
| | $12,687 | $1,932 | $14,619 |

Subscriptions Arrangement

The Authority adopted the provisions of GASB Statement No. 96, *"Subscription-Based Information Technology Arrangements" (SBITAs)*, on July 1, 2022, and its financial statements for the fiscal year ended June 30, 2023 reflect the implementation of this statement. This statement was applied to all agreements existing on June 30, 2022, and new agreements after July 1, 2022. For implementation, SBITAs should be recognized and measured using the facts and circumstances that exist at the beginning of the fiscal year the Statement is implemented.

The Authority had the following subscription assets during fiscal year 2023 (amounts in thousand):

| | | Balance, July 01, 2022 | Additions | Remeasurements | Deductions | Balance, June 30, 2023 |
|---|---|---|---|---|---|---|
| SBITAs | | | | | | |
| Subscription assets: | $ | - | 16,261 | - | - | 16,261 |
| Less accumulated amortization | | | | | | |
| Subscription assets (right-of-use) | | - | 5,328 | - | - | 5,328 |
| Total SBITA assets | $ | - | 10,933 | - | - | 10,933 |

Note 15 - Leases and Subscriptions Arrangements - (continued)

Subscriptions Arrangement - (continued)

The Authority had the following subscription liability during fiscal year 2023 (amounts in thousand):

| | Balance, July 01, 2022 | Additions | Remeasurements | Deductions | Balance, June 30, 2023 | Amount due Within one year |
|---|---|---|---|---|---|---|
| Subscription liability | - | 16,139 | - | 6,546 | 9,593 | 6,270 |

As of June 30, 2023, annual principal and interest for the subscription liability are as follows (amounts in thousand):

| Year ending June 30, | Balance, Principal | Interest | Total |
|---|---|---|---|
| 2024 | $6,270 | $285 | $6,555 |
| 2025 | 2,219 | 95 | 2,314 |
| 2026 | 1,104 | 30 | 1,134 |
| | $9,593 | $410 | $10,003 |

As of June 30, 2023, the Authority has SBITAs agreements with various companies for subscriptions to software. These agreements are scheduled to expire from year 2023 to 2026. During fiscal year ended June 30, 2023, a right-of-use asset for SBITAs was recognized for $16.3 million. An amortization and interest expense for the year ended June 30, 2023, amounted to approximately $5.3 million and $467 thousand respectively, and are included in the accompanying statement of revenues, expenses and changes in net position.

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## Note 16 - Risk Management

### General

The Authority purchases commercial insurance covering all risk property (including catastrophic risks), business interruption and extra expense (coverages (at a sublimit), boiler and machinery, general liability, aviation, and financial lines programs. The Authority property boiler and machinery structure is 67% indemnity (based on the amount (subject to deductibles and limits) to restore the insured assets to their pre-damage state) and a 33% 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 and in an established parameter), with a higher retention, instead of the actual damage sustain by such occurrence.

T&D lines as well as all other assets are insured under a parametric insurance (CAT) - Hurricane and Earthquake perils for $100 million excess of $200 million that constitute 33% of the Property-B&M Program. The other 67% of the Property-B&M Program is an indemnity (traditional insurance) that does not cover T&D lines but covers all other T&D assets (Substations and Transmission Centers).

The Authority also has an excess property program of $250 million on top of the described underlying limits of the property insurance program.

### 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):

| Year Ended June 30, | Beginning Balance | Expense | Payments | Ending Balance |
|---|---|---|---|---|
| 2022 | $ 2,460 | $ 5,228 | $ (7,073) | $ 615 |
| 2023 | $ 615 | $ 8,496 | $ (8,436) | $ 675 |

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 Maria's Impact on Electric System

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico, bringing sustained winds of 155 miles per hour and significant rainfall over a 30-hour period. Hurricane Maria 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 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 (the "January 2020 earthquakes").

The January 2020 earthquakes caused significant damage in the southern region of the island of Puerto Rico. 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 ("PA") 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 PA program.

Two units of the Costa Sur power plant in Guayanilla were severely damaged in the early January 2020 earthquakes. The damaged units provide approximately 25% of the Authority's baseload generation capacity. On May 22, 2020, the PREB approved the Authority's expenditure of $25.2 million to repair the Costa Sur damaged units. The PREB also allowed the Authority to obligate an additional $15 million for the repairs. In August 2020, the first Costa Sur unit damaged in the January 2020 earthquakes was returned to service and the second unit came online in January 2021.

### 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.

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

COVID-19 Effects on the Authority's Operations – (continued)

During the year ended June 30, 2023, the Authority collected employee incentive payments under the COVID-19 Premium Pay program. See Financial Impact Section below.

September 2022 Hurricane Fiona Impact on Electric System

On September 18, 2022, Hurricane Fiona, a Category 1 hurricane, made landfall in Puerto Rico by the municipality of Cabo Rojo, and shortly thereafter the President issued a disaster declaration for certain affected municipalities. Most of the damage from Fiona was caused by heavy rains, flooding and landslides, concentrated in the southern, southeastern area of Puerto Rico. Hurricane Fiona caused a general blackout throughout Puerto Rico, due to the damage caused to the electric power system. It took approximately three weeks for power to be fully restored. Hurricane Fiona caused significant damage to critical T&D assets, the generation fleet, dams, hydroelectric systems, irrigation systems, and reservoirs. The storm also forced the utility to operate expensive peaking units to restart and maintain generation, resulting in incremental operating costs due to more fuel consumption.

The Authority has filed a Partial Proof of Loss claim totaling approximately $31.7 million under the Authority's commercial property policy for property damage and related losses. The claim is subject to a policy deductible of approximately $25.0 million. Accordingly, the net claim amount after application of the deductible is approximately $6.7 million. Final settlement is subject to insurer review and approval.

Shortly after Hurricane Fiona, FEMA approved the provision of Direct Federal Assistance ("DFA") pursuant to Section 403 of the Stafford Act (42 U.S.C. § 5170b), as implemented by Title 44 of the Code of Federal Regulations (44 CFR § 206.208), to stabilize Puerto Rico's electrical power grid. To support these stabilization efforts, FEMA issued Mission Assignments to the U.S. Army Corps of Engineers ("USACE"), the U.S. Environmental Protection Agency, and the U.S. Department of Energy. A key component of the stabilization effort was the installation of temporary power generators to replace offline generation capacity. Accordingly, USACE installed, operated, and maintained seventeen (17) temporary generators at the Palo Seco and San Juan generation plants. Generators at the Palo Seco plant became operational in June 2023, while generators at the San Juan plant became operational in September 2023. See Note 20.

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

Federal Funding Mechanisms

Funding under the FEMA Public Assistance ("FEMA PA") Program is provided through a combination of reimbursement-based draws and WCA mechanisms. Under the reimbursement model, eligible costs are incurred by the Authority or its operators and subsequently reimbursed following review and approval by FEMA and the Central Office for Recovery, Reconstruction, and Resiliency ("COR3"). Under the WCA model, funds are advanced prior to the incurrence or final approval of eligible costs and are subject to ongoing reconciliation, eligibility determinations, documentation requirements, and federal and Commonwealth oversight. Amounts received under the advance model do not represent final entitlements and may be required to be returned to the extent costs are not incurred, are determined to be ineligible, or are otherwise not approved upon final reconciliation. Until such costs are incurred and approved, advance funding is accounted for unearned revenues and does not constitute grant revenue. See Note 2.

Financial impact of the Natural Disasters and Global Pandemic

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

In accordance with guidance established by GASB Statement No. 33, "*Accounting and Financial Reporting for Non-Exchange Transactions*", during the fiscal year ended June 30, 2023, the Authority reported as non-operating revenues and capital contributions, approximately $370.1 million and $152.1 million, respectively, in approved grant awards from FEMA and Premium Pay. A total amount of approximately $379.5 million was collected from those grants' awards corresponding to Requests for Reimbursements submitted during current and previous fiscal years. In addition, a total of $206.3 million was received on WCA mostly used for engineering and design activities for permanent works. An account receivable from the U.S. Federal Government of approximately $263.3 million, as well as an allowance for doubtful accounts of approximately $53.7 million, are presented in the accompanying statement of net position (deficit) as part of the net account receivable from the U.S. Federal Government of approximately $209.6 million. Of the amounts collected, approximately $199.1 million on WCA is presented as unearned revenues in the accompanying statement of net position (deficit).

Emergency related expenses incurred following the Hurricanes and the January 2020 earthquakes totaled approximately $282.4 million. This amount includes $96.2 million associated with outages caused by Hurricane Fiona and $62.7 million in fuel costs incurred in connection with the emergency events. These expenses are presented as operating expenses in the accompanying statement of revenues, expenses, and changes in net position (deficit). Insurance recoveries proceeds of approximately $81 million are presented as non-operating revenues in the same statement.

Note 18 - Transformation of the Authority's System

Transformation of the T&D System of the Authority

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

On June 22, 2020, after receiving Governing Board and Government of Puerto Rico approval, the T&D OMA was signed by the Authority, the P3 Authority and LUMA. On June 1, 2021, pursuant to the T&D OMA, LUMA began its management and operation of the T&D System.

The Oversight Board negotiated, and the P3 Authority, LUMA, and the Authority executed, a supplement to the LUMA T&D OMA (the "Supplemental Agreement") to provide for LUMA to commence its services on an interim basis ("Interim Service Commencement") prior to the Authority's Title III exit. Interim Service Commencement occurred on June 1, 2021. On November 29, 2022, the P3 Authority, LUMA, and the Authority signed an extension of the Termination Date in the Supplemental Agreement (the "Extension Letter"). The Extension Letter's validity is currently being litigated in the P3A Action and Governor's Action, defined and referenced in Note 20, below. Under the extension, the Termination Date is the date on which the following conditions shall have been satisfied or waived: (i) the Title III exit shall have occurred; and (ii) the Authority's plan of adjustment and order of the Title III Court confirming same shall be reasonably acceptable to LUMA. On December 11, 2025, the Authority and the P3 filed a Declaratory Judgment action before the San Juan Superior Court, asserting that the Extension Letter is null and void. On that same date, the Authority and the P3 filed a Petition for Intrajurisdictional Certification before the Supreme Court of Puerto Rico (the "TSPR", by its acronym in Spanish).

The Authority's exit from Title III, is a condition precedent to the T&D OMA Service Commencement Date, as agreed in a Limited Waiver signed on June 1, 2021 by the P3 Authority, LUMA, and the Authority. Upon the T&D OMA Service Commencement Date, the LUMA T&D OMA will be in effect for fifteen (15) years. This contract may be extended for an additional period by mutual agreement of the Authority (or, the P3 Authority acting on behalf of the Authority) and LUMA. No extension of the LUMA T&D OMA will become effective until approved by the PREB, to the extent required by applicable law. LUMA has the exclusive right to enter upon, occupy and use the T&D System, and its sites, for the sole purpose of performing the operation and maintenance services.

Service fees charged by LUMA are determined in accordance with the LUMA T&D OMA or Supplemental Agreement and amounted to approximately $121.8 million for the year ended June 30, 2023. They are presented as operating expenses in the accompanying statement of revenues, expenses,

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

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

and changes in net position (deficit). Incentive fees are applicable after the T&D OMA Service Commencement Date; thus, no incentive fees apply during the fiscal year 2023.

In accordance with the LUMA T&D OMA, costs and expenses incurred by LUMA on behalf of the Authority (the T&D Pass-Through Expenditures) are billed while providing O&M Services, without markup for profit. T&D Pass-Through Expenditures amounted to approximately $591.6 million, which were mostly related to payroll expenses, nonpayroll costs from certain LUMA affiliates and third-party costs, all of these incurred while providing T&D OMA services.

As part of a shared service agreement signed on June 1, 2021 (the Shared Service Agreement), between LUMA, the Authority and the P3 Authority, the parties agreed that the Authority would receive certain services, on a temporary basis, primarily related to Finance, IT/OT, Risk Management, Facilities, and certain operations. These costs are part of the pass-through expenses disclosed above, therefore, charged at cost, without markup for profit. The outstanding balance owed to LUMA amounted to $134.6 million as of June 30, 2023, which is presented as part of the accounts payable and other accrued liabilities in the accompanying statement of net position (deficit).

The Authority must maintain the minimum levels of working capital needed to ensure all necessary and approved operational and capital investment expenditures. The Authority's management asserts that the Authority's ability to sustain these levels is contingent upon the service charges collected by LUMA.

Based in this contract, LUMA's obligations consist of, among other things, the following:

- Providing management, operation, maintenance, repair, restoration and replacement and other related services for the T&D System.
- Administering and performing on contracts, leases, licenses, permits and other similar arrangements of all types related to the T&D System that have been entered into by the Authority, including its payment obligations.
- Providing system information (both financial and operational), as available, to support the Authority's financing activities, and to assist on the Authority's preparation of reports, and other documents, to satisfy the Authority's reporting requirements.
- T&D System Operation Services: responsible for all electric transmission, distribution, load serving and related activities for the safe and reliable operation and maintenance of the T&D System. These include system operator activities, engineering activities, maintenance of technical documentation, energy efficiency activities, planning, environmental and regulatory, legal services, insurance and claims, and other activities.

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

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

- Asset Management and Maintenance Services: responsible for managing and maintaining all assets of the T&D System including machinery, equipment, structures, improvements and conditions assessments of the electrical system components. These include inventory control, fleet management and refueling, necessary equipment and systems, information technology, public lighting, and generator interconnection.
- Government, Community and Media Relations: communications with customers and government officials, responsible for coordinating and conducting communications with local, state and federal representatives and organizations, community and media relations, and customer contact.
- Regulatory, Finance, and Accounting Services: responsible for regulatory proceedings, finance, accounting, budgeting, long-term financial forecasting and treasury operations related to the T&D System.
- Emergency Response: curtailments and shutdowns, implementation of the emergency response plan that addresses disaster recovery and emergency response and restoration, and all necessary business continuity, reporting and communication functions relating to the T&D System.
- Maintenance: performing all ordinary maintenance of all property constituting T&D System, including machinery, structures, improvements and electrical system components, to keep the T&D System in operational condition.
- Customer Service: maintaining staff dedicated to assisting customers, toll-free customer service hotlines, establish and maintain website for customer inquiries and complaints, public outreach and education campaign, customer satisfaction, and meter-related services including repair and replacement of meters.

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, the 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 corresponding request for

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

Transformation of the Generation System of the Authority – (continued)

proposals ("RFP"). 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 contract with the Authority to manage, operate and maintain the Legacy Generation Assets to: (i) introduce private sector operational expertise; (ii) increase the safety, reliability, resiliency and efficiency of Legacy Generation Assets 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 RFP process. Later, the P3 Authority issued the RFP to the Proponents and proposals were received on December 22, 2021.

After the approval by the P3 Authority board of directors and the Authority's Governing Board, on January 24, 2023, the P3 Authority, the Authority and GeneraPR, the selected proponent, executed the GenCo OMA by which GeneraPR will operate and administer the Legacy Generation Assets.

The GenCo OMA is for a term of ten (10) years. The Authority remains the owner of the Legacy Generation Assets during the term of the GenCo OMA. On July 1, 2023, GeneraPR assumed the Legacy Generation Assets' operational control and management.

GeneraPR's main responsibilities under the GenCo OMA are: (1) operating and providing daily maintenance of the Legacy Generation Assets; (2) administering facility contracts, including fuel contracts; (3) supplying, storing and maintaining inventory; (4) maintaining, repairing and replacing equipment; (5) managing blackouts by generation and restoration of power; (6) coordinating with the Authority and LUMA in relation to the dispatch and matters of the T&D System; (7) coordinating with regulators, including the PREB and environmental compliance agencies; (8) managing federal funds for the generating fleet; (9) assisting the Authority in fulfilling any obligation under applicable laws; and (10) representing the Authority before the PREB with respect to any matter related to the performance of any of the operation and management services provided by GeneraPR under the GenCo OMA. See Note 20.

Mobilization service fees charged by GeneraPR are determined in accordance with the Generation Agreement amounted to $15 million for the year ended June 30, 2023. They are presented as operating expenses in the accompanying statement of revenues, expenses, and changes in net position (deficit). This amount is also the outstanding balance owed to GeneraPR as of June 30, 2023, which is presented as part of the accounts payable and other accrued liabilities in the accompanying statement of net position (deficit).

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

Supplier Concentration Risk

Dependence on two O&M suppliers could bring vulnerabilities to the Authority's delivery of services to the general public, if any of the parties to the contract do not comply with their obligations. Per the O&M agreements, this risk is intended to be mitigated through the governance framework established, which assigns specific responsibilities to the P3 as the Administrator. These responsibilities include reviewing and approving budgets and incentive fees to ensure compliance with contractual and regulatory requirements, exercising oversight of supplier performance against established standards, and coordinating with the Authority and regulatory bodies to prevent duplicative oversight and governance gaps.

Tranches to Procure Renewable Energy and Battery Storage Systems

The Authority's Integrated Resource Plan ("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 directs the Authority to establish a competitive solicitation process to procure new renewable generation and energy storage resources, supporting Act 17-2019 targets for renewable energy installations. To implement this, the PREB established a schedule for procuring of minimum quantities of renewable and storage resources through a RFP process. In line with this schedule, on February 22, 2021, the Authority issued the Tranche 1 RFP to solicit proposals for renewable energy, energy storage and virtual power plant ("VPP") resources. The Tranche 1 RFP includes three parallel workstreams: an initial set of utility-scale solar photovoltaic ("PV") and battery energy storage system ("BESS") projects selected by the Authority, a second set of utility-scale BESS projects mandated by the PREB, and VPPs.

In December 2021, the Authority submitted to the PREB for its approval the initial set of purchase power and operating agreement ("PPOAs") for the total amount of 844 MW and energy storage services agreements ("ESSAs") for 220 MW of BESS. On February 2, 2022, the PREB entered an order approving eighteen PPOAs and took notice of the remaining ESSAs attached thereto, noting the need for additional information from the ESSAs. The Oversight Board approved the PPOAs on March 25, 2022.

LUMA performed interconnection studies on these solar and BESS projects from January to June 2022. The Authority signed the PPOAs, as amended following completion of the interconnection studies, in the months from June to August 2022. The Authority also signed two of the ESSAs in August 2022. The PREB finally approved all PPOAs and these two ESSAs in various orders and resolutions over

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

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

the months of February to September 2022. On December 15, 2022, the Oversight Board approved the two signed ESSAs.

In June 2022, the PREB also ordered the Authority to select additional utility-scale BESS projects to include in the Tranche 1 RFP awards. This initiated a second contract finalization process. See Note 20.

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 PREB's revision, approval and subsequent publication. On October 29, 2021, the PREB determined to appoint an independent coordinator (the "PREB-Independent Coordinator") for the Tranche 2 RFP but concluded that the Authority will keep a significant role in the Tranche 2 RFP process. The 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.

By order entered on January 27, 2022, the PREB formally appointed the Tranche 2 PREB-Independent Coordinator. Said order did not include the detailed powers and duties of the Authority or LUMA in the Tranche 2 RFP process but anticipated that the PREB would adopt a separate resolution establishing the responsibilities of LUMA and the Authority. By June 9, 2022 resolution, the PREB created a 6-member selection committee for the evaluation of Tranche 2 RFP proposals 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 Tranche 2 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 the PREB for their knowledge and/or experience in similar transactions; and (v) one (1) representative chosen by LUMA, with knowledge or experience in similar transactions. LUMA completed the interconnection studies of the proposals that advanced to Phase 2.

As a result, LUMA performed interconnection studies on the additional BESS projects from July to November 2022 and revised certain interconnection studies related to the initial set of projects. The Authority and proponents then engaged in discussions over final levelized cost of storage and interconnection issues for these BESS projects during December 2022 and January 2023.

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

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

In parallel with the utility-scale project workstreams, the Authority finalized a grid services agreement ("GSA") related to a 17 MW VPP on November 2, 2022. The PREB approved the GSA on December 19, 2022. The Oversight Board approved the GSA on February 13, 2023. The GSA was signed on April 21, 2023. The VPP developer decided to withdraw from participation in Tranche 1.

The Authority's Tranche 1 procurement process continues with the finalization of nine additional ESSAs with a capacity of 695 MW and the related approval process for those ESSAs and the GSA. Executed PPOAs and ESSAs require contracted projects to achieve commercial operation within 24 months of the "closing date". The closing date occurs after the agreement signing date, once specified conditions precedent have been satisfied. The parties are required to use commercially reasonable efforts to achieve the closing date within 180 days of the agreement date, with a maximum period of 240 days. The Authority has been negotiating amendments to extend the 240 days to 300 days.

After some procedural events, on April 24, 2023, the PREB, noting that negotiations with the resource providers were still ongoing, authorized the Authority to extend the automatic termination date to May 31, 2023. At the time, the Authority anticipated closing dates would occur between May and June 2023, with potential extensions through September 2023. As of June 30, 2023, the Authority had executed a total of eleven PPOAs and two ESSAs under Tranche 1, representing contractual obligations of the Authority. Subsequent to financial statement date, five additional ESSAs have been executed.

As part of the Tranche 2 RFP process, the Authority's responsibilities and duties in collaboration with the PREB-Independent Coordinator include providing necessary information, reviewing and commenting on documents, offering legal advice, and delivering other guidance based on lessons learned from Tranche 1. LUMA's responsibilities and duties include providing necessary data, guidance and collaboration with PREB-Independent Coordinator including any required studies to evaluate the interconnection of projects of the Tranche 2 RFP. The last day for proponents to submit proposals to compete in the Tranche 2 RFP was December 5, 2022. By June 30, 2023, the evaluation process was ongoing. Refer to Note 20.

*Summary of Tranche 3 Process*

On February 1, 2023, the PREB announced the launch of Tranche 3, aiming to procure 500 MW of renewable energy generation and 250 MW of energy storage capacity. Proposals and responses to the request for information ("RFI") were expected by the first week of September 2023. See Note 20.

Note 18 - Transformation of the Authority's System – (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 process, the Authority entered into a contract with 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 upheld on appeal by the Federal Court of Appeals for the District of Columbia Circuit on June 14, 2021. The FERC directed NFEnergía to submit an Application for authorization under Section 3 of the U.S. Natural Gas Act to operate its San Juan Harbor LNG receiving facility but declined to order the suspension of facility operations. NFEnergía submitted the application to FERC on September 15, 2021 in Docket No. CP21-496-000 (the "Application"). 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, which filed the last supplemental responses in February 2022. The Application is still pending before FERC, and the Authority cannot predict when FERC may act on it. In the meantime, the NFEnergía LNG receiving facility continues to operate and to supply natural gas to the Authority's San Juan Units 5 and 6.

On November 11, 2020, environmental advocacy organizations the Sierra Club and El Puente de Williamsburg Inc. (the "Environmental Groups") filed a complaint against the Authority in the Court

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

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

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.

The 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. 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 TSPR was filed.

On June 14, 2022, The United States Court of Appeals for the District of Columbia Circuit denied NFE petitions for the review of orders of the Federal Energy Regulatory Commission.

NFE's LNG handling facility has been in continuous operation supplying natural gas to San Juan Combined Cycle Units 5 and 6. As part of NFE's responsibility, the diesel and bunker C fuel pipelines with its unloading connection flanges were relocated from wharf A to wharf C.

The Fuel Supply Contract, which included the conversion to natural gas of the combined cycle units, reached Substantial Completion on August 1, 2021, that was on 13$^{th}$ month of the Contract, when the Unit Base Cost for the LNG was reduced from $8.50/MMBtu to $7.50/MMBtu. On the 25$^{th}$ month, met on August 1, 2023, the Unit Base Cost changed to $6.50/MMBtu. This Unit Base Cost will remain until the end of the Initial Contract Term reached on July 31, 2026.

Early Warning System

On April 26, 2023, the Authority's Governing Board, through Resolution 5040, authorized an RFP process for the design and build project of the Early Warning System, with a federally approved funding amount of $100 million. For further updates see Note 20.

Note 19 - Commitments, Contingencies and Other Obligations

## Commitments

### Power Purchase Agreements

Power purchase agreements as of June 30, 2023, were as follows (in thousands):

| | Authority Shares | Type | Capacity (MWs) | Outstanding Commitments |
|---|---|---|---|---|
| Contracts signed and plant in operation: | | | | |
| EcoEléctrica, L.P. | 100% | Gas | 507 | $ 1,893,515 |
| AES Puerto Rico, L.P. | 100% | Coal | 454.3 | 1,713,855 |
| Pattern Santa Isabel, LLC | 100% | Renewable | 95 | 592,916 |
| Humacao Solar Project, LLC | 100% | Renewable | 40 | 370,983 |
| Oriana Energy, LLC | 100% | Renewable | 45 | 216,100 |
| San Fermin Solar Farm, LLC | 100% | Renewable | 20 | 115,241 |
| AES Ilumina, LLC | 100% | Renewable | 20 | 73,524 |
| Horizon Energy, LLC | 100% | Renewable | 10 | 72,517 |
| Coto Laurel Solar Farm, Inc. | 100% | Renewable | 10 | 63,411 |
| Landfill Gas Technologies of Toa Baja, LLC | 100% | Renewable | 4 | 11,188 |
| Windmar Renewable Energy, Inc. | 100% | Renewable | 2 | 8,905 |
| Landfill Gas Technologies of Fajardo, LLC | 100% | Renewable | 4 | 5,479 |
| Subtotal | | | | $ 5,137,634 |
| Contracts signed and plant in process for operation: | | | | |
| Clean Flexible Energy, LLC Salinas (ESSA) | 100% | Renewable | 175 | $ 2,459,543 |
| Clean Flexible Energy, LLC Jobos (ESSA) | 100% | Renewable | 110 | 1,083,087 |
| CS-UR Juncos PV, LLC | 100% | Renewable | 125 | 881,374 |
| Clean Flexible Energy, LLC Salinas (PPOA) | 100% | Renewable | 120 | 835,323 |
| Pattern Barceloneta Solar, LLC | 100% | Renewable | 70 | 658,621 |
| Convergent Coamo Energy Storage, LLC | 100% | Renewable | 100 | 615,119 |
| Ciro Group, Corporation | 100% | Renewable | 140 | 606,500 |
| Clean Flexible Energy, LLC Jobos (PPOA) | 100% | Renewable | 80 | 562,832 |
| Xzerta Tec Solar I, LLC | 100% | Renewable | 60 | 360,300 |
| Guayama Solar Energy, LLC | 100% | Renewable | 50 | 350,689 |
| Ciro Two Salinas, LLC | 100% | Renewable | 68 | 337,424 |
| Tetris Power, LLC | 100% | Renewable | 20 | 318,181 |
| Solaner Puerto Rico One, LLC | 100% | Renewable | 40 | 308,709 |
| Go Green USA America, Corp. | 100% | Renewable | 39 | 281,035 |
| YFN Yabucoa Solar, LLC | 100% | Renewable | 32 | 233,825 |
| Subtotal | | | | $ 9,892,562 |
| Total | | | | $ 15,030,196 |

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

Commitments – (continued)

Power Purchase Agreements – (continued)

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, 2023, the Authority recorded $500.6 million in purchase power expenses, which includes $486.7 million from commitments as detailed above, and $13.9 million credits for excess energy produced by its grid customers. 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 2027 to 2057. 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 and prior fiscal plans certified by the Oversight Board, the Authority has renegotiated several PPOAs to procure a reduction in their current prices and to assume or reject agreements in the Authority's Title III case. Refer to Note 18 and Note 20 for the sections on *Tranches to Procure Renewable Energy and Battery Storage Systems.*

Construction and Other Commitments

As of June 30, 2023, the Authority has commitments of approximately $980 million in active construction, maintenance, and engineering services contracts.

The Authority's commitment to its T&D OMA Operator as part of the LUMA T&D OMA represents a yearly fixed fee, before inflation, of $ 70 million in year one, $90 million in year two, $100 million in year three and $105 million in each subsequent period, up to the year fifteen. Additionally, there is a variable incentive fee which ranges from $0 to $20 million per year, before inflation, that is payable annually based on the Operator's performance across multiple criteria. At present, the T&D OMA Service Commencement Date criteria has not been met, as such the Operator is performing services under the Supplemental Agreement which has a fixed fee commitment amounting to $115 million a year, before inflation, with no incentive fees while this agreement is in place. See Note 18.

As part of the GenCo OMA, the Authority's commitment to its operator, GeneraPR, represents a yearly fixed fee, before inflation, of $22.5 million, up to the year ten. Additionally, there is a variable incentive fee which ranges from $0 to $15 million per year, before inflation, that is payable annually based on the Operator's savings and performance across various criteria.

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

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, fluctuations in the power supply and exclusion of certain municipality properties from CILT. An accrued liability of approximately $272.6 million cover such exposure and other environmental contingencies and are 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 Case. 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 claims 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 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 such amount subsequently, as provided by the Secretary of the Treasury of the Commonwealth in consultation with the Authority's board of directors.

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Labor Related Claims*

- Excess Vacation License Claim
  In 1999, UTIER filed a claim against the Authority with the Conciliation and Arbitrage Bureau 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 Case, 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.

- 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.

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Labor Related Claims – (continued)*

On July 31, 2017, the Authority informed PRLRB that the Title III stay was in effect due to the filing of the Title III Case. 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. Motions to stay the matter have been filed due to the Title III Case filing, but the PSAC has not yet ruled on all of them. For the cases above, management has estimated a probable loss, including penalties, which is recorded as a liability in the statement of net position (deficit).

- 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 Case filing.

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Labor Related Claims – (continued)*

- 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 Case. Management's estimate of loss contingency has been accounted for in the accompanying financial statements.

- 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 Case. Management's estimate of loss contingency has been accounted for in the accompanying financial statements.

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

Contingencies – (continued)

Legal Contingencies – (continued)

*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 Case filing. 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.

*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 Title III Court bifurcated the case and, subsequently, certified the class. Defendants appealed the decision. Class certification was affirmed by 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. 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 Title III Court to lift stay as to all defendants except the Authority. On May 9, 2019, the petition was denied.

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Consumer Billing Litigation – (continued)*

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.

- 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 Case'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 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 Title III 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 Title III Court. The Authority requested remand back to the Court

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

Contingencies – (continued)

Legal Contingencies – (continued)

*PREPA v. Vitol Inc.- (continued)*

of First Instance. The two cases were consolidated by the Title III Court. The Authority claims approximately $3.89 billion in the aggregate.

Vitol, Inc. resolved its claim for approximately $17 million in excise taxes and had stated that it would 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 Title III Court in the Authority's Title III Case, due to the SCC in the Title III case 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 Title III Court denied the Authority's motion on March 13, 2020. The case then continued before the Title III 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 Title III 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 Title III 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 Case filing; (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 First Circuit. On May 2, 2022, the Authority filed its opening brief. On July 20, 2022, the parties informed the First Circuit that they reached an agreement in principle to settle their dispute

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

Contingencies – (continued)

Legal Contingencies – (continued)

*PREPA v. Vitol Inc. – (continued)*

and requested that the Court hold the appeal in abeyance and stay all deadlines to allow the parties to finalize their settlement agreement. On August 18, 2022, the parties filed a status report and informed the court that they had exchanged drafts of a settlement agreement and are working diligently and cooperatively to finalize the agreement. On August 31, 2022, the parties entered a stipulation of dismissal with prejudice, and, on September 13, 2022, the First Circuit entered a judgment dismissing the case. Pursuant to the settlement agreement, Vitol Inc.'s claim shall be deemed allowed in the aggregate amount of approximately $41.5 million and, on the effective date of the Authority's plan of adjustment, Vitol Inc.'s claim shall be in a class in which Vitol Inc. shall be paid a distribution on account of the claim that shall equal one-half of what the claims receive in the class of non-bond general unsecured claims not for money borrowed. The agreement is conditioned on the Title III Court's approval of the Plan. 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 Case. 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

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

Contingencies – (continued)

Legal Contingencies – (continued)

*ReSun (Barceloneta) LLC Litigation and Arbitration – (continued)*

arbitration and, on December 30, 2015, ReSun filed a complaint before the Commonwealth of Puerto Rico Court of First Instance, San Juan Part, 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 Case.

*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 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 Court of First Instance stayed this case due to the Title III Case'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.

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Power Purchase and Operating Agreement Lost Profit Claims*

This litigation relates to rejection damages claims asserted by EIF PR Resource Recovery, LLC, Elam LLC (successor to Blue Beetle III, LLC), M Solar Generating LLC, GS Fajardo Solar LLC, and Infinigen O&M LLC (successor to YFN Yabucoa Solar LLC) (collectively, "Pre-petition PPOA Claimants"). Each of the Pre-petition PPOA Claimants are counterparties to Power Purchase and Operating Agreements (PPOAs) executed by the Authority pre-petition. The Authority rejected each of the PPOAs. In response, the Pre-petition PPOA Claimants filed claims, for over $1.6 billion, asserting damages purportedly arising from that rejection, including lost profits and lost development costs.

The Oversight Board filed an objection to the lost profits components of these claims in November 2023. In December 2025, the Title III Court overruled the objection insofar as it sought disallowance of the Pre-petition PPOA Claimants' lost profits claims as a matter of law. The Title III Court thereafter entered a schedule for fact and expert discovery with a hearing on the matter currently scheduled for September 2026. Consistent with that schedule, the parties are currently engaged in fact discovery. The Oversight Board and the Authority intend to contest the case vigorously.

*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 approving the Settlement Agreement. 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. Under the Settlement Agreements no further interest will accrue from the date of execution provided all payments by the Authority under the Settlement Agreement are timely and fully made. Pursuant to the settlement, Whitefish has an allowed administrative expense claims in the amount of approximately (i) $33.9 million for accrued interest charges; and (ii) $6 million for additional costs related to invoices for mobilization and demobilization services.

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Whitefish – (continued)*

On August 15, 2023, the Authority paid approximately $31.2 million in interest charges, as per settlement, and on December 28, 2023, the Authority paid the $6 million in mobilization and demobilization services. In connection with this settlement, the Authority recognized a gain of approximately $10 million as of June 30, 2023.

*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 was stayed pending the resolution of the then-ongoing criminal charges brought against Cobra's former president and two FEMA officials, who were 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 officials were sentenced on December 13, 2022 with no other further impact on the Authority.

On January 7, 2023, the parties filed a Joint Status Report including an updated status of FEMA's review of the Authority's costs incurred under its second contract with Cobra to determine if the costs were eligible for federal reimbursement, the Criminal Case, and the position of the parties regarding the continued stay. The Authority argued that the stay should continue in place through July 31, 2023, to provide time for the parties to work collaboratively to appeal the November and December 2022 FEMA Eligibility Determination Memos regarding Cobra's second contract and to pursue a potential settlement of the remaining disputes. Following that status report, on January 18, 2023, the Court ordered the parties to file a further status report by July 31, 2023.

On March 27, 2023, FEMA obligated approximately $233 million in funding for costs the Authority incurred under its second contract with Cobra. Of this amount, $117 million was reimbursement of the federal share (90%) of amounts the Authority had already paid to Cobra. The remaining $93 million was obligated as the federal share (90%) of amounts invoiced by Cobra, but not yet paid to the Authority (the "Approved Unpaid Invoices").

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Cobra – (continued)*

On May 16, 2023, Cobra requested that the Title III Court modify the court's administrative stay on Cobra's administrative expense litigation against the Authority to pursue $99 million of its claims. Cobra argued that changed circumstances warranted lifting the litigation stay. On May 23, 2023, the Oversight Board objected to Cobra's motion, explaining that the Authority was in the process of completing its internal validation process for the Approved Unpaid Invoices so that it could request the funds from the COR3. On June 13, 2023, the Title III Court ordered that no later than June 14, 2023, the Authority shall provide (i) Cobra and the Title III Court with the status of the Authority's review of the Approved Unpaid Invoices; and (ii) the Title III Court with information regarding the expected timeline for COR3 to review and process the submitted invoices for payment. The Authority complied with the order and provided the requested information on June 14, 2023. Thereafter, on July 10, 2023, Cobra filed an informative motion expressing concern regarding the timing of the Authority's invoice validation process. In response, on July 21, 2023, the Oversight Board and the Authority informed the Title III Court that the Authority has been working diligently to complete the invoice review and validation process. Furthermore, the Oversight Board expressed its belief that settlement of all outstanding issues with Cobra is the best path forward, and that it is committed to working in good faith to achieve it.

From July 2023 through December 2023, Cobra and the Oversight Board submitted several additional joint status reports to update the Title III Court. On December 4, 2023, the Title III Court ordered (i) the Authority and the Oversight Board to provide to Cobra, by December 5, 2023, the name(s) of the individual(s) at COR3 who are able to provide information regarding the status of the approved unpaid invoices; (ii) the parties to report the status of any remaining unpaid approved invoices by January 16, 2024; (iii) the Authority and the Oversight Board to provide a detailed written summary of each of their objections to the approximately $1.5 million of disputed approved unpaid invoices by January 3, 2024; and (iv) the parties to meet and confer by January 10, 2024, in a good faith effort to resolve objections to the disputed approved unpaid invoices.

On January 3, 2024, the Oversight Board filed a detailed summary the Authority's objections to the approved unpaid invoices. On January 16, 2024, the Oversight Board filed a status report stating that (1) the FEMA appeals remain under review, (2) the ongoing disputes regarding the Cobra contracts are subject to ongoing mediation, and (3) although the Authority directed its account payable service provider to make a payment of approximately $13.4 million on accounts of approved unpaid invoices, further disbursement is delayed by lawsuits against Cobra for unpaid municipal and construction

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Cobra – (continued)*

excise taxes requiring the Authority to withhold certain amounts from any payment due to Cobra. Thereafter, on January 19, 2024, the Court ordered the parties to file an updated status report by March 27, 2024 if the dispute had not been resolved, directed the parties to mediation over any unpaid approved invoices and maintained the litigation stay of Cobra's administrative expense motion.

With regard to the administrative status of the amounts potentially due to Cobra, in May 2021, FEMA formally denied reimbursement of approximately $46 million under the Authority's first contract with Cobra in FEMA Project Worksheet ("PW") 251. It found that about $24.4 million of the total invoiced amount was not authorized because Cobra had more than the maximum number of line workers allowed on the job without written authorization from the Authority. The remaining $21.5 million was denied as charges unsupported by the terms of the contract. The Authority provided proof of the written authorization with respect to the $24.4 million denial. On May 31, 2022, FEMA approved the $24.4 million reimbursement, but denied the appeal with respect to the remaining $21.5 million. The Authority had previously received this funding from FEMA.

On July 29, 2022, the Authority filed a Request for Arbitration with the U.S. Civilian Board of Contract Appeals (the "Board") requesting the Board direct FEMA to reinstate the $21.5 million denied amounts. On November 16, 2022, the Board formally denied the Authority's request for the costs at issue. There is no right of judicial review or appeal of this decision. Thus, the Board's decision is final. The denied amounts represent costs FEMA had already obligated and paid to the grant recipient, COR3, which in turn disbursed the funding to the Authority, which in turn paid Cobra, the result of the Board's decision is that FEMA will automatically claw back the funding from COR3's federal bank account and the Authority now owes this amount to COR3.

The Authority's first contract with Cobra contained a provision that requires the Authority to reimburse Cobra for taxes it pays to the Government of Puerto Rico in excess of 8.5% of the amounts Cobra is paid under the contract ("tax gross-up"). These amounts are eligible for FEMA reimbursement. FEMA indicated that it will defer its decision on the tax gross-up payable under the contract and eligible for reimbursement to project closeout, and indicated that the Authority will be required to provide specific documentation establishing the amount of taxes paid in excess of 8.5% that were payable under the gross-up provision. The Authority and Cobra disagree on how much tax gross-up is payable to Cobra under the first contract.

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Cobra – (continued)*

FEMA has formulated two projects under the Authority's second contract with Cobra (PW 466 and PW 11211) and issued an Eligibility Determination Memorandum for each project on November 21, 2022 and December 21, 2022, respectively. For PW 466, FEMA determined $49,278,986.07 eligible for reimbursement at 100% federal cost share and denied $5,599,775.33 as ineligible for various reasons. For PW 11211, FEMA determined $233.7 million eligible for reimbursement at 90% federal cost share and denied $68.1 million as ineligible for various reasons. The Authority filed an administrative appeal of FEMA's determination regarding PW 466 on January 20, 2023 and filed an administrative appeal regarding PW 11211 on February 17, 2023.

On March 27, 2023, FEMA obligated the 90% federal cost share of the $233.7 million approved under PW 11211, or $210.3 million. Of the total $233.7 million approved amount, $130.2 million was for costs already paid to Cobra. The remaining $103.5 million is approved for invoiced costs that the Authority had not yet paid as of June 30, 2023. On June 26, 2023, the Authority submitted a Request for Reimbursement (an "RFR") to COR3 for the $130 million already-paid costs and COR3 disbursed the associated 90% obligated—$117.2 million on. The Authority undertook a process of internally validating and approving for paying the Approved Unpaid Invoices. From June 1, 2023 to February 26, 2024, the Authority paid Cobra approximately $110.6 million in invoiced amounts that the Authority was able to internally validate. It submitted an associated RFR to COR3 to obtain reimbursement of the amount paid. On November 1, 2023, the Authority submitted an RFR for $82.4 million in approved unpaid invoices to COR3. These invoices are subject to 90% funding from FEMA, meaning the Authority is responsible for the other 10%. On or about January 2, 2023, the Authority received a disbursement from COR3 in the amount of $74 million. There were approximately $1.5 million to $2.9 million in disputed Approved Unpaid Invoices. Each of these disputed charges is a portion of an invoice the Authority otherwise approved and submitted to COR3. Moreover, certain Puerto Rico municipalities (the "Municipalities") have asserted claims against Cobra for certain municipal and/or construction excise taxes (the "Municipal Tax Claims"), for which Cobra disputes any valid liability. The Authority held $18.3 million in funds (the "Withheld FEMA Funds") it received from FEMA and considers payable to Cobra but for the garnishments asserted for the Municipal Tax Claims.

On May 9, 2024, the Title III Court entered an order directing the parties to continue mediation and setting a litigation schedule for Cobra's administrative expense litigation.

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Cobra – (continued)*

On June 12, 2024, the Oversight Board, on the Authority's behalf, filed an objection to Cobra's administrative expense motion. Thereafter, the parties agreed to put the litigation schedule on hold to attempt to document a settlement in principle.

On July 31, 2024, the Oversight Board filed a motion seeking an order approving a settlement between the Authority, the Oversight Board, and Cobra, which, among other things, allows the Cobra administrative expense claim of approximately $188.4 million, and provides that the Authority's performance under the settlement agreement shall fully satisfy the Authority's obligations under the Cobra contracts. On August 8, 2024, the Authority, the Oversight Board, and Cobra filed a joint motion requesting the Court suspend all litigation deadlines in light of the pending settlement. The Court granted the motion on August 12, 2024. On September 3, 2024, multiple Puerto Rico municipalities and Foreman Electric Services Inc. filed objections to the motion for approval of the Cobra settlement.

After holding a hearing on the settlement motion, on September 18, 2024, the Court entered an order granting the motion for approval of the Cobra settlement. The Withheld FEMA Funds, along $150 million, have been paid to Cobra on account of it approved administrative expense claim. The payments under the settlement were funded through a Central Government appropriation from moneys previously earmarked to pay the Authority administrative claims under the proposed Authority's Plan of Adjustment. The amended FY24 Commonwealth Budget for the Commonwealth that the Oversight Board certified on June 28, 2024, includes a $150 million appropriation for "Disaster Response Claims Settlements for the Authority" for these purposes (the "Settlement Funding"). The impacts associated with this settlement will be accounted for in the period in which the Settlement Agreement is approved by the Title III Court and the related obligations become effective. A second installment in the amount of $20 million will be paid to Cobra by or on behalf of the Authority upon the effective date of a confirmed plan of adjustment in the Authority's Title III case.

On October 15, 2024, multiple Puerto Rico municipalities and Foreman Electric Services Inc. ("Foreman Electric") appealed the Court's order approving the settlement. On January 16, 2025, the First Circuit entered a judgment dismissing Foreman Electric's appeal. The municipalities' appeals are currently pending.

In addition, on September 19, 2024, Foreman Electric commenced an adversary proceeding against the Authority, Cobra, COR3, Ahsha Tribble, and Keith Ellison (the "Defendants") alleging that: (i) the

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Cobra – (continued)*

Defendants engaged in a fraudulent scheme to steer contracts to Cobra; (ii) Tribble and Ellison conspired to award contracts to Cobra in exchange for bribes; (iii) Tribble influenced FEMA and Authority officials to favor Cobra, resulting in waste and misallocation of funds; and (iv) the Authority continued to assign work to Cobra in violation of certain Authority's Governing Board resolutions. Foreman Electric also asserts that it was awarded a contract but was prevented from performing due to the alleged scheme and demands $100 million in damages. On September 27, 2024, the court referred the adversary proceeding to Magistrate Judge Judith Dein for general pre-trial management.

On December 6, 2024, Cobra filed a motion to dismiss the complaint, and on December 18, 2024, the Authority also filed a motion to dismiss the complaint, which COR3 joined through the Fiscal Agency and Financial Advisory Authority ("FAFAA"). On January 20, 2025, Foreman Electric filed its response to the motions to dismiss. On February 3, Cobra and the Authority filed their replies to Foreman Electric's opposition to the motions to dismiss, and FAFAA filed a reply and joinder on behalf of COR3 to the Authority's reply. The motions to dismiss are pending adjudication. On October 29, 2025, Foreman Electric voluntarily dismissed all claims in the above-captioned action against Cobra, Ahsha Tribble, and Keith Ellison with prejudice.

*Legal Cases Reported by LUMA*

- **Ismael Herrero Domenech / Wendco of Puerto Rico (Consolidated Class Actions — April 6, 2023) Blackout**

  Consolidated class actions filed by residential and commercial customers claiming damages from the April 6, 2023 island-wide blackout, alleging LUMA's gross negligence in failing to maintain the electrical grid. Herrero claims $100 million in residential damages; Wendco claims $300 million in commercial damages plus $10 million as third-party beneficiaries. Both parties have filed cross-motions for summary judgment on class certification. A status hearing was held May 7, 2026. Plaintiffs' amended complaint to add damages was denied; discovery is concluded.

  While the gross negligence standard plaintiffs must meet is a higher threshold than ordinary negligence, the class certification issue is the near-term critical question. If the classes are certified, the financial exposure would be significant. LUMA's pending motion for summary judgment arguing non-certifiability is substantive; however, given the scale of the April 6 blackout and the

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Legal Cases Reported by LUMA – (continued)*

Ismael Herrero Domenech / Wendco of Puerto Rico (Consolidated Class Actions — April 6, 2023 Blackout) – (continued)

broad class of affected consumers, certification is not remote. The underlying merits and exposure depend on resolution of both class certification and the gross negligence standard. Based on the totality of the circumstances, the risk of adverse outcome is reasonably possible.

Combined claimed exposure is $410 million plus attorney fees (33% of damages). If classes are certified and plaintiffs prevail on the merits, LUMA's and the Authority's exposure could be substantial. Given the uncertainty of class certification and the gross negligence threshold, it is not practicable to estimate a specific range at this time. The uncertainty stems primarily from: (1) whether the classes will be certified; (2) whether gross negligence can be established; and (3) the allocation of damages.

No settlement discussions reported.

- **Wendco of Puerto Rico et al. v. LUMA Energy, LLC (April 16, 2025) Blackout**

  Commercial customers filed a class action seeking $500 million for damages from the April 16, 2025 blackout, claiming gross negligence. The Arecibo Court bifurcated proceedings to first determine class action suitability. Discovery on class certification has commenced. The Court ordered Plaintiffs to show cause for non-compliance with discovery orders by May 18, 2026; Plaintiffs did not appear.

  The case is in its early stages and plaintiffs' failure to comply with court orders is a favorable development for LUMA and the Authority. Nevertheless, given the size of the claim and the involvement of a separate, distinct blackout event, the risk cannot be considered remote. The gross negligence standard remains a high bar, and the discovery non-compliance may ultimately weaken plaintiffs' position. The risk of adverse outcome is reasonably possible, though at the lower end of that spectrum given current procedural posture.

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Legal Cases Reported by LUMA – (continued)*

*Wendco of Puerto Rico et al. v. LUMA Energy, LLC (April 16, 2025)* Blackout – (continued)

Claimed exposure: $500 million plus 33% attorney fees.

No settlement discussions reported.

- **Eduardo Horrutnier Socias y Otros v. LUMA Energy, LLC (Pension Charge Class Action)**

Plaintiffs challenge the legality of a pension cost adjustment charge included in the Authority/LUMA customer bills pursuant to a provisional rate approved by PREB on July 31, 2025. Remedies sought include injunctive relief to bar collection of $307.5 million and unspecified damages plus attorney fees (25%). The case is currently stayed due to the Authority's Title III bankruptcy proceeding. FOMB opposed plaintiffs' request for relief from stay; that request was denied and plaintiffs have appealed.

The case is currently stayed and FOMB's successful opposition to stay relief demonstrates the strength of the Authority's Title III protections. LUMA's role in billing the pension charge was ministerial — it was implementing a PREB-approved rate. The legal liability for the pension cost structure rests primarily with the Authority and PREB, not LUMA.

No settlement discussions applicable given stay.

*Key Contested Motions and Adversary Proceedings in the Title III Case*

- Current Expense Litigation

  a. Fuel Line Lenders

  On July 9, 2019, 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 Trust Agreement and assert they must be paid before any further payments are made to the 1974 Trustee or

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

Contingencies – (continued)

Legal Contingencies – (continued)

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

bondholders. The Authority, the Oversight Board, and FAFAA jointly filed a motion to dismiss the amended complaint on November 11, 2019. The Title III Court adjourned the hearing.

On December 1, 2022, the Oversight Board, as Title III representative of the Authority, and the Fuel Line Lenders entered into a Plan Support and Settlement Agreement. The agreement is conditional on the Title III Court approval of the Plan. On December 2, 2022, FAFAA and the Fuel Line Lenders filed a stipulation that, subject to the terms of the Plan Support and Settlement Agreement, stays the litigation until the termination of the Plan Support and Settlement Agreement. On July 25, 2023, the Oversight Board informed the Title III Court that it had entered into an amendment to the Plan Support and Settlement Agreement with the Fuel Line Lenders.

b. PREPA ERS

On October 30, 2019, 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 Trust Agreement because contributions made to pensions and the retirement system allegedly qualify as Current Expenses under the Trust 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, the Oversight Board, and FAFAA jointly filed a motion to dismiss the amended complaint, which the PREPA ERS opposed. On September 29, 2022, the Title III Court terminated the motion to dismiss, stating that the Current Expense issue will be addressed only after security and recourse issues have been resolved or in connection with the Plan's confirmation.

c. 2023 Current Expense Litigation

On December 8, 2023, the UCC, UTIER, PREPA ERS, Blue Beetle III LLC, and EIF Recourse Recovery LLC filed a complaint that named the Oversight Board, the Authority, FAFAA,

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

Contingencies – (continued)

Legal Contingencies – (continued)

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

and the 1974 Trustee as defendants, and requested that the Court subordinate the claims of the 1974 Trustee and the Authority's bondholders to the claims of UTIER, PREPA ERS, Blue Beetle, EIF, and all other holders of asserted Current Expense claims.

Upon the Oversight Board settling with the UCC regarding the UCC's Plan objections, the UCC agreed to not prosecute the litigation and withdraw as plaintiff on the Plan's effective date if it is confirmed.

On December 14, 2023, the Title III Court stayed this litigation pending resolution of the Plan confirmation hearing, without prejudice to the plaintiffs' ability to raise the litigation issues in their objections to confirmation of the Oversight Board's proposed Plan.

- Lien Challenge

On July 1, 2019, the Authority, the Oversight Board, and FAFAA filed a complaint (the "Lien Challenge") 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 Trust Agreement; (ii) declare the 1974 Trustee has not perfected any security interest in any of the Authority's property other than cash deposited to the credit of the Sinking Fund; (iii) avoid any security interest granted to the 1974 Trustee in any of the Authority's property other than cash deposited to the credit of the Sinking Fund, preserving all avoided liens for the benefit of the Authority; (b)(i) declare that contractual covenants and remedies set forth in the Trust Agreement are obligations of the Authority, not the Authority's property, and do not and cannot constitute collateral in which the Authority has granted a security interest to secure the Authority's bonds; (ii) declare the 1974 Trustee has not perfected any security interest in any such covenants and remedies and that the Authority's interest in such is entitled to priority over any interest of the 1974 Trustee under Puerto Rico law; (iii) avoid any security interest in such covenants and remedies, preserving all avoided liens for the benefit of the Authority; and (c) disallow all claims asserting security interests either not granted under the Trust Agreement or that are unperfected.

On October 3, 2022, the Oversight Board filed an amended complaint asserting seven counts and broadly requesting disallowance of the bondholders' claims to the extent the claims: (i) seek to

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

Contingencies – (continued)

Legal Contingencies – (continued)

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

assert a security interest in property other than the revenues actually deposited to the credit of the Sinking Fund and certain other designated funds, and subordinating the 1974 Trustee's security interest against that property to the Authority's interest; (ii) assert a security interest in the covenants and remedies; and (iii) assert an unsecured claim against the Authority. While the Amended Complaint eliminated FAFAA as a plaintiff, on October 17, 2022, the Court approved a stipulation between the Oversight Board and FAFAA to allow FAFAA to intervene as a plaintiff. The Court approved numerous stipulations allowing parties on both plaintiff and defendant side to intervene. The Authority's bondholders and monoline insurers intervened as defendants.

On October 24, 2022, both the Oversight Board and the defendants filed cross-motions for summary judgment.

On March 22, 2023, the Court held that: (i) the Trust Agreement granted the Bondholders security interests only in moneys actually deposited to the Sinking Fund, Self-insurance Fund, Capital Improvement Fund, Reserve Maintenance Fund, and Construction Fund (as defined in the Trust Agreement); (ii) Bondholders have perfected their liens in the Sinking Fund, Self-insurance Fund, and Reserve Maintenance Fund, over which the Trustee has established control; (iii) Bondholders have no security interest in the covenants and remedies provided for by the Trust Agreement; but (iv) based on the Authority's payment and equitable relief covenants in the Trust Agreement, Bondholders have an unsecured claim to be liquidated by reference to the value of future "Net Revenues" (as defined in the Trust Agreement) that would, under the waterfall provisions of the Trust Agreement and applicable nonbankruptcy law, have become collateral upon being deposited in the specified funds and payable to the Bondholders over the remainder of the term of the Bonds (the "Net Revenue Claim").

The Court ruled that it would conduct estimation proceedings for the Bondholders' Net Revenue Claim. After the Title III Court held the estimation hearing, on June 26, 2023, the Court issued its opinion rejecting the Bondholders' contention that their Net Revenue Claim should be valued at the face value of the bonds (roughly $8.5 billion) and, instead, valued the claim at $2.388 billion.

On November 29, 2023, the Title III Court dismissed the remaining counterclaims asserted by the Bondholders. Thereafter, the Oversight Board, FAFAA, multiple Bondholder parties, and the UCC appealed different aspects of the dismissal order, judgment, or the interlocutory orders merged

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

Contingencies – (continued)

Legal Contingencies – (continued)

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

into the judgment (*e.g.*, the summary judgment order and the estimation order). The First Circuit heard oral arguments on January 29, 2024, and took the matter under advisement.

On June 12, 2024, the First Circuit issued its decision on the matter, affirming in part and reversing in part the Title III Court. The First Circuit held Bondholders have a non-recourse claim for the principal amount of the bonds, plus matured interest secured by the Authority's Net Revenues and by liens on certain funds created by the Trust Agreement. The First Circuit did not decide what effect, if any, confirmation of a Plan of Adjustment will have on the Bondholders' security interest, nor did it attempt to estimate the economic value of that security interest. Lastly, the First Circuit affirmed the Title III Court's dismissal of the Bondholders' breach of trust claim and reversed the dismissal of the Bondholders' accounting claim.

On June 26, 2024, the Oversight Board filed a petition for panel rehearing on the single issue of perfection of the Net Revenues under the uniform commercial code. Both the UCC and FAFAA filed joinders to the Oversight Board's petition. Bondholders opposed the petition for hearing on August 2, 2024, and the Oversight Board and UCC filed replies in support of the petition on August 9, 2024.

On November 13, 2024, the First Circuit issued an order (i) granting in part the petition for panel rehearing and (ii) withdrawing the opinion issued on June 12, 2024 and replacing it with a revised opinion. In the revised opinion, the First Circuit concluded that the Authority's Net Revenues are more accurately classified as general intangibles. This determination does not alter the First Circuit's prior conclusion from the June 12, 2024 opinion, which recognized that the Bondholders hold a nonrecourse claim.

On November 27, 2024, the Oversight Board filed another petition for panel rehearing arguing that the First Circuit misclassified the Authority's Net Revenues as "general intangibles" under the Uniform Commercial Code, instead of recognizing them as currency or deposit accounts. FAFAA and the UCC joined the Oversight Board's petition. On December 31, 2024, the First Circuit denied the petitions for panel rehearing of its revised opinion dated November 13, 2024.

As explained below, on April 13, 2026, the Court modified the litigation stay to allow the equitable accounting counterclaim to proceed, starting with discovery.

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

Contingencies – (continued)

Legal Contingencies – (continued)

*Bodily Injuries Claims*

The Authority and LUMA are defendants 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 $279.3 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 Case.

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 Title III 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 generating units at its Costa Sur, Aguirre, Palo Seco, and San Juan Power Plants. Additionally, the 2004

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

Contingencies – (continued)

1999 Consent Decree – (continued)

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 completed 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 court 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 $129 thousand in fiscal year 2023.

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.

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

Contingencies – (continued)

Compliance Programs – (continued)

*Mercury and Air Toxics Standards*

The Mercury and Air Toxics Standard ("MATS") under the Clean Air Act, through the EPA regulations, 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 some 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, the PREB issued its final order on the Authority's IRP, approving it in part and making certain modifications. The Authority's IRP is expected to inform the basis of a potential MATS compliance plan. The state implementation plan for the 1-hour sulfur dioxide ("$SO_2$") national ambient air quality standard, which was submitted by the Puerto Rico Department of Natural and Environmental Resources ("DNER") to EPA and was deemed complete by EPA on December 1, 2022. EPA later proposed substantive action (finding of failure to attain and approval/conditional approval of parts of Puerto Rico's SO2 SIP) in October 2024.

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.

*$SO_2$ 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 $SO_2$ national ambient air quality standards ("NAAQS"). The non-attainment designations took effect on April 9, 2018. EPA identified two (2) $SO_2$ non-attainment areas 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 $SO_2$ non-attainment areas. Those steps include stricter controls on

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

Contingencies – (continued)

Compliance Programs – (continued)

*$SO_2$ National Ambient Air Quality Standard Compliance – (continued)*

sources of $SO_2$. State and local governments detail these steps in plans that demonstrate how they will meet the $SO_2$ standard. Those plans are known as state implementation plans ("SIPs").

On August 26, 2022, DNER issued a proposed SIP and proposed amendments to the Puerto Rico Regulation for the Control of Atmospheric Pollution ("RCAP") for public comment and hearing. On September 14, 2022, DNER held a public hearing on the proposed SIP and RCAP amendments. According to DNER and EPA, the Authority's power plants are principal emitters of $SO_2$ in the identified areas. The Authority's affected facilities in the non-attainment areas are the San Juan, Palo Seco, and Aguirre Power Plants. The Authority submitted written comments on the proposed SIP and proposed RCAP amendments and also participated in and provided additional comments during the public hearing, including on the status of the implementation of the Authority's IRP and projects, approved by the PREB in August 2020, as well as reliability considerations.

On November 21, 2022, the Authority received notification that DNER had approved amendments to the RCAP with an effective date of November 21, 2022. On November 22, 2022, DNER notified the Authority of the SIP Approval Resolution, whereby DNER adopted the Official Examiner's recommendation to adopt the SIP.

On December 1, 2022, EPA determined that the SIP submittal by DNER is administratively and technically complete. On October 2024, EPA proposed a finding of failure to attain and a conditional approval of parts of Puerto Rico's SO2 SIP. DNER and EPA are still working on a submittal for approvability in a subsequent rulemaking.

The SIP adopted by DNER and submitted to EPA included the following requirements: (i) retirement dates for certain Authority's generating units, contingent upon the effective integration of new renewable energy projects forecasted by the PREB; (ii) fuel-switching to ultra-low sulfur diesel fuel at the Authority's combustion turbines located within the nonattainment areas; and (iii) establishment of an $SO_2$ attainment air monitoring network within the nonattainment areas.

The Authority commenced the fuel-switching to ultra-low sulfur diesel ("ULSD") fuel in March 2022 to be combusted in MobilePac units, gas turbines ("CTs") and combined cycles.

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

Contingencies – (continued)

Compliance Programs – (continued)

*$SO_2$ National Ambient Air Quality Standard Compliance – (continued)*

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.

*Palo Seco MobilePac Units NOV*

On December 8, 2023, the EPA issued a Notice of Violation ("NOV") to the Authority and GeneraPR. EPA alleged that GeneraPR and the Authority violated certain Clean Air Act regulations and Puerto Rico Regulations for the Control of Air Pollution related to the operation of three MobilePac turbines at the Palo Seco Steam Power Plant, located in Toa Baja, Puerto Rico. Specifically, EPA alleged the Authority and GeneraPR violated fuel consumption limits established in the MobilePac turbines' air permit as issued by DNER, violated a separate air permit condition by failing to timely request a permit modification following a change in the Palo Seco Steam Power Plant's responsible official, and violated the applicable NSPS, 40 C.F.R. part 60 subpart KKKK, and the applicable NESHAP, 40 C.F.R. part 63 subpart YYYY, by failing to conduct timely annual and performance testing of the MobilePac turbines, respectively. GeneraPR and EPA entered into a Consent Agreement and Final Order on July 15, 2025. A stipulated payment of $145,000 was made to EPA/DOJ on August 28, 2025.

As of the date of the issuance of these financial statements, the Authority does not expect any other material penalties or fines or material restrictions on its operations to result from this enforcement action, but will update and supplement this notice as appropriate.

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"), the Palo Seco Site, and the Ochoa Site.

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

Pollution Remediation Obligation – (continued)

*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 ("ASAOC") to conduct a remedial investigation and feasibility study ("RI/FS")[9] 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 ASAOC (CERCLA-02-2020-2010) with the EPA to conduct the RI/FS. The ASAOC requires payment from the PRP Group to EPA in the amount of approximately $445 thousand for past response costs. On December 8, 2020, the Authority paid its $75 thousand share. 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's share will be applied to any payment of RI/FS work to be carried out at the Proteco Site and considered part of the liability, as well as to pay and absorb any future liability that may be imposed for noncompliance with the ASAOC. The RI/FS is in the earliest stages for various reasons, including EPA delays due to agency-wide restructuring and the inherent delays in CERCLA cases as a result of the statutory framework, the multiple party involvement, and complex technical realities, among others.

On October 4, 2023, the PROTECO Landfill Superfund Site Generator Parties Group ("GPG")[10], which includes the Authority, filed a Complaint for Cost Recovery, Contribution, and Declaratory Relief under CERCLA against certain third parties that arranged for the disposal or treatment of hazardous

[9] 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.

[10] The GPG includes the members of the PRP Group and additional parties that also arranged for disposal or treatment of hazardous substances, or arranged with a transporter for disposal or treatment of hazardous substances, at the Proteco Site.

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

Pollution Remediation Obligation – (continued)

*The Proteco Site – (continued)*

substances, or arranged with a transporter for disposal or treatment of hazardous substances, at the Proteco Site. The complaint was amended on January 5, 2024, on June 24, 2024, on May 30, 2025 and on August 1, 2025 in order to include additional defendants that are also jointly and severally liable for costs incurred at the Proteco Site, as well as to include many settling defendants that decided to join the GPG as additional members.

As of the date of the issuance of these financial statements, the GPG has settled with most defendants and continues settlement discussions with a remaining defendant. The GPG continues to investigate the identification of other additional PRPs.

In October 2019, 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 estimated at that time. The $1.5 million was the only cost capable of being estimated at the time, and, therefore, that is the amount accrued by the Authority. After the PRP Group entered into the ASAOC in September 2020, additional expenses were incurred in technical and legal services in order to investigate and identify additional PRPs and to reach an agreement for them to join the PRP Group. Additional expenses were also incurred in order for the GPG to commence extensive litigation against certain other PRPs (as discussed above).

The initial allocation of responsibility agreed to between the GPG was based on the volume of waste deposited by each party at the Proteco Site. Although the parties agreed to promptly perform an allocation based on the toxicity of each party's waste, that allocation has not taken place due to the inherent CERCLA delays. An allocation based on volume may be significantly unfavorable to the Authority. It is not possible to estimate any potential future remediation costs until the RI/FS phase is completed. The results of the RI/FS may result in additional material exposure.

Between 2020 and 2026, the Authority has disbursed approximately $947 thousand in periodic assessments in connection with this matter. The payment of the periodic assessments depends on yearly budgetary allocations of the Authority. In its two (2) most recent assessments, the GPG invoiced the Authority an additional total amount of approximately $636 thousand for its share of the RI/FS costs of which approximately $347.5 thousand remains unpaid. Specifically, the Authority made two (2) partial payments of $138.6 thousand and approximately $150 thousand of a total amount of approximately $374 thousand that was invoiced on December 13, 2024. An additional approximately $261.9 thousand was invoiced on October 28, 2025, which also remains unpaid. Nonpayment of the amounts due to the GPG may entail consequences, including the potential noncompliance by the GPG

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

Pollution Remediation Obligation – (continued)

*The Proteco Site – (continued)*

under the ASAOC and potential noncompliance by the Authority of the Joint Defense Agreement with the GPG.

*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.

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

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

Pollution Remediation Obligation – (continued)

*The Vega Baja Site – (continued)*

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.

By letter dated May 13, 2026, EPA requested the public and private PRPs at the Vega Baja Site to confirm their willingness to engage in further discussions regarding the performance of additional response activities at the Site in light of the Residential Lead Directive for CERCLA Sites and RCRA Hazardous Waste Cleanup Program Facilities issued by EPA in 2025 that resulted in EPA lowering the cleanup level for lead in residential soil at the Site to 200 mg/kg. The Authority informed EPA on June 4, 2026 that it is not currently in a financial position at this time to engage in such discussions.

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.

*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 (7) areas of interest identified by EPA at the Palo Seco Site. The Administrative Order required the Authority to carry out a RI/FS. Following

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

Pollution Remediation Obligation – (continued)

*The Palo Seco Site – (continued)*

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 thousand that EPA had incurred in connection with the oversight of the removal action performed under the AOC; and (ii) $1.5 million 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 thousand 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 thousand. Second installment was paid on May 29, 2018, for the amount of $338 thousand. The third and final installment was paid on July 19, 2019, for the amount of $340 thousand. The third payment completed the Authority's financial commitments under the settlement agreement.

*The Ochoa Site*

On August 8, 2023, EPA issued a Request for Information Pursuant to Section 104(e) of CERCLA ("RFI") in connection with the Ochoa Fertilizer Co. Superfund Site in Guánica, Puerto Rico (the "Ochoa Site") to the Authority and LUMA. The RFI was issued in connection with the release and threatened release of hazardous substances into the environment at and from the Ochoa Site. The EPA requested information relating to the contamination at the site, operations conducted therein, as well as general information pertaining to the Authority.

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

Pollution Remediation Obligation – (continued)

*The Ochoa Site – (continued)*

On September 7, 2023, LUMA responded to the RFI. LUMA's position is that its Operation and Maintenance Agreement, as well as the date that LUMA effectively assumed the operation and maintenance of the Authority's transmission and distribution system, were both after the EPA identified the contamination at the Ochoa Site.

On April 16, 2024, EPA issued a Special Notice Pursuant to Section 122(e) of CERCLA – Request to Perform Remedial Investigation/Feasibility Study, Notice of Potential Liability (the "Special Notice") to Guánica-Caribe Land Development Corporation ("GCLDC"), the Authority, W.R. Grace & Co.-Conn. ("Grace"), and the Puerto Rico Ports Authority ("PRPA"). The EPA states that it has documented the release of hazardous substances (including polychlorinated biphenyls ("PCBs")) at the Ochoa Site. The EPA also states that it previously notified GCLDC and PRPA that it has reason to believe that they may be potentially responsible parties ("PRPs") in connection with the contamination at the Ochoa Site. Based on the information available to the EPA, it is now including the Authority and Grace as PRPs and it has stated that all four (4) parties are liable under CERCLA for investigation and cleanup of the Ochoa Site and for the costs that EPA has incurred and will incur in addressing the release or threatened release of hazardous substances at the Ochoa Site. The Special Notice further states that its primary purpose is to initiate settlement discussions to secure the performance of a Remedial Investigation/Feasibility Study at the Ochoa Site.

On August 12, 2024, the Authority responded to the Special Notice. The Authority requested that the EPA dismiss the enforcement action against it and/or offer the Authority a separate settlement option. The Authority argued that the EPA's finding as to the Authority being a PRP is unsupported by, and inconsistent with, the specific findings and conclusions contained in the EPA's administrative record, and thus the enforcement action should be dismissed against the Authority.

By letter dated November 19, 2024, the EPA responded to the Authority and indicated that certain information submitted by LUMA in response to the RFI shows that the Authority is a PRP. EPA requested that the Authority reach out to the other PRPs to join the settlement negotiations at the Ochoa Site. EPA indicated that it has not received the Authority's response to the RFI dated August 8, 2023 and that the Authority is subject to very substantial potential statutory penalties for such noncompliance. The magnitude of these penalties cannot be reasonably estimated at this time.

It is the Authority's position that LUMA's response of September 7, 2023 covered both LUMA and the Authority, given that all relevant T&D System records and information are in LUMA's possession. Despite such position, the Authority submitted its RFI responses to EPA by letter dated October 31,

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

Pollution Remediation Obligation – (continued)

*The Ochoa Site – (continued)*

2025. The Authority provided said responses to the best of its ability and based on the limited information that is available to it, while emphasizing to EPA that LUMA possesses all the relevant records and information. EPA has not responded to the Authority's submittal.

As of the date of the issuance of these financial statements, EPA and the Authority are in the process of initiating discussions regarding the Authority's participation in the enforcement action. The outcome of this matter and the potential for loss are uncertain, and we have not concluded that an unfavorable outcome is either probable or remote.

Asset Retirement Obligations

In accordance with GASB Statement No. 83, *"Accounting and Financial Reporting for Certain Asset Retirement Obligations"*, the Authority records a liability and a deferred outflows associated with the retirement of tangible capital assets that it has an enforceable legal obligation to retire. GASB No. 83 requires governmental entitles 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 exits at the time an asset is acquired or if constructed placed in service. In accordance with GASB No. 83, the Authority estimated and recorded its AROs 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 AROs of applicable tangible assets such as thermal generation, hydroelectric power facilities, select T&D System components, and other assets, following the requirements of GASB No. 83. The useful life of assets examined range between 10 and 80 years. Federal energy laws and regulations, federal environmental laws and regulations, and Commonwealth environmental laws and regulations issued by the Puerto Rico Department of Natural and Environmental Resources have been reviewed to determine AROs.

For the fiscal year ended June 30, 2023, the Authority does not have assets restricted for payment of ARO liabilities.

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

Asset Retirement Obligations – (continued)

The Authority records AROs as a non-current liability in the accompanying statement of net position (deficit). AROs as of June 30, 2023 (in thousands) were:

| ARO: | 2023 |
|---|---|
| Balance at July 1, 2022 | $173,496 |
| Additions | 16,871 |
| Change due to updates | 4,138 |
| Balance at June 30, 2023 | $ 194,505 |

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/accretion of ARO costs of approximately $9.4 million is presented under depreciation and amortization in the accompanying statements of revenues, 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, 2023 (in thousands):

| Deferred outflows - ARO | 2023 |
|---|---|
| Balance at July 1, 2022 | $ 87,166 |
| Additions | 11,716 |
| Change due to updates | (157) |
| Balance at June 30, 2023 | $ 98,725 |

*This space is intentionally left in blank*

Note 20 - Subsequent Events

Subsequent events were evaluated through June 30, 2026 to determine if any such events should either be recognized or disclosed in the 2023 basic financial statements.

The Authority's Fiscal Plan

On February 6, 2025, the Oversight Board approved the Certified 2025 Fiscal Plan for the Authority, and on June 6, 2025, the Oversight Board certified the latest 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, in the coming 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 projections. Pursuant to the Commonwealth Fiscal Plan, the successful transformation of Puerto Rico's power sector depends on: (1) long-term capital planning that delineates and coordinates the investments required to improve the generation fleet and the electric grid, establishes clear priorities, details the assigned funding sources and timelines for major works, and specifies the anticipated benefits for each initiative, (2) vegetation management to combat overgrown and hazardous vegetation (3) service reliability for a more dependable, resilient, customer-centric, and environmentally friendly energy system, (4) further achievement on the renewable generation capacity targets for Puerto Rico in a cost-effective manner.

Key Contested Motions and Adversary Proceedings in the Title III Case

- The Authority's Plan of Adjustment Mediation

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 (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 UCC, and (j) the Authority's fuel line lenders.

Mediation initially terminated on September 17, 2022, as no consensus was reached among the mediation parties.

On September 29, 2022, the Title III Court issued an order that, among other things, (i) directed the Oversight Board to file a confirmable Plan by December 1, 2022, a disclosure statement, and a proposed confirmation schedule; and (ii) stayed a motion to dismiss the Title III Case filed by the

Note 20 - Subsequent Events – (continued)

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

- The Authority's Plan of Adjustment Mediation – (continued)

Bondholders until the earlier of (a) the day after the deadline set by the Court for filing a proposed Plan, if such plan deadline is not met, and (b) the termination of the plan confirmation process. The December 1, 2022 date was subsequently extended and the Oversight Board filed the first iterations of the Plan and Disclosure Statement on December 16, 2022.

Also on September 29, 2022, the Title III Court entered an order amending the terms and conditions of mediation and establishing a new mediation termination, which has been extended on multiple occasions.

Since then, the Mediation Team has facilitated multiple in-person sessions and ongoing discussions among the Oversight Board and other parties objecting to the Plan. The current mediation termination deadline is October 31, 2026, and the current team of mediators is composed of Hon. Shelley C. Chapman (Ret.) and sitting bankruptcy judge Hon. Brendan L. Shannon. On March 31, 2026, the Court entered an order extending the appointment of Hon. Shelley C. Chapman (Ret.) as lead mediator through October 1, 2026.

On June 30, 2026, the Oversight Board publicly disclosed that it had presented to the Lead Mediator a settlement proposal for PREPA Bondholders. The proposal is for the payment of cash or issuance of new bonds, or a combination of both, in the amount of $3 billion, in exchange for the release of the Authority's prepetition bond obligations. The Oversight Board has not determined the source of the funds for any proposed payment. The offer states that any debt to be issued would be comprised of collateralized bonds with terms still to be determined. The Oversight Board also indicated that it is willing to negotiate a contingent value instrument for the Bondholders.

- The Authority's Plan of Adjustment and Disclosure Statement

The Plan's Confirmation Hearing was scheduled for July 2023, but significant developments regarding the 2023 fiscal plan (the "Certified 2023 Fiscal Plan") caused a suspension of such schedule. The Certified 2023 Fiscal Plan's debt sustainability analysis provided that the maximum amount for creditors the Authority could reasonably sustain was approximately $2.5 billion. Therefore, the Oversight Board informed the Title III Court that the Plan would be amended to reduce the amount of new bonds to be issued from $5.68 billion to $2.388 billion.

On August 25, 2023, the Oversight Board filed its third amended plan of adjustment for the Authority (as modified, amended, or supplemented, the "Amended Plan"). The Amended Plan incorporated

Note 20 - Subsequent Events – (continued)

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

- The Authority's Plan of Adjustment and Disclosure Statement - (continued)

settlements reached in mediation between the Oversight Board and (i) Vitol Inc.; (ii) the Fuel Line Lenders; and (iii) National Public Finance Guarantee Corporation. It also included a restructuring support agreement with funds and accounts managed by BlackRock Financial Management Inc. and its affiliates, with Nuveen Asset Management LLC, Franklin Advisers, Whitebox Advisors LLC, and Taconic Capital Advisors LP, who together held over 40% of the Authority's uninsured bonds.

On September 15, 2023, the Oversight Board filed a supplemental Disclosure Statement for the Plan. After considering multiple objections and a hearing on the matter, the Title III Court approved the Disclosure Statement on November 17, 2023. Certain Authority bondholder parties appealed this decision to the First Circuit. On December 28, 2023, the First Circuit dismissed the appeal for lack of jurisdiction.

On February 16, 2024, the Oversight Board filed a further version of the Plan incorporating the terms of a settlement the Oversight Board reached with the UCC. Significant discovery and litigation over the Amended Plan took place and the confirmation proceeding was held from March 4, 2024 to March 19, 2024. The Title III Court took the matter under advisement.

In light of a June 12, 2024 First Circuit's Lien Challenge decision (discussed in Note 19) that affects the Amended Plan, on June 17, 2024, the Oversight Board informed the Title III Court that it planned to request a limited reopening of the confirmation hearing record and that it would file amendments to the Amended Plan.

After hearing from all parties, at a July 10, 2024 status conference, the Court issued its Litigation Stay, staying all confirmation matters and all litigation in the case on bondholder issues and ordered the parties to mediate the outstanding issues. The Court has since modified the Litigation Stay to allow certain matters to proceed, as outlined more extensively below.

The Oversight Board certified the Certified 2025 Fiscal Plan on February 6, 2025. In a February 11, 2025 informative motion, the Oversight Board noted that the key findings in the Certified 2025 Fiscal Plan are as follows: (i) despite efforts to improve the Authority's system and service reliability, the system and its reliability has deteriorated to unacceptable levels relative to mainland United States utilities; (ii) the Certified 2025 Fiscal Plan's cost projections reflect the private operators' estimates to operate and maintain the system independent of limitations imposed by the 2017 rate order issued by the Puerto Rico Energy Commission (now the PREB); (iii) the cost projections far exceed previous

Note 20 - Subsequent Events – (continued)

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

- The Authority's Plan of Adjustment and Disclosure Statement - (continued)

projections given the continuing deterioration of the system and that the private operators' projections are unconstrained by the 2017 rate order. The constraints of the budgets built around the limitations of the 2017 rate order masked the real needs of the system; (iv) the Authority will not be able to impose any sustainable rate increases for debt service because covering costs alone would require rates above the median income household's affordability; and (v) the Oversight Board has determined to take actions that will allow confirmation of an amended plan of adjustment paying settling creditors recoveries materially in line with the currently filed plan of adjustment (incorporating changes previously discussed with such creditors) while also paying in full the amount of the nonsettling bondholders' allowable secured claim, as will be determined by the Title III Court, and paying any additional amounts required if the nonsettling bondholders are determined to have other allowable claims.

On February 24, 2025, certain Authority bondholders filed a motion requesting the Title III Court lift the litigation stay on bondholder related issues, so that they can file and prosecute: (i) a motion for the allowance of an administrative expense claim under sections 503(b) and 922(c) of the Bankruptcy Code; (ii) an updated motion for relief from the automatic stay to appoint a receiver over the Authority; (iii) a motion for dismissal of the Title III Case; and (iv) a counterclaim for an equitable accounting in the Lien Challenge (see Note 19).

On March 4, 2025, some parties, including the unsecured creditors' committee, FAFAA, and the Oversight Board, filed responses to the nonsettling bondholders' motion for relief from the Authority's litigation stay. The nonsettling bondholders' filed a reply brief on March 11, 2025. The Court heard arguments on the matter on March 19, 2025. Thereafter, the Court ordered the litigation stay will remain in place *sine die,* except as follows:

- The litigation stay was lifted to permit the Oversight Board to file an amended proposed plan of adjustment and amended proposed disclosure statement for the Authority. Those materials were filed on March 28, 2025, as detailed below;

- The litigation stay was lifted to permit litigation concerning the Administrative Expense Motion, which was denied by the Title III Court on March 16, 2026 and is now on appeal before the First Circuit, as further detailed below;

Note 20 - Subsequent Events – (continued)

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

- The Authority's Plan of Adjustment and Disclosure Statement - (continued)

  - The litigation stay was lifted to permit the Oversight Board to file the Classification Motion, which was fully briefed and adjudicated, and is currently on appeal in the First Circuit where briefing concluded in February of 2026, as further detailed below.

On March 28, 2025, the Oversight Board filed the latest versions of the Authority's Amended Plan and disclosure statement. The Amended Plan incorporated the settlements previously reached with creditors holding approximately 44% of the Authority's debt. The Amended Plan proposed for to pay creditors $2.6 billion funded from sources outside of the Authority. The Oversight Board stated that it will be working with the government to identify the source of funds to support the potential cash or bond recovery for creditors proposed in the Amended Plan. Under this Amended Plan, the Authority may still issue up to $2.6 billion of bonds, which will be repayable on a fixed amortization schedule over 35 years from the Authority's net revenues as will be determined in the confirmation of the Amended Plan.

On August 25, 2025, certain Authority's bondholders filed a joint informative motion regarding an amendment and extension of the term of their cooperation agreement which stated that members of the PREPA Ad Hoc Group committed to terminating their support as a "Supporting Bond Party" under the plan support agreement between the PREPA Ad Hoc Group and the Oversight Board on October 1, 2025 if the Amended Plan is not confirmed by that date. The Amended Plan was not confirmed by that date and on October 7, 2025, certain members of the PREPA Ad Hoc Group provided notice that they had formally terminated their support and joined the cooperation agreement. On April 22, 2026, the Authority's bondholders filed an informative motion indicating they had agreed to extend the cooperation agreement's term to August 31, 2027.

- Bondholder's Administrative Expense Motion

  On April 7, 2025, the nonsettling bondholders filed their Administrative Expense Motion seeking allowance of an administrative expense claim for post-petition Net Revenues allegedly consumed by the Authority. The non-settling bondholders argue that since the commencement of the Title III Case, the Authority has consumed $3.7 billion of dollars in Net Revenues, which are the nonsettling bondholders' collateral. On April 28, 2025, the Oversight Board filed an objection to the Administrative Expense Motion asserting, among other things that: (i) the motion fails as a matter of law because the non-settling bondholders' claims have already been rejected by the First Circuit, which held their recovery is limited to Net Revenues, (ii) they are not entitled to administrative expense priority as their claims are nonrecourse and there is no evidence of

Note 20 - Subsequent Events – (continued)

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

The Authority's Plan of Adjustment and Disclosure Statement - (continued)

- Bondholder's Administrative Expense Motion – (continued)

collateral value decline, and (iii) their Takings Clause argument fails because they cannot reframe a contract claim as a constitutional taking and their rights are limited by the Trust Agreement that governs the Authority's bonds.

The legal issue in the Administrative Expense Motion was fully briefed and heard on July 23, 2025. The Title III Court also permitted limited discovery in connection with the motion.

On March 16, 2026, the Title III Court issued an opinion and order denying the Bondholders' administrative expense motion. The Court found that (i) the Bondholders did not demonstrate that the Authority's postpetition use of their alleged collateral was an "actual, necessary expense" that would qualify as an administrative expense, (ii) the Bondholders are not entitled to administrative expense priority under the fundamental fairness doctrine because it does not apply to their claims and they did not allege valid tort claims, and (iii) the Bondholders have not shown that they are entitled to priority claims under section 922(c) of the Bankruptcy Code because the Authority did not fail to provide any Court-ordered adequate protection payments to the Bondholders.

The Bondholders have appealed the Title III Court's decision denying their administrative expense claim motion to the First Circuit and filed their opening appellate briefs on May 14, 2026. On May 21, 2026, the States of Iowa, Alabama, Alaska, Florida, Georgia, Kansas, Louisiana, Missouri, Montana, Nebraska, Oklahoma, South Carolina, and Texas filed an *amicus curiae* brief. Responsive briefs are due on July 10, 2026.

On March 18, 2026, the Title III Court issued a supplemental order in connection with the bondholders' motion to compel discovery. The supplemental order further required the parties to include (1) the motions the parties expect to make or renew, (2) litigation they expect to commence, (3) the relationship of proposed discovery to those motions or that litigation, and (4) a schedule for the proposed motions or litigation in the March 30, 2026 status report.

On March 30, 2026, the parties submitted their joint status report in accordance with the Title III Court's order. In the joint status report, the Oversight Board argued that the litigation stay should remain in effect for all claims with the exception of a proceeding valuing the Bondholders' secured claim. The Oversight Board argued that, while the other pending litigation—such as the lift stay

Note 20 - Subsequent Events – (continued)

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

The Authority's Plan of Adjustment and Disclosure Statement - (continued)

- Bondholder's Administrative Expense Motion – (continued)

  motions and the equitable accounting counterclaim—would be wasteful and would not move the case forward. FAFAA and the UCC each sided with the Oversight Board regarding the litigation schedule. The Bondholders contended that the motions to lift the stay, or, in the alternative, dismiss the Title III case should go forward (following supplemental pleading) along with their equitable accounting counterclaim; however, the valuation proceeding should not.

  Also on March 30, 2026, the Bondholders filed a motion requesting that the Title III Court lift the litigation stay with regard to (i) their motion to lift the automatic stay, (ii) their motion to lift the automatic stay, or, in the alternative, dismiss the Title III case, and (iii) their equitable accounting counterclaim. The Bondholders argued that the length of these proceedings and inability to protect their collateral warrant lifting the stay. The Court entered an order on April 13, 2026, lifting the litigation stay to permit the Bondholders' counterclaim for equitable accounting and related discovery to go forward, as detailed below. However, at the May 20, 2026 Omnibus Hearing, the Court heard and denied the Bondholders' renewed motion to lift the litigation stay with regard to the Bondholders' other matters, and on May 26, 2026, entered a written order memorializing that ruling.

- Bondholder's Equitable Accounting Counterclaim Litigation

  On April 13, 2026, the Title III Court issued an order in response to the March 30, 2026 joint status report, which lifted the litigation stay to permit the equitable accounting counterclaim to go forward, along with related discovery issues. The accounting counterclaim litigation will determine whether the Authority allegedly diverted Net Revenues from debt service (and more specifically, the Sinking Fund), which the Oversight Board denies. The Bondholders believe there was a wrongful diversion, and assert that they are entitled to an information remedy and a disgorgement remedy.

  On May 12, 2026, following a hearing, the Court entered an order setting a discovery and briefing schedule.

Note 20 - Subsequent Events – (continued)

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

The Authority's Plan of Adjustment and Disclosure Statement - (continued)

- Bondholder's Equitable Accounting Counterclaim Litigation – (continued)

  Discovery is currently ongoing. Under the discovery scheduling order, briefing on motions for summary judgment will conclude on November 6, 2026, and oral argument on cross-motions for summary judgment is scheduled for November 18, 2026.

- Classification Motion

  On April 7, 2025, the Oversight Board filed the Classification Motion arguing that the Authority's Bond Trustee's claim in the Commonwealth Title III Case is properly classified as a Section 510(b) Subordinated Claim as defined by the Commonwealth Title III confirmed plan of adjustment. On April 11, 2025, the claims reconciliation monitors filed a response in support of the Oversight Board's Classification Motion. On April 28, 2025, the non-settling bondholders filed an objection to the Classification Motion asserting that Section 510(b) of the Bankruptcy Code, which governs subordination of certain claims, does not apply to the non-settling bondholders' claims because these claims are based on statutory and constitutional violations, not on the purchase or sale of securities. On May 16, 2025, the Oversight Board filed a reply in support of the Classification Motion.

  On June 11, 2025, the Title III Court heard oral arguments on this motion and took the matter under advisement. On July 22, 2025, the Title III Court issued a memorandum opinion and order granting the Classification Motion. In August 2025, several parties, including the Authority's Bond Trustee, appealed the Title III Court's decision to the U.S. Court of Appeals for the First Circuit. The appeal has been fully briefed.

- Challenges to LUMA T&D OMA at Inception

  On April 20, 2021, UTIER and others filed an adversary proceeding against the Authority challenging the implementation of the LUMA T&D OMA. On May 21, 2021, the Title III Court denied UTIER's request for preliminary injunction, and 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. On August 31, 2023, the Title III Court entered an order dismissing the complaint.

Note 20 - Subsequent Events – (continued)

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

- Challenges to the GenCo OMA at Inception

  On June 16, 2023, UTIER filed an adversary proceeding against the Authority challenging the implementation of the GenCo OMA. On July 10, 2023, UTIER moved to voluntarily dismiss the adversary proceeding. The Title III Court entered its judgment dismissing the adversary proceeding on July 12, 2023.

- GoldenTree Lift Stay Motion

  On August 24, 2023, GoldenTree Asset Management ("GoldenTree") and Syncora Guarantee ("Syncora") filed a motion for relief from the Title III automatic stay to allow bondholders to seek the appointment of a receiver for the Authority for the benefit of all bondholders. On August 25, 2023, the Title III Court stayed the motion as substantially duplicative of a previous motion to dismiss the Title III Case or to lift the stay and appoint a receiver filed by the Ad Hoc Group of Authority bondholders and Syncora and substantially dependent on property rights asserted in the Lien Challenge.

  On August 29, 2023, GoldenTree and Syncora appealed the Title III Court's decision and requested that the Title III Court's order be vacated with instructions to conduct a hearing on the matter. On December 4, 2023, the First Circuit heard oral arguments on the appeal. On January 22, 2024, the First Circuit affirmed Title III Court's order staying GoldenTree and Syncora's motion, but stated that GoldenTree and Syncora could file a renewed lift stay motion because the Lien Challenge proceeding was fully resolved (subject to appeals).

  On February 16, 2024, GoldenTree and Syncora filed a renewed motion for relief from the automatic stay to enforce their right to appointment of a receiver for the Authority. On February 20, 2024, the Title III Court found that GoldenTree and Syncora had waived their rights to a preliminary hearing within 30 days. On April 24, 2024, the Oversight Board, FAFAA, and the UCC filed responses to GoldenTree's renewed motion. The preliminary hearing has been adjourned on multiple occasions. A hearing on the matter was held on March 19, 2025.

  On March 20, 2025, the GoldenTree and Syncora's request to file an amended motion for relief from the automatic stay under section 362(d) of the Bankruptcy Code was denied without prejudice to renewal following completion of discovery concerning the Administrative Expense Motion. The GoldenTree Lift Stay Motion is currently subject to the Litigation Stay.

Note 20 - Subsequent Events – (continued)

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

- GoldenTree Takings Claim Litigation

  On November 15, 2023, GoldenTree and Syncora filed a complaint against the Commonwealth, Governor Pierluisi, FAFAA, and FAFAA Executive Director Omar Marrero in the Title III Court alleging that the defendants breached the Commonwealth's non-interference covenant under the Authority's enabling act (the "Authority Act"), tortiously interfered with plaintiffs' contractual rights, violated the Authority Act through fault or negligence, and took the private property of the plaintiffs without just compensation in violation of the Fifth Amendment to the U.S. Constitution. On November 15, 2023, the matter was assigned to Judge Laura Taylor Swain.

  On November 24, 2023, the Oversight Board filed a motion for an order holding the complaint void and directing plaintiffs to withdraw the complaint (the "Withdrawal Motion"). Thereafter, on December 8, 2023, GoldenTree and Syncora objected to the Withdrawal Motion arguing that the Authority is not a party to the action, but the Commonwealth owes separate and independent obligations to Authority bondholders and that the automatic stay does not apply to non-debtors such as the Commonwealth. The Oversight Board replied to the objection on December 15, 2023, and argued that the objection demonstrates that the complaint violates the automatic stay by seeking damages and injunctive relief against the Commonwealth and the other defendants designed to assert control over the Authority's revenues for purposes of converting them into collateral and increasing the plaintiffs' recoveries. The Withdrawal Motion is fully briefed and pending adjudication.

- GoldenTree Vote-Buying Litigation

  On November 12, 2023, GoldenTree filed an adversary proceeding complaint against the Oversight Board and the Authority alleging that the Oversight Board and the Authority illegally bought the votes of certain preferred creditors on the proposed Plan. On January 3, 2024, the Title III Court stayed the adversary proceeding. The Title III Court concluded that the issues raised by the complaint are more fairly and efficiently addressed in the context of the Plan's Confirmation Hearing.

- Rejection of UTIER and UEPI Collective Bargaining Agreements

  On January 2, 2024, the Oversight Board filed a motion to reject the Authority's collective bargaining agreements ("CBAs") with UTIER and UEPI. In its motion, the Oversight Board noted that the Authority cannot (i) cure the billions of dollars of underfunding of the defined benefit pension plans as required under the CBAs; (ii) meet future funding obligations as required by the

Note 20 - Subsequent Events – (continued)

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

- Rejection of UTIER and UEPI Collective Bargaining Agreements – (continued)

  CBAs; or (iii) pay the unions' asserted grievance claims. Moreover, the Oversight Board argued that assumption of the CBAs would be inconsistent with pension reform measures it deems essential to ensuring adequate funding for accrued pension benefits and would also be inconsistent with the treatment of other government employees. UTIER objected to rejection motion on January 9, 2024, and UEPI also objected on January 12, 2024. On January 19, 2024, the Title III Court adjourned the motion *sine die* pending the Court's determination as to the appropriate standard of scrutiny and whether an evidentiary hearing is necessary. On May 20, 2024, the Oversight Board filed an informative motion indicating that it has reached a settlement with UEPI. In connection with this settlement, the Authority recorded an accrual of approximately $1.6 million, and is included in the accompanying statement of net position (deficit).

- Class Action Lift Stay Motion

  On February 24, 2026, certain ratepayers (the "Movants") of the Authority filed a motion to lift the automatic stay in connection with their December 2025 class action filed in the Puerto Rico Court of First Instance (the "Puerto Rico Court") against LUMA, PREB, PREPA ERS, and their insurers on behalf of 1.5 million electric consumers in Puerto Rico (the "Puerto Rico Court Action"). Through the Puerto Rico Action, the Movants alleged that the provisional charge, which were added to monthly electric bills to fund the Authority's retiree pensions under a July 2025 PREB resolution, was unconstitutional, illegal, null, and void. The Movants sought a declaration to that effect, a preliminary and permanent injunction barring the provisional charge, restitution of amounts already paid, and a double penalty against LUMA and PREB for costs and attorney's fees under Puerto Rico law. PREPA ERS, LUMA, and PREB moved to dismiss the case, arguing the Puerto Rico Court lacked subject matter jurisdiction and that the Authority and its retirees were indispensable parties. On February 13, 2026, the Movants announced they would amend their complaint to add the Authority as a defendant. On February 17, 2026, the Oversight Board filed a notice of automatic stay, and on February 19, 2026, the Puerto Rico Court stayed the proceedings. The Oversight Board declined the movants' request to lift the stay.

  Through their motion to lift the stay in the Title III Court, the Movants argued that cause exists to lift the stay because, among other things, lifting the stay would fully resolve issues regarding PREB's authority and the constitutionality of the provisional charge, the Puerto Rico Court Action primarily involves third parties and has no connection to the Authority's Title III case, Puerto Rico law confers primary exclusive jurisdiction to the Puerto Rico Court over consumer class actions, judicial economy favors allowing the case to proceed, the Movants are ready to certify the class

Note 20 - Subsequent Events – (continued)

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

- Class Action Lift Stay Motion-(continued)

 and proceed to trial, and the balance of harms favors lifting the stay because the provisional charge constitutes an unconstitutional taking. The Movants further assert that the Authority has no equitable stake in the provisional charge funds, contending that all monies collected are earmarked exclusively for the Authority's retirement system and that the Authority serves merely as a "fiduciary or conduit."

 On March 3, 2026, PREPA ERS filed an objection to the motion arguing that the Puerto Rico Court Action is directly connected to the Authority's Title III case because the pension charge is earmarked to fund the Authority's retirees' pensions and is integrated into the Authority's rate structure, making any challenge to it inherently intertwined with the bankruptcy proceedings. Additionally, it argues that invalidating or enjoining the pension charge would jeopardize pension funding stability for tens of thousands of retirees, a harm that is "existential and immediate" and not easily reversible.

 On March 4, 2026, the FOMB, on the Authority's behalf, filed an objection to the arguing that the stay bars the Puerto Rico Court Action because the Authority's revenues, including the pension charge, are property of the Authority's estate protected under PROMESA. The Oversight Board asserted that allowing the litigation would undermine the Authority's ownership of its revenues, invalidate existing liens, disrupt centralized claims administration, and prejudice creditors, especially retirees who rely on pension payments. The Oversight Board further noted that the pension charge is required by the 2025 Fiscal Plan and PROMESA, and that Movants have an adequate alternative remedy by participating in the ongoing PREB rate proceeding to challenge the charge. On March 13, 2026, the Movants filed a reply in support of their lift stay motion.

 The motion was heard at the March 18 omnibus hearing, and the Title III Court denied the motion. The Title III Court issued an order on March 24, 2026, explaining its reasoning for denying the motion. Specifically, the Court held that the Movants failed to demonstrate that (i) the Authority lacks an interest in pension charge revenues and (ii) the applicable factors weigh in favor of lifting the stay. This March 24, 2026 order has been appealed to the First Circuit.

PREPA ERS Solvency and Funding Status

On November 15, 2023, PREPA ERS billed an additional established normal contribution of approximately $4.5 million, of which $3.2 million was to cover the period from November 1, 2022 to June 30, 2023, and $1.2 million was to cover the period from July 1, 2023 to September 30, 2023.

Note 20 - Subsequent Events – (continued)

PREPA ERS Solvency and Funding Status – (continued)

As detailed below, in the Section of Due to Primary Government, the FY24 Amended Budget Resolution provided for a new appropriation in the amount of $300 million to be loaned to the Authority for (i) funding Authority pension obligations, and (ii) accrued benefit withdrawal requests from certain former Authority employees. In December 2024, the Authority stated it would use $74 million in FEMA reimbursements to cover pension obligations through March 2025, subject to the PREB and Oversight Board approvals. On December 26, 2024, the PREB authorized the use of $74 million, and on January 10, 2025, the Oversight Board approved a revised fiscal year 2025 budget for the Authority, reflecting the $74 million in FEMA reimbursements earmarked to cover several months of pension payments. On April 9, 2025, the Commonwealth and the Authority executed an amendment to the $300 million loan agreement increasing the principal amount of the loan to $325 million. The Commonwealth agreed to, and the Oversight Board approved, additional $25 million loan advances in April, May, June, July, August, September, and October 2025. These subsequent loans advances were intended to continue supporting pension payments during those months, bringing the total loan amount to $475 million with a funding covenant date extended to November 30, 2025. As of the date of these financial statements, a total of $457.1 million has been disbursed by the Commonwealth.

On April 15, 2026, the PREB determined that it is legally compelled to include the ERS pension costs in customer rates to allow the Authority to meet its obligations under the FOMB's Certified Fiscal Plan. The PREB has officially approved the inclusion of pension costs in the Authority's base-rate revenue requirement for the fiscal years 2026 to fiscal year 2028 rate period. For fiscal year 2026, the approved amount is $318.9 million, which covers $307 million for pension funding and $11.9 million for administrative and retiree medical costs. The PREB further stated that if the Government, the Authority, or the FOMB identify alternative funding sources to cover ERS pensions in the future, the Authority is required to submit a request to adjust the rates and relieve consumers from this financial burden.

Tranches to Procure Renewable Energy and Battery Storage Systems

For Tranche 1 eighteen projects have been signed. Out of those, eight PPOAs (solar projects) and five ESSAs (BESS projects) are in compliance with the Subsequent Conditions. The construction of those projects is scheduled to take place from March 30, 2026, through October 30, 2027. In addition, two BESS projects are currently under reconsideration.

As for Tranche 2 RFP, the last day for proponents to submit proposals to compete in the Tranche 2 RFP was December 5, 2022. By June 30, 2023, the evaluation process was ongoing. LUMA provided the interconnection study results on September 15, 2023. The PREB's Independent Coordinator will

Note 20 - Subsequent Events – (continued)

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

rank the bids based on the repricing. The Selection Committee has agreed to proceed to Phase 3 for the best and final offers. During the second week of January 2024, the PREB- Independent Coordinator decided to request from all bidders of the Tranche 2 RFP a revision to their Best and Final Offer ("BFO"). The PREB's Independent Coordinator received a revised BFO on February 12, 2024. All bids received were higher than expected. On May 31, 2024, the PREB Independent Coordinator issued the report of selection committee to the Authority's Governing Board evaluation of and selection of Tranche 2 proposals in response to RFP no. NEPR-0001. On June 18, 2024, the Report was submitted to the PREB for the final determination on the bid evaluation and selection process. On August 26, 2024, the PREB approved three contracts recommended by the PREB's Independent Coordinator for Tranche 2, directing the Authority to submit them to the Oversight Board for approval. On May 7, 2025, the Oversight Board approved the contracts, and on September 30, 2025, one of the contracts was executed.

For Tranche 3, the RFP was issued on July 18, 2023, and proposals were due and received on September 1, 2023. On April 5, 2024, the Selection Committee submitted a confidential report to the PREB, informing that the initial pricing for Tranche 3 RFP solar projects exceeded the anticipated base price levels, recommending that the Tranche 3 RFP should not proceed further. On October 23, 2024, the PREB issued a Resolution and Order concluding that it's not in the public's interest to proceed with Tranche 3 RFP and recommended rejecting all proposals and terminating the Tranche 3 RFP. The PREB tasked the Selection Committee to take the necessary actions to formally reject all proposals in accordance with the procedures established in the Tranche 3 RFP.

For Tranche 4, the RFP was issued on October 24, 2024. By November 25, 2024, one bid was received, proposing a 50 MW BESS with a duration of 6 hours at a rate of $33,750 per MW-month. On December 13, 2024, the Authority's Governing Board approved the submission of the Selection Committee's report to the PREB. Following this, on December 30, 2024, the PREB approved the contract for Tranche 4 and directed its submission to the Oversight Board for final approval. On May 7, 2025, the Oversight Board approved the contract. The Authority is currently awaiting the contractor submission of the Signing Conditions.

For a legislative update, on March 19, 2025, House Bill 267 was enacted into law ("Act 1-2025"), amending Puerto Rico's Public Energy Policy Act ("Act 17-2019") and the Energy Diversification Act, as amended ("Act 82- 2010"). Act 1-2025 adjusts the Island's energy transition goals to reflect current energy conditions and ensure system reliability. Additionally, it eliminates the interim renewable energy targets of 40% by 2025 and 60% by 2040, while maintaining the goal of achieving 100% renewable energy by 2050. The law also includes provisions to enhance energy efficiency and promote the integration of renewable energy sources into the grid.

Note 20 - Subsequent Events – (continued)

Interconnection Agreements

Interconnection Agreements are standard in the electric utility industry and establish the terms under which generation and energy storage resources connect to the transmission system. Under the Operation and Maintenance Agreement among the Authority, P3A, LUMA Energy LLC, and LUMA Energy Servco, LLC, LUMA is responsible for administering these agreements.

The agreements are designed to facilitate reliable, efficient, and non-discriminatory access to the transmission system and to address the increasing volume of renewable and energy storage interconnections. Each Interconnection Agreement is co-terminus with the related PPOA or ESSA.

Interconnection customers provide funding for the development of interconnection facilities. LUMA administers the construction of such facilities through separate engineering, procurement, and construction (“EPC”) contracts. Upon completion, ownership of the interconnection facilities transfers to the Authority at the interconnection point. As of the issuance of these financial statements, LUMA has executed 23 Interconnection Agreements with 12 customers. From these agreements LUMA will invoice approximately $85.9 million subsequent to fiscal year 2023.

September 2022 Hurricane Fiona Impact on Electric System

On December of 2023, FEMA informed the Authority that effective March 15, 2024, the USACE will cease to operate the temporary power generation units provided by them. FEMA also informed the COR3 of its determination that the Authority’s acquisition of these temporary units located at the two sites of Palo Seco and San Juan was an eligible expense under the Stafford Act from funding available to Puerto Rico under section 406 (42U.S.C. § 5172) and 428 (42 U.S.C. § 5189f) from Hurricane Maria and that they could be funded by them through a Project Worksheet. On February 29, 2024, FEMA obligated under PW #11628 approximately $335 million (90% of the total estimated gross cost).

Federal Disaster Funding Recovery and Cost-Share Requirements

In the aftermath of Hurricanes Irma and María, multiple federal funding programs were authorized to support the restoration, hardening, and modernization of Puerto Rico’s electric system. As of May 31, 2026, approximately $15.7 billion has been obligated for grid recovery and repairs to electric system assets. Of this total, approximately $12.5 billion has been obligated for permanent work projects. Funding supports the repair and replacement of transmission and distribution infrastructure, substations, generation assets, and other system components, as well as resiliency improvements intended to mitigate future catastrophic events. These obligations are distributed across several federal programs, including the FEMA PA Program, FEMA Hazard Mitigation Program, Community Development Block Grant (“CDBG”) disaster recovery funding, and programs administered by the

Note 20 - Subsequent Events – (continued)

Federal Disaster Funding Recovery and Cost-Share Requirements – (continued)

U.S. Department of Energy ("DOE"). Obligated amounts represent approved funding but remain subject to project execution, eligibility determinations, and ongoing grant compliance reviews.

Under the FEMA PA Program, federal funding generally requires a 10% local cost-share contribution from the subrecipient. Based on currently obligated permanent-work projects, the Authority expects to incur an estimated local cost-share requirement. In 2024, the Authority received a $500 million award under the CDBG Program, which is intended to partially offset the local match requirement associated with FEMA PA projects. As of May 31, 2026, the Authority has received approximately $140.4 million in CDBG-DR funds under the ER1 Program to support the local cost-share requirement.

The Authority continues to coordinate with federal and local agencies to apply these funds in accordance with program rules and grant conditions.

Subsequent to June 30, 2023, the Authority received communications from COR3 regarding the reconciliation and recovery of FEMA PA Working Advance disbursed to the Authority and advanced to its transmission and distribution operator, LUMA. Between July 1, 2023 and May 31, 2026, COR3 advanced $1.2 billion in FEMA Working Capital funds to LUMA. Of this amount, $506.2 million had been reconciled and validated by COR3 through RFR's, and $250.1 million had been returned by LUMA to COR3 as unutilized advances, from which $107.7 million were returned on February 6, 2026 in response to COR3 directives requiring the return of unreconciled funds.

Settlement with Insurance Companies – Natural Disaster

The Authority reached settlement agreement with the insurers for claims related to Hurricane Maria and the January 2020 earthquakes totaling approximately $261.3 million and $142 million, respectively. The Title III Court approved the settlements in March 2024 and July 2025. Prior to the issuance of these financial statements, all related proceeds were received by the Authority.

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

The Authority made principal and interest payments to the note payable with NFEnergía for the conversion to natural gas of the combined cycle units. As of the date of the issuance of these financial statements the amounts paid are of approximately $21.7 million.

Note 20 - Subsequent Events – (continued)

PREPA Holdings Loan Refinancing

Refinance of the $9 million term loan held by PREPA Holdings was closed on August 2, 2023, with a designated principal sum of $8.9 million. The note shall be repaid in sixty (60) consecutive monthly installments of principal and accrued interest of 7.25%; installment shall each be in the amount of $64,794.

Due to Primary Government

On December 1, 2023, the Oversight Board certified a jointly developed budget resolution approving the Commonwealth's amended annual budget for fiscal year 2024 (the "FY24 Amended Budget Resolution"). On December 15, 2023, the Commonwealth and the Authority executed a loan agreement for funding the Authority's pension obligations, and certain accrued benefit withdrawal requests, through approximately October 2024. The FY24 Amended Budget Resolution provides for a new appropriation in the amount of three hundred million dollars ($300 million) to be loaned to the Authority for (i) funding Authority pension obligations, and (ii) accrued benefit withdrawal requests from certain former Authority employees no longer able to accrue service in the PREPA ERS after their employment at the Authority ceased as a result of the Authority's agreements with LUMA and GeneraPR (the "Rollover Requests"). After all requisite approvals, in accordance with the FY24 Amended Budget Resolution, on December 15, 2023, the Commonwealth, as lender, and the Authority, as borrower, executed the $300 million loan agreement. In accordance with the terms of such loan agreement, on December 18, 2023, the Authority requested the Commonwealth to deliver the initial $115 million, which were received on December 19, 2023. The Authority received subsequent amounts of $35 million on April 11, 2024, and three payments of $50 million each on June 6, 2024, September 11, 2024, and October 23, 2024. In December 2024, the Authority stated it would use $74 million in FEMA reimbursements to cover pension obligations through March 2025, subject to the PREB and the Oversight Board approvals. On December 26, 2024, the PREB authorized the use of $74 million, and on January 10, 2025, the Oversight Board approved a revised fiscal year 2025 budget for the Authority, reflecting the $74 million in FEMA reimbursements earmarked to cover several months of pension payments. On April 9, 2025, the Commonwealth and the Authority executed an amendment to the $300 million loan agreement. The amendment increased the principal amount of the loan from $300 million to $325 million. On May 21, 2025, the Commonwealth and the Authority executed a second amendment to the loan agreement. The second amendment increased the principal amount of the loan from $325 million to $375 million (a $50 million increase). The Commonwealth agreed to, and the Oversight Board approved, additional loan advances totaling $50 million ($25 million each for July and August 2025), under the 3rd amendment.

Note 20 - Subsequent Events – (continued)

Due to Primary Government – (continued)

Additional loan advances totaling $50 million ($25 million each for September and October 2025) were approved under the 4th amendment, bringing the total loan amount to $475 million with a funding covenant date extended to November 30, 2025. As of the date of these financial statements, a total of $457.1 million has been disbursed by the Commonwealth. These subsequent loan advances were intended to continue supporting pension payments during those months.

Early Warning System

On February 9, 2024, the Authority made the award notification to two awardees, with the contested bid process concluded without any disputes being filed. On August 7, 2024, the Authority signed contracts with the two awardees to implement the Early Warning System across all thirty-seven (37) damns in Puerto Rico, along with the necessary infrastructure for optical fiber internet. As of the issuance of these financial statements, the Authority had mobilized Disaster Alert Mechanism ("DAM") Groups 1,3,5 and 6 to begin installation of equipment after all design, materials, and equipment related to these groups have been acquired and received in the Island. The project is in the second year of execution, and the Authority has received so far approximately $30 million in refunds.

SOW for Acquisition of temporary generation units - FEMA

On January 14, 2024, the Authority sought the PREB's approval for the initial scope of work ("SOW") to acquire and own the temporary generation units installed in the Palo Seco Steam Plant (150MW) and the San Juan Power Plant (200MW). After Hurricane Fiona adversely impacted the generation fleet of the Authority and various private companies in Puerto Rico, an urgent need arose for at least 700 MW of additional temporary power generation for the grid. In response to the Authority and the Government of Puerto Rico's request for assistance, FEMA approved funding through the DFA. Temporary generation units were then installed in the Palo Seco Steam Plant (150 MW) and the San Juan Power Plant (200 MW), adding much-needed power to the electrical grid.

On February 2, 2024, FEMA issued a notification specifying funding sources for acquiring the temporary units. FEMA agreed to fund the acquisition through a new program authorized by Section 428 of the Stafford Act. It further indicates that the acquisition would be separated from the existing $9.5 billion 428 FAAST project for the power grid. On March 15, 2024, the PREB issued a Resolution and Order approving the Authority's SOW submitted by the Authority for acquiring the 350MW temporary generation units. Likewise, the Oversight Board approved the contract with conditions. On the same date, the Authority and NFE Power PR, LLC executed the Asset Purchase Agreement to acquire the temporary generation units.

Note 20 - Subsequent Events – (continued)

SOW for Acquisition of temporary generation units – FEMA – (continued)

On June 7, 2024, the Authority issued an RFP to procure three GE TM2500 units Generation 6, 8, 9, or latest, or any combination of these, including the installation and commissioning at Palo Seco Power Plant. The Authority has submitted a request to FEMA for approval to change the turbine model for acquisition. On January 20, 2026, the RFP was cancelled.

AES PPOA

On October 11, 1994, the Authority entered into AES PPOA with AES-PR. The AES PPOA was subsequently amended on November 16, 1999, and July 17, 2015. On November 7, 2023, the Authority filed a petition with the PREB seeking approval of a third amendment to the AES PPOA. The PREB issued a Resolution and Order on February 1, 2024, preliminarily approving the proposed amendment subject to certain modifications. Upon the Authority submitting a revised version, on February 27, 2024, the PREB approved the proposed third amendment to the AES PPOA on a final basis. Following the PREB's approval, and the Oversight Board's approval on March 1, 2024, the third amendment to the AES PPOA was executed on March 1, 2024.

U.S. Internal Revenue Service Examinators

In July 2024, the PREPA Bond Trustee received from the U.S Treasury BABs Federal Subsidy transfers in the aggregate amount of $41.7 million, related to the Series EEE and Series YY Bonds. Counsel to the Authority has indicated that the IRS has stated that this payment received on July 11, 2024 was made by the IRS in error. These funds are being held by the Trustee in an account within the Sinking Fund established under the Trust Agreement.

Rate Case

On July 3, 2025, LUMA filed Motion Submitting Rate Review Petition in Case No. NEPR-AP-2023-0003 before the PREB ("Rate Case"), whereby it requested both a provisional and a permanent rate increase.

On July 31, 2025, the PREB approved provisional rates, authorizing a $535.1 million incremental revenue requirement for fiscal year 2026, including full funding of the Authority's $307.5 million pension costs and $227.6 million in non-pension costs. These provisional riders, totaling 3.4122 ¢/kWh, became effective September 1, 2025, and will remain in place for up to ten months or until permanent rates are issued. The permanent-rate phase remains ongoing. The evidentiary hearings concluded on December 19, 2025 and the briefing schedule was completed. A final decision was issued by PREB on April 15, 2026, setting electric rates for fiscal years 2026, 2027, and 2028. Several parties including

Note 20 - Subsequent Events – (continued)

Rate Case – (continued)

LUMA, GeneraPR, and the Authority have filed motions for reconsideration of PREB's final rate order. The total permanent base-rate revenue requirement for fiscal year 2026, of approximately $1.78 billion, included $52.5 million for the Authority's base-rate operational revenue. The Final Resolution and Order further authorized $318.9 million in ratepayer funding to cover ongoing pension obligations, while excluding the recovery of legacy debt service until the conclusion of the Title III bankruptcy proceedings.

LUMA T&D OMA Related Matters & Litigation

- Notice of Disputes Issued by P3A

On July 22, 2025, the Puerto Rico Public-Private Partnership Authority ("P3A") sent a formal "notice of disputes" to LUMA warning that the company must address multiple failures or risk termination of the LUMA O&M Agreement to operate Puerto Rico's T&D System. Specifically, P3A alleged that LUMA Energy failed to meet its contractual obligations in six specific areas:

**Federal Funding Mismanagement:** P3A alleged that LUMA exhibited "systemic deficiencies" in managing federal funds, specifically regarding the unauthorized use of seconded employees in violation of federal procurement rules, poor cash flow reporting, and a failure to secure timely reimbursements. P3A noted that LUMA had reconciled only 17% of certain funds, forcing the Authority to cover a significant deficit.

**Service Account Funding and Budget Crisis:** P3A claimed LUMA breached its obligation to generate sufficient revenue and secure reimbursements, causing a "liquidity crisis" for the Authority. The notice alleged that LUMA's "backlog" of over $550 million in delayed reimbursements negatively impacted the Authority's liquidity, threatening the continuity of electric service and fuel purchases.

**System Outages and O&M Performance:** P3A cited a pattern of "recurring service interruptions" and "broken promises," specifically highlighting an island-wide blackout on April 16, 2025, and other major outages in 2024. P3A asserted these events resulted from LUMA's failure to perform proper root cause analyses and maintenance.

**Vegetation Management and Public Lighting:** P3A alleged LUMA failed to maintain safe vegetation clearances from high-voltage lines, which directly contributed to outages. Additionally, P3A claimed LUMA failed to submit required work plans for maintaining and upgrading the public lighting system.

Note 20 - Subsequent Events – (continued)

LUMA O&M Agreement Related Matters & Litigation – (continued)

- Notice of Disputes Issued by P3A – (continued)

**Audit and Financial Reporting Failures:** P3A accused LUMA of "persistent and material noncompliance" with audit obligations, including refusing to provide access to system information and failing to supply accurate data for the Authority 's financial statements. This included a refusal to reopen FY2023 accounting periods to post necessary adjustments.

**Pole Attachment Fee Collection:** P3A alleged that LUMA refused to collect pole attachment fees owed by third-party telecommunications and cable entities, despite the T&D OMA designating this as LUMA's exclusive responsibility.

The notice invoked the LUMA O&M Agreement's dispute-resolution process and stated that if LUMA does not remedy the violations within the required time, P3A would pursue termination of the agreement and recover damages.

- Breach of Contract Litigation

On August 25, 2025, LUMA filed a lawsuit in the Title III Court against P3A and the Authority, claiming P3A and the Authority breached the LUMA O&M Agreement by refusing to mediate a dispute over how certain issues should be resolved (through mediation or by an independent expert). LUMA also sought provisional relief to stop P3A and the Authority from moving forward with the technical dispute process until this "Threshold Dispute" is resolved, and to compel them to mediate the matter.

On August 26, 2025, the court directed the parties to submit a joint status report, which was filed on September 2, 2025. P3A indicated a willingness to pause the technical process pending jurisdictional rulings, though the parties proposed different schedules. On September 3, 2025, the court stayed the technical dispute process and adopted P3A's proposed briefing schedule. The schedule sets deadlines in September 2025 for jurisdictional arguments and responses, with subsequent deadlines for merits briefing if the court decides it has jurisdiction. Defendants' answers to the complaint will follow resolution of the provisional relief motion.

On September 16, 2025, P3A objected to LUMA's motion for provisional relief on jurisdictional grounds and requested the court dismiss the complaint, which centers on whether six issues raised by P3A should be resolved through mediation and litigation or by a technical expert under the O&M agreement. P3A argued that the Title III Court lacks subject matter jurisdiction, should abstain, and that the matter belongs in the Puerto Rico courts under the agreement's forum selection clause. It also

Note 20 - Subsequent Events – (continued)

LUMA O&M Agreement Related Matters & Litigation – (continued)

- Breach of Contract Litigation - (continued)

raised sovereign immunity defenses, contending it waived immunity only in Commonwealth proceedings, and argued LUMA's claims of federal jurisdiction rest on speculative indemnification risks. P3A framed LUMA's filing as forum shopping, emphasized that the dispute is procedural with no effect on the Authority's Title III case, and pointed to prior remands of LUMA-related cases to Puerto Rico local courts as precedent.

On December 19, 2025, the Title III Court dismissed LUMA's adversary proceeding and denied its motion for provisional relief, ruling that although the Court possesses subject matter jurisdiction, it is appropriate to abstain from exercising that jurisdiction pursuant to section 309 of PROMESA. The

Court determined that while "related to" jurisdiction exists because the dispute affects the Authority's estate, abstention is warranted because the proceedings primarily involve state law issues regarding the interpretation of the LUMA T&D OMA rather than federal bankruptcy matters. Furthermore, the Court emphasized that the parties had contractually consented to the exclusive jurisdiction of the State Court for such civil actions and concluded that dismissal was necessary to uphold those terms and avoid forum shopping. On January 15, 2025, LUMA filed a notice of appeal of the decision. The appeal is now pending before the First Circuit. LUMA filed its opening brief due on May 1, 2026, and on June 17, 2026, P3A filed its opposition brief.

- DACO Stay Violation Motion

On July 22, 2025, Puerto Rico's Department of Consumer Affairs ("DACO") filed a petition in the Superior Court of San Juan seeking a declaratory judgment invalidating liability waiver in the LUMA O&M Agreement and a PREB resolution that granted LUMA broad immunity from consumer damage claims. DACO named the Authority, LUMA, and PREB as defendants in matter. On September 18, 2025, LUMA filed a motion in the Title III Court asking the court to enforce the automatic stay against DACO. The motion seeks to stop DACO's aforementioned litigation before the Superior Court of San Juan.

LUMA argues that DACO violated the automatic stay under PROMESA and the Bankruptcy Code, since the LUMA O&M Agreement is considered part of the Authority's property and cannot be altered outside of the Title III process. The motion also asserts that the Oversight Board supports the view that DACO's actions violate the automatic stay, though it does not take a position on the underlying dispute.

Note 20 - Subsequent Events – (continued)

LUMA O&M Agreement Related Matters & Litigation – (continued)

- DACO Stay Violation Motion – (continued)

On October 2, 2025, DACO and the Instituto de Competitividad y Sostenibilidad Económica de Puerto Rico ("ICSE"), filed responses to the motion. DACO argued, among other things, that (i) the dispute concerns Puerto Rico public law and consumer protection, not property of a debtor's estate, and (ii) police and regulatory power exception to the automatic stay applies because the motion seeks declaratory relief to protect public policy and consumer rights, not to collect money. ICSE made similar arguments and asserted that LUMA lacks standing to bring the motion. On October 9, 2025, LUMA filed an omnibus reply to the objection.

On October 27, 2025, the Title III Court denied LUMA's motion. The Court held that the "police powers" exception to the automatic stay applies to the DACO action in local court. On October 31, 2025, LUMA appealed the Title Court's decision to the U.S. Court of Appeals for the First Circuit, which has been fully briefed.

On May 26, 2026, in response to a First Circuit order, the Oversight Board filed a brief addressing, among other things, the issues presented in the appeal, what it believes are the potential ramifications of any decision for the Authority Title III proceedings, and the relationship between the appeal and other pending matters. On June 2, 2026, DACO filed its response to the Oversight Board's brief.

Oral argument took place on June 4, 2026. The matter is now pending adjudication.

On December 1, 2025, the TSPR issued a judgment in the DACO case, declaring unconstitutional the liability waiver previously authorized by the PREB on the grounds that the PREB lacked the statutory authority to grant such immunity, thereby violating the separation of powers doctrine. It is the Authority's position, based on the terms and conditions of the T&D OMA this document itself remains as the primary governing instrument with LUMA. Said document effectively classifies any costs arising from LUMA's negligence—including damages to customer appliances—as "Disallowed Costs". Consequently, these costs must be borne exclusively by LUMA and cannot be transferred to the Authority or recovered through rates.

The TSPR's determination is regarding the effectiveness of a contractual clause and not about assigning liability in cases involving damage to third-party property. LUMA did not request reconsideration within the period established by TSPR, and therefore the TSPR's determination is final. There are no allegations against the Authority in the case, and the TSPR's decision currently does not entail any economic impact to the Authority.

Note 20 - Subsequent Events – (continued)

LUMA O&M Agreement Related Matters & Litigation – (continued)

- LUMA Administrative Expense Motion

On October 23, 2025, LUMA filed a motion for allowance of and authorization to transfer funds to pay asserted administrative expense claims against the Authority. LUMA asserts that the Authority owes more than $103 million for operational costs to LUMA Energy Servco, LLC and more than $182 million in vendor accounts payable that are more than 30 days past due. The motion has been adjourned four times and Authority's objection deadline is currently September 1, 2026 with LUMA's reply in support of its motion is due on September 8, 2026. The matter will be heard at the September 16, 2026 omnibus hearing.

Litigation Regarding the Nullification of the Supplemental Agreement Extension

On December 11, 2025, P3A and the Authority filed a complaint ("P3A Action") before the Puerto Rico Court of First Instance seeking a determination that the Extension Letter signed on November 30, 2022—which purported to extend the Supplemental Agreement indefinitely—is null, invalid, and lacking judicial effect. Specifically, the complaint alleges, among other things, that the Extension Letter (i) was not properly authorized by the P3A Board, in violation of Act 120; (ii) was not properly certified by the PREB through the Energy Compliance Certificate, in violation of Act 120; (iii) was not approved by the Puerto Rico legislature, in violation of Article 10(e) of Act 29; (iv) lacks a defined term, in violation of Act 29; and (v) did not comply with the Puerto Rico Civil Code. The Authority and P3A's complaint seeks, among other things, a finding that (a) the Extension Letter is null, invalid, and lacking judicial effect, and (b) the interim period under the LUMA T&D OMA expired on November 30, 2022, and the LUMA T&D OMA and Supplemental Agreement automatically terminated as of that date, triggering the start of a transition process. In addition to declaratory relief, P3A and the Authority sought preliminary injunctive relief directing LUMA to produce documents and information relevant to the alleged unlawful extension, although the Commonwealth court denied a temporary restraining order and set a hearing on the request for a preliminary injunction.

Also, on December 11, 2025, P3A and the Authority filed an intrajurisdictional certification with the Puerto Rico Supreme Court requesting that it address in the first instance the legal issues raised in the complaint. Five days later, on December 16, 2025, the Government of Puerto Rico, acting through the Governor, filed a parallel civil action ("Governor's Action") in the Puerto Rico Court of First Instance asserting substantially similar claims that the Extension Letter was executed unlawfully, is null and void, and that the LUMA T&D OMA terminated years ago. In the Governor's Action, the Government seeks declaratory relief confirming the invalidity of the purported extension and requiring LUMA to cooperate in the orderly transition process contemplated by the LUMA T&D OMA. The Government

Note 20 - Subsequent Events – (continued)

LUMA O&M Agreement Related Matters & Litigation – (continued)

Litigation Regarding the Nullification of the Supplemental Agreement Extension – (continued)

also filed an intrajurisdictional certification requesting that the Puerto Rico Supreme Court assume jurisdiction over those issues in the first instance.

On December 15, 2025, LUMA removed the P3A Action to the Title III Court, purportedly on the basis of diversity jurisdiction under 28 U.S.C. § 1332 and pursuant to PROMESA section 306. LUMA similarly removed the Governor's Action to the Title III Court on December 18, 2025, prompting the Puerto Rico Supreme Court to stay consideration of the Governor's intrajurisdictional certification while removal proceedings are pending, with members of the court signaling an intent to reassume jurisdiction if the action is remanded.

On January 12, 2026, P3A moved to remand the matter to the Puerto Rico Court of First Instance, arguing that (i) the Court does not have diversity jurisdiction, (ii) LUMA's removal is barred by PROMESA's police and regulatory power exception, (iii) equitable grounds under PROMESA sections 306 and 309 and other abstention doctrines require remand to the Commonwealth court, and (iv) equitable considerations also support the enforcement of the mandatory forum selection clause negotiated by the parties, which further counsels remand. The Government filed a parallel motion to remand in the Governor's Action advancing similar police power, abstention, and equitable remand arguments.

On January 12, 2026, the Oversight Board filed a motion to intervene in the Governor's Action. The Oversight Board seeks to intervene both on its own behalf and as the Authority's Title III representative, either as of right under Federal Rule of Civil Procedure 24(a) or, alternatively, by permissive intervention under Rule 24(b).

On February 2, 2026, the Government filed a limited opposition to the Oversight Board's motion to intervene, arguing that the Governor's Action concerns only the validity of the Extension Letter under Puerto Rico law and that allowing the Oversight Board to intervene would improperly broaden the scope of the litigation beyond those narrow issues. Also on February 2, 2026, the Oversight Board, LUMA, and the Authority's bondholders each filed oppositions to the Government's motion to remand in the Governor's Action and P3A's motion to remand in the P3A Action, arguing that the LUMA T&D OMA is one of the Authority's most critical assets and that resolution of issues concerning it would impact the administration of the Authority's Title III case. That same day, the Authority's bondholders filed motions to intervene in both adversary proceedings. On February 3, 2026, the Court set February 16, 2026 as the deadline for responses to, and February 23, 2026 as the deadline to file replies in support of, the motions to intervene.

Note 20 - Subsequent Events – (continued)

LUMA O&M Agreement Related Matters & Litigation – (continued)

Litigation Regarding the Nullification of the Supplemental Agreement Extension – (continued)

On February 16, 2026, P3A filed a reply in support of its motions for remand. Also on February 16, 2026, both the Oversight Board and P3A filed limited objections to the Authority's bondholders' motions to intervene. On February 23, 2026, the Authority's bondholders filed a reply in support of their intervention motions. On March 2, 2026, LUMA filed a motion to supplement its opposition to the motions for remand, which the Court allowed on March 4, 2026. On April 10, 2026, the Government filed a response to LUMA's motion to supplement. P3A filed in its respective proceeding incorporating the Government's response by reference. On April 14, 2026, the Court stated that it would take notice of LUMA and the Government's (and P3A's) arguments when considering the motions for remand.

On April 14, 2026, in the Government case, the Court granted in part and denied in part the intervention of the Bondholders and the Oversight Board. The Court permitted the Bondholders to intervene for the limited purpose of addressing the merits as framed by the parties (but not to expand the scope of the litigation). The Court permitted the Oversight Board to intervene in the Government action to address solely issues related to remand of the action. In both cases, the Court stated that it would consider the briefing within that scope retroactively. The P3A case included an identical order for the bondholders' intervention.

On May 8, 2026, the Court entered an order remanding both the P3A and Government actions to the Commonwealth Court in 7 days of the date of the orders ("Remand Orders"). On May 13, 2026, two days before the Remand Orders were set to take effect, LUMA filed a notice of appeal and a motion for stay pending appeal in both actions. The Title III Court stayed the Remand Orders while it considers LUMA's motions for stay pending appeal. LUMA's motion for a stay was denied by the Title III Court on June 1, 2026; however, the Title III Court extended the stay of the Remand Orders to allow LUMA to seek a stay pending appeal from the First Circuit, directing the clerk of the court to effectuate the remand of the adversary proceedings on June 22, 2026, and then close them.

On June 3, 2026, in the First Circuit appeals of the Remand Orders, LUMA filed emergency motions for a stay pending appeal and for an immediate administrative stay or expedited briefing. P3A and the Government objected to the motions on June 8, 2026. LUMA filed replies in support of their motions on June 11, 2026.

Note 20 - Subsequent Events – (continued)

LUMA O&M Agreement Related Matters & Litigation – (continued)

Litigation Regarding the Nullification of the Supplemental Agreement Extension – (continued)

On June 19, 2026, the First Circuit denied LUMA's emergency motions for a stay pending appeal, and concluded that the requests for expedited briefing of the motion or, alternatively, an administrative stay are moot given the denial. Also on June 19, 2026, the First Circuit issued a briefing schedule for these appeals: LUMA's briefs are due July 29, 2026 and responses to LUMA's brief are due 30 days after LUMA files its opening brief.

On June 23, 2026, LUMA Energy, LLC and LUMA Energy ServCo, LLC filed their Answer to Verified Complaint for Declaratory Judgment and Preliminary Injunction and Counterclaim before the Puerto Rico Court of First Instance. In its pleading, LUMA denied the material allegations of the complaint and asserted that the November 30, 2022 extension of the Supplemental Agreement was validly authorized and executed in accordance with applicable law and the parties' contractual agreements. LUMA also filed counterclaims alleging, among other things, that the plaintiffs' claims lack legal and factual merit and seeking the remedies set forth therein, including the dismissal of the complaint and other relief deemed appropriate by the court.

Recent Geopolitical Events Impacting Fuel Markets

On March 2–3, 2026, a sharp rise in global oil and natural gas prices following coordinated military actions involving the United States, Israel, and Iran, significantly increased geopolitical risk in the Middle East and disrupted key energy corridors. During this period, Brent crude oil prices rose between 9% and 14%, WTI increased approximately 8% to 12%, and European natural gas futures jumped between 20% and 40%. These developments create heightened exposure for the Authority due to its dependence on fuel-based generation and sensitivity to fluctuations in global oil and gas markets, potentially affecting future purchased-power and fuel costs as well as overall operational expenditures. Fuel costs are fully recoverable from customers through a quarterly reconciled fuel rider, resulting in temporary timing differences between costs incurred and amounts recovered. However, the financial impact on the Authority or its customers cannot be reasonably estimated at this time.

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Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of Changes in the Authority's Net Pension Liability
and Related Ratios (Unaudited)
(In thousands)
For the fiscal year ended June 30, 2023

| | Measurement period ended June 30, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Total pension liability | | | | | | | | | |
| Service cost | $ 79,151 | $ 88,104 | $ 86,298 | $ 82,860 | $ 80,783 | $ 95,768 | $ 79,927 | $ 86,627 | $ 38,420 |
| Interest on total pension liability | 137,187 | 159,659 | 168,281 | 171,460 | 184,768 | 168,407 | 209,459 | 205,706 | 249,451 |
| Difference between expected and actual experience | (175,660) | (86,796) | (31,400) | (1,958) | (50,005) | (21,443) | (19,815) | 11,763 | 47,103 |
| Changes in assumptions | (909,258) | 442,859 | 71,207 | 339,551 | 253,387 | (284,071) | 947,510 | (60,243) | 1,796,904 |
| Benefit payments | (288,773) | (279,711) | (287,503) | (287,486) | (273,727) | (268,469) | (254,624) | (279,479) | (216,811) |
| Refunds of contributions | (36,814) | (1,383) | (380) | (996) | (1,091) | (709) | (1,200) | (1,126) | (795) |
| Net change in total pension liability | (1,194,167) | 322,732 | 6,503 | 303,431 | 194,115 | (310,517) | 961,257 | (36,752) | 1,914,272 |
| Total pension liability - beginning | 6,398,553 | 6,075,821 | 6,069,318 | 5,765,887 | 5,571,772 | 5,882,289 | 4,921,032 | 4,957,784 | 3,043,512 |
| Total pension liability - ending (a) | $ 5,204,386 | $ 6,398,553 | $ 6,075,821 | $ 6,069,318 | $ 5,765,887 | $ 5,571,772 | $ 5,882,289 | $ 4,921,032 | $ 4,957,784 |
| Plan's fiduciary net position | | | | | | | | | |
| Adjustment to beginning Plan net position | $ - | $ - | $ - | $ - | $ - | $ (58) | $ - | $ 1,672 | $ - |
| Contributions-employer | 178,159 | 261,026 | 241,928 | 224,436 | 129,728 | 120,326 | 113,384 | 99,179 | 100,145 |
| Contributions-members | 16,197 | 20,866 | 19,931 | 18,203 | 22,985 | 24,871 | 26,470 | 28,242 | 36,871 |
| Net investment income | (21,352) | 163,165 | 36,620 | 34,440 | 94,616 | 134,564 | 18,700 | 69,991 | 179,191 |
| Benefit payments | (288,773) | (279,711) | (287,883) | (288,482) | (274,818) | (268,469) | (254,625) | (279,479) | (216,811) |
| Administrative expense and other | (219) | (584) | (449) | (106) | (156) | (230) | (385) | (598) | (348) |
| Employee Contribution Refunds | (36,814) | (1,383) | - | - | - | (709) | (1,200) | (1,126) | (795) |
| Transfers from other systems | 62 | 203 | - | - | - | 162 | 309 | 437 | 1,275 |
| Impairment loss on deposits held in GDB | - | - | - | - | - | - | (4,129) | - | - |
| Net change in plan fiduciary net position | (152,740) | 163,582 | 10,147 | (11,509) | (27,645) | 10,457 | (101,476) | (81,682) | 99,528 |
| Plan fiduciary net position-beginning | 1,360,786 | 1,197,204 | 1,187,057 | 1,198,566 | 1,226,211 | 1,215,754 | 1,317,230 | 1,398,912 | 1,299,384 |
| Plan fiduciary net position-ending (b) | $ 1,208,046 | $ 1,360,786 | $ 1,197,204 | $ 1,187,057 | $ 1,198,566 | $ 1,226,211 | $ 1,215,754 | $ 1,317,230 | $ 1,398,912 |
| Net pension liability-ending (a)-(b) | $ 3,996,340 | $ 5,037,767 | $ 4,878,617 | $ 4,882,261 | $ 4,567,321 | $ 4,345,561 | $ 4,666,535 | $ 3,603,802 | $ 3,558,872 |
| Covered-employee payroll | $ 166,022 | $ 209,588 | $ 213,353 | $ 218,151 | $ 247,705 | $ 258,210 | $ 270,705 | $ 287,143 | $ 341,910 |
| Plan's fiduciary net position as a percentage of the pension liability | 23.21% | 21.27% | 19.70% | 19.56% | 20.79% | 22.01% | 20.67% | 26.77% | 28.22% |
| Net pension liability as a percentage of covered-employee payroll | 2,407% | 2,404% | 2,287% | 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, 2023

| 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 |
|---|---|---|---|---|---|
| 2023 | $ 210,032 | $ 55,263 | 154,769 | $ 122,434 | 45.14% |
| 2022 | 178,159 | 26,700 | 151,459 | 166,022 | 16.08% |
| 2021 | 260,967 | 72,392 | 188,575 | 209,588 | 34.54% |
| 2020 | 241,828 | 73,692 | 168,136 | 213,353 | 34.54% |
| 2019 | 224,368 | 75,349 | 149,019 | 218,151 | 34.54% |
| 2018 | 129,673 | 88,703 | 40,970 | 247,705 | 35.81% |
| 2017 | 120,272 | 87,837 | 32,435 | 258,210 | 34.02% |
| 2016 | 113,315 | 86,357 | 26,958 | 270,705 | 31.90% |
| 2015 | 99,121 | 92,263 | 6,858 | 287,143 | 32.13% |
| 2014 | 99,971 | 90,763 | 9,208 | 341,910 | 26.55% |

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, 2023

| | Measurement period ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2022 | 2021 | 2020 | 2019 | 2018 |
| Total OPEB liability | | | | | |
| Service cost | $ 2,793 | $ 3,365 | $ 3,392 | $ 3,059 | $ 2,929 |
| Interest | 7,435 | 9,535 | 10,385 | 10,567 | 11,446 |
| Difference between expected and actual experience | (46,984) | (44,721) | (23,148) | - | (18,671) |
| Changes of assumptions or other inputs | (45,280) | 20,144 | 2,639 | 14,252 | 8,368 |
| Benefits payments | (5,446) | (6,072) | (7,937) | (12,570) | (17,785) |
| Net change in total OPEB liability | (87,482) | (17,749) | (14,669) | 15,308 | (13,713) |
| Total OPEB liability - beginning | 343,767 | 361,516 | 376,185 | 360,877 | 374,590 |
| Total OPEB liability - ending (a) | $ 256,285 | $ 343,767 | $ 361,516 | $ 376,185 | $ 360,877 |
| Covered-Employee Payroll | $ 166,022 | $ 209,588 | $ 213,353 | $ 218,151 | $ 247,705 |
| Total OPEB liability as a percentage of Covered- Employee Payroll | 154.37% | 164.02% | 169.45% | 172.44% | 145.69% |

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

Notes to the Required Supplementary Information (Unaudited)
For the fiscal year ended June 30, 2023

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, 2022:

- The discount rate used to determine the total pension liability was increased from 2.19% to 3.54%.
- The municipal bond index rate increased from 2.18% to 3.54%.
- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2020 to PUB 2016 General Employees Amount-Weighted Mortality Tables projected generationally using Scale MP-2021.

The following were the changes in assumptions for the measurement period ended June 30, 2021:

- The discount rate used to determine the total pension liability was decreased from 2.69% to 2.19%.
- The municipal bond index rate decreased from 2.66% to 2.18%.
- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2020 to PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2021.

The following were the changes in assumptions for the measurement period ended June 30, 2020:

- The discount rate used to determine the total pension liability was decreased from 2.84% to 2.69%.
- The municipal bond index rate decreased from 2.79% to 2.66%.
- 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-2020.

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.

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

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 PREPA ERS's investment consultants.

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

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

- The discount rate used to determine the total pension liability was reduced from 4.37% to 2.93% since the prior measurement date.
- Assumed rates of retirement for members hired before January 1, 1993, have been adjusted.
- Assumed rates of disability retirements have been adjusted.
- Assumed rates for active and healthy annuitants mortality have been updated to the RP-2014 Mortality Table projected to 2018 using Scale BB, set back one year for males.
- Assumed rates for disabled annuitants mortality have been updated to the RP-2014 Disabled Annuitant Mortality Table projected to 2018 using scale BB.
- The merit component of the salary scale was adjusted.
- Assumed rate of wage inflation was reduced from 3.50% to 2.50%.
- Assumed rate of price inflation was reduced from 2.50% to 2.25%.
- The assumed rate of return on assets was reduced from 8.25% to 5.75%.
- 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 Determined 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, 2023, and related information for the Plan and supplemental benefits follow:

| | |
|---|---|
| Actuarial cost method | Entry age |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 19 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 percent, net of ERS System investment expense, including inflation |

The remaining unpaid employer contributions are disclosed in the Schedule of Employer Contributions as Actual Employer Deficiencies/(Excess). These amounts are recorded in the Authority as contributions expense and payable. The ERS Plan has consistently recognized the full actuarially determined employer contributions each year as either contributions received or receivables.

Beginning in June 2023, the employer adopted a pay-as-you-go funding approach, making contributions as benefit payments become due. As of June 30, 2023, the cumulative unpaid portion of the actuarially determined employer contributions totaled approximately $972.8 million. This amount is included in accounts payable and accrued liabilities in the statement of net position (deficit) (see Note 9).

Note 4 - Changes in Assumptions - OPEB

The following were the changes in assumptions for the measurement period ended June 30, 2022:

- Since the prior measurement date, the discount rate changed from 2.18% to 3.54% due to a change in the Municipal Bond Rate.

- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2020 to PUB 2016 General Employees Amount-Weighted Mortality Tables projected generationally using Scale MP-2021.

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

The following were the changes in assumptions for the measurement period ended June 30, 2021:

- Since the prior measurement date, the discount rate changed from 2.66% to 2.18% due to a change in the Municipal Bond Rate.
- The mortality rates assumptions were changed from PUB 2010 Headcount-Weighted Median Mortality Table projected generationally using Scale MP-2020 to PUB 2010 Headcount-Weighted Median Mortality Table projected generationally using Scale MP-2021.

The following were the changes in assumptions for the measurement period ended June 30, 2020:

- Since the prior measurement date, the discount rate changed from 2.79% to 2.66% due to a change in the Municipal Bond Rate.
- The mortality rates assumptions were changed from PUB 2010 Head-Weighted Median Mortality Table projected generationally using Scale MP-2019 to PUB 2010 Headcount-Weighted Median Mortality Table projected generationally using Scale MP-2020.

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.
- 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.