



GOVERNMENT OF PUERTO RICO

Puerto Rico Public-Private Partnerships Authority

December 2, 2019

Re: The Potential Transformation of the Puerto Rico Electric Sector

I. INTRODUCTION

In January 2018, the Government of Puerto Rico announced its intent to transform and modernize the electric system through private operation or ownership of the assets of the Puerto Rico Electric Power Authority ("PREPA").

PREPA is currently a vertically-integrated utility serving approximately 1.5 million customers across Puerto Rico. The Government of Puerto Rico, the Financial Oversight and Management Board ("Oversight Board") and PREPA have identified certain key objectives that will be considered as part of this transformation process including, without limitation, delivering low-cost electricity to ratepayers of Puerto Rico, increasing energy resiliency and reliability, deploying new technologies, investment and financial strength and exercising industry best-practices and operational excellence.

In the context of the proposed transformation, the Puerto Rico Public-Private Partnerships Authority ("P3A") is conducting a procurement process to select a private operator under an Operation and Maintenance ("O&M") agreement for PREPA's transmission and distribution ("T&D") system. The prospective transformation of PREPA-owned generation assets may involve a similar O&M agreement, a sale, lease, concession or other similar structures, and could entail a single or a series of transaction(s).

The P3A and Citigroup Global Markets Inc. ("Citi"), advisor to the Oversight Board, are pleased to announce the solicitation of market feedback from parties interested in participating in potential generation-focused transaction(s). This letter ("Letter") outlines the questions and protocols that will be followed for this stage of the generation transformation process.

II. AVAILABLE INFORMATION

Enclosed with this Letter is an overview of the PREPA generation portfolio. In addition to these materials, interested participants may also refer to the PREPA Fiscal Plan certified by the Oversight Board in June 2019, the Fiscal Plan for Puerto Rico certified by the Oversight Board in May 2019 and the ongoing PREPA Integrated Resource Plan ("IRP") for certain additional information relevant to the transaction(s). Copies of the Fiscal Plans can be found at <https://oversightboard.pr.gov/fiscal-management-responsibilities> and the IRP can be found at <http://energia.pr.gov/en/dockets/?docket=CEPR-ap-2018-0001>.

III. INTERESTED PARTY FEEDBACK

The P3A is seeking written responses from parties that are interested in participating in potential generation-focused transaction(s). These written responses will help the Government of Puerto Rico, the P3A and the Oversight Board develop a proposed transaction structure to be included in a later process to be run by the P3A.





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Questions

- Please describe your view of how Puerto Rico's electric generation operations can best be transformed.
- Please describe your interest in participating in / relative merits of the following three potential transaction structures:
 - i. Please describe your initial view on the opportunity to participate in a transaction(s) to acquire all or a portion of PREPA's generation fleet.
 - ii. Please describe your initial view on the opportunity to participate in a transaction(s) to enter into a concession agreement or provide O&M services to all or a portion of PREPA's generation fleet. In this context you should assume that PREPA (or other government entity) retains title and ownership of the generation fleet.
 - iii. Please describe your appetite for investing in new generating facilities and / or other capital investments in PREPA's existing generation fleet.
 - Please describe the key due diligence items that would be necessary in order to be in a position to make a binding proposal to acquire or provide O&M services to the existing generation fleet.
 - Are there timing considerations that would influence your ability to participate in such a transaction(s)?
 - Please describe how you would approach any potential environmental liabilities / decommissioning responsibilities at the facilities.
 - Please provide your preliminary views of the treatment of the collective bargaining agreement / employees in a transaction(s).
 - For each of the three potential transaction structures described above, how should fuel sourcing and supply agreements be approached?
 - Please feel free to share other terms and conditions that would be relevant to your potential participation in the process.

IV. PARTICIPANT RESPONSE PROTOCOL

The P3A requests that parties wishing to participate in the solicitation of feedback concerning a potential generation-focused transaction(s) submit written responses no later than December 13, 2019. Any submissions received after that date may be considered at P3A's discretion. Written submissions will only be accepted via email and should be submitted to P3Genproject@p3.pr.gov. Under no circumstances should PREPA, the Government of Puerto Rico, the Oversight Board or any of their affiliates be contacted directly, nor should any responses to this Letter be posted publicly.

In addition to the written answers, please let us know if you would like to have the opportunity to further discuss your feedback directly with the P3A. The P3A intends to consider all feedback received in this process, whether or not such feedback is supplemented by a further meeting or discussion.

Please note that the solicitation of feedback in no way constitutes an offer to take part in a generation-focused transaction(s). The ultimate transformation process will be run in accordance with the relevant legislation enacted by the Legislative Assembly of Puerto Rico and the applicable rules and regulations promulgated by the P3A. Any and all attempts to circumvent the processes established herein, or those processes that may be established as part of the ongoing legislative and judicial proceedings, may result in the disqualification of the transgressing party from continued participation in the transformation of the Puerto Rico electric sector. This market sounding exercise does not commit the Government of Puerto Rico, P3A,





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PREPA or the Oversight Board to enter into a contract with any interested market participant or proceed with a generation-focused transformation process as described herein. Participants in this feedback solicitation will not be given any preference in future phases on this transformation process.

V. PRELIMINARY TRANSFORMATION PROCESS TIMELINE

The P3A, in consultation with key process stakeholders, has developed a preliminary timeline for the completion of the transformation process. This timeline is only indicative and may be subject to change. This timeline, as well as a brief summary of the key components of each phase of the process, is as follows:

- i. Market Sounding (Q4 2019)
 - Invite market participants to provide feedback on the proposed generation-focused transformation process
 - Receive written feedback, which will be considered and potentially incorporated into the transaction process
- ii. Request for Qualifications (“RFQ”) Process (Q4 2019 – Q1 2020)
 - RFQ materials, requirements and procedures published publicly
 - RFQ responses received and evaluated
 - Qualified parties notified and admitted into the next phase (RFP phase)
- iii. Request for Proposals (“RFP”) Process (Q1 2020 – Q3 2020)
 - RFP process materials are published to participating parties
 - Detailed due diligence inclusive of Q&A, site visits and access to relevant subject matter experts
 - Distribution of definitive documentation
 - Evaluation of RFP responses and negotiation of definitive documentation
 - Selection of winning RFP and, to the extent applicable, approvals obtained from the various authorities
- iv. Closing Period (Q3 / Q4 2020)
 - Completion of all relevant closing procedures

The P3A reserves the right to make adjustments to the preliminary timeline based on responses provided as part of this solicitation of feedback, or for any other reason deemed prudent to the successful completion of the transformation process.

VI. CONCLUSION

The P3A and Citi look forward to receiving market feedback related to the potential transformation of PREPA. On behalf of the Government of Puerto Rico, P3A, the Oversight Board, PREPA and all other stakeholders, we would like to thank you for your interest in this opportunity and look forward to your response.





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Disclaimer

The Letter and attached presentation (the "Presentation," and collectively with the Letter, the "Materials") are being posted publically, but intended for a limited number of parties who, it is believed, may be interested in participating in the generation-focused transformation of the Puerto Rico electric sector (the "Transaction") through private ownership, concession or operation of the generation assets of the Puerto Rico Electric Power Authority ("PREPA" or the "Company"). These Materials are furnished solely for the purpose of evaluating the transaction described hereby.

The Materials has been prepared based on information provided by the Company. Citi has not conducted any investigation with respect to such information, and the P3A, the Oversight Board and the Company expressly disclaim any and all liability for representations, expressed or implied, contained in, or for omissions from, these Materials or any other written or oral communication transmitted to any interested party in the course of its evaluation of the Transaction. Only those particular representations and warranties that may be made by the Company in a definitive written agreement, when and if one is executed, and subject to such limitations and restrictions as may be specified in such agreement, shall have any legal effect.

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