

FINANCIAL OVERSIGHT & MANAGEMENT BOARD FOR PUERTO RICO



David A. Skeel, Jr.
Chair

Members
Andrew G. Biggs
Arthur J. González
Antonio L. Medina
John E. Nixon
Justin M. Peterson
Betty A. Rosa

BY ELECTRONIC MAIL

June 30, 2022

The Honorable Pedro Pierluisi Urrutia
Governor of Puerto Rico

Dear Governor Pierluisi Urrutia:

Pursuant to a Resolution, a copy of which is attached hereto as **Exhibit A** (the “Resolution”), adopted by the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), and to Section 202(e)(4) of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), the Oversight Board hereby issues to the Governor this compliance certification that the fiscal year 2023 budget for the Puerto Rico Electric Power Authority (“PREPA”), attached as **Exhibit 1** to the Resolution (the “Fiscal Year 2023 Budget for PREPA”), is a compliant budget as set forth in the Resolution.

The Oversight Board looks forward to working with you and PREPA to fully implement the Fiscal Year 2023 Budget for PREPA for the benefit of the people of Puerto Rico.

Sincerely,

David A. Skeel, Jr.

Andrew G. Biggs
Arthur J. González
Antonio L. Medina
John E. Nixon
Justin M. Peterson
Betty A. Rosa

CC: Mr. Jaime A. El Koury
Hon. Omar Marrero Díaz
PREPA Governing Board

EXHIBIT A

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

June 30, 2022

RESOLUTION CERTIFYING THE FISCAL YEAR 2023 BUDGET FOR PREPA

WHEREAS, on June 30, 2016, the federal Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) was enacted; and

WHEREAS, Section 101 of PROMESA created the Financial Oversight and Management Board for Puerto Rico (“the Oversight Board”); and

WHEREAS, Section 202(c) of PROMESA establishes a multi-step procedure for the development, review, and approval of a budget for covered instrumentalities of the Commonwealth of Puerto Rico, such as the Puerto Rico Electric Power Authority (“PREPA”), providing that (i) the Governor must submit a proposed budget to the Oversight Board; (ii) the Oversight Board must review the proposed budget and determine, in the Oversight Board’s sole discretion, either that the proposed budget complies with the applicable fiscal plan or that it does not, in which case the Oversight Board must issue a notice of violation and recommended revisions, giving the Governor an opportunity to correct the violations; (iii) the Governor may then submit a revised proposed budget; and (iv) if the Governor fails timely to submit a proposed budget that the Oversight Board determines in its sole discretion is a compliant budget, the Oversight Board shall develop and submit to the Governor its own compliant budget; and

WHEREAS, by letter dated February 22, 2022, the Oversight Board, pursuant to Section 202(a) of PROMESA, submitted to the Governor a schedule for developing, submitting, approving, and certifying the Fiscal Year 2023 Budget for PREPA; and

WHEREAS, from June 15, 2022 through June 17, 2022, PREPA’s representatives, the Oversight Board’s staff and consultants, the Puerto Rico Public-Private Partnerships Authority’s (P3A) staff and consultants, and attorneys engaged in discussions about the Fiscal Year 2023 Budget for PREPA and the Oversight Board’s concerns regarding the budget; and

WHEREAS, on June 22, 2022, the Governor submitted the proposed Fiscal Year 2023 Budget for PREPA; and

WHEREAS, the Oversight Board and its advisors held discussions with the Governor’s representatives regarding the proposed Fiscal Year 2023 Budget for PREPA; and

WHEREAS, after substantial deliberations, on June 28, 2022, the Oversight Board sent to the Governor a notice of violation pursuant to Section 202(c)(1)(B) of PROMESA regarding the Governor’s proposed Fiscal Year 2023 Budget for PREPA; and

WHEREAS, the Governor did not submit a revised proposed Fiscal Year 2023 Budget for PREPA by the established deadline; and

WHEREAS, after substantial deliberations, the Oversight Board determined that the proposed Fiscal Year 2023 Budget for PREPA does not reflect a compliant budget as required by Section 202(c)(2) of PROMESA; and

WHEREAS, the Oversight Board has developed a revised, compliant Fiscal Year 2023 Budget for PREPA for submission to the Governor pursuant to Sections 202(c)(2) and 202(e)(4) of PROMESA, which budget is attached hereto as Exhibit 1 (the “Compliant 2023 PREPA Budget”);

NOW, THEREFORE, IT IS HEREBY RESOLVED THAT, pursuant to Sections 202(c)(2) and 202(e)(4) of PROMESA, the Oversight Board shall submit to the Governor the Compliant 2023 PREPA Budget, and such budget shall be (i) deemed to be approved by the Governor, (ii) the subject of a compliance certification to be issued by the Oversight Board to the Governor, and (iii) in full force and effect beginning on July 1, 2022.

EXHIBIT 1: PUERTO RICO ELECTRIC POWER AUTHORITY FISCAL
YEAR 2023 COMPLIANT BUDGET AND BUDGETARY
RESOLUTIONS PROVISIONS

**I. EXHIBIT 1 - BUDGET - REVENUES PUERTO
RICO ELECTRIC POWER AUTHORITY**

\$ Thousand	FY23 Budget
Basic Revenue	
Residential	418,469
Commercial	585,076
Industrial	101,425
Public Lighting	60,749
Agricultural	1,962
Others	2,217
Total	\$ 1,169,899
Fuel & Purchased Power	
Residential	1,458,820
Commercial	1,543,555
Industrial	377,871
Public Lighting	48,729
Agricultural	4,603
Others	7,838
Total	\$ 3,441,415
CILT	
Residential	47,879
Commercial	50,660
Industrial	12,402
Public Lighting	1,599
Agricultural	124
Others	257
Total	\$ 112,950
Subsidies	
Residential	101,790
Commercial	107,702
Industrial	26,366
Public Lighting	3,400
Agricultural	327
Others	547
Total	\$ 240,132
Total Gross Revenue	\$ 4,964,396
Other Income	37,358
Total Unconsolidated Revenue	\$ 5,001,754
Bad Debt Expense	(74,466)
CILT & Subsidies	(353,082)
Total Consolidated Revenue	\$ 4,574,206

II. EXHIBIT 1 BUDGET - EXPENSES (cont'd)
PUERTO RICO ELECTRIC POWER AUTHORITY

\$ Thousand	FY23 Budget
A. Fuel & Purchased Power	
Fuel	2,889,990
Purchased Power - Conventional	472,207
Purchased Power - Renewable	79,217
Total Fuel & Purchase Power Expenses	\$ 3,441,415
B. GenCo - Operations & Maintenance Expenses	
Labor	
Salaries & Wages	45,511
Pension & Benefits	28,904
Overtime Pay	11,733
Overtime Benefits	1,395
Total GenCo Labor Operating Expenses	87,543
Non-Labor / Other Operating	
Materials & Supplies	19,795
Transportation, Per Diem, and Mileage	1,527
Security	9,043
Utilities & Rents	3,623
Legal Services	7,405
Professional & Technical Outsourced Services	2,392
Regulation & Environmental Inspection	7,945
Other Miscellaneous Expenses	7,565
Total GenCo Non-Labor / Other Operating Expenses	59,294
Shared Services Agreement Impact	59,748
Total GenCo Operating Expenses	206,585
Maintenance	
Generation	99,039
Total GenCo Maintenance Projects Expense	99,039
Federal Funding Cost Share	-
Total GenCo Operating & Maintenance Expenses	\$ 305,624

EXHIBIT 1 BUDGET - EXPENSES (cont'd) PUERTO
RICO ELECTRIC POWER AUTHORITY

\$ Thousand	FY23 Budget
<i>C. HoldCo - Operations Expenses</i>	
Labor	
Salaries & Wages	7,513
Pension & Benefits	4,508
Overtime Pay	439
Overtime Benefits	53
Total HoldCo Labor Operating Expenses	12,513
 Non-Labor / Other Operating Expenses	
Materials & Supplies	288
Transportation, Per Diem, and Mileage	242
Retiree Medical Benefits	9,000
IT Service Agreements	850
Utilities & Rents	36
Communications Expenses	81
Professional & Technical Outsourced Services	4,144
Other Miscellaneous Expenses	1,825
PREPA Restructuring & Title III	25,100
FOMB Advisor Costs allocated to PREPA	24,400
Total HoldCo Non-Labor / Other Operating Expenses	65,966
 Total HoldCo Operating Expenses	 \$ 78,479
<i>D. GridCo - Operating & Maintenance Expenses</i>	
GridCo Labor Operating Expenses	246,471
GridCo Non-Labor / Other Operating Expenses	289,926
Operator Service Fees	121,785
2% Reserve	10,728
Maintenance Projects Expenses	79,778
Total GridCo Operating & Maintenance Expenses	\$ 748,688
 Total Operating & Maintenance Expenses	 \$ 4,574,206
Surplus / (Deficit) Before Legacy Pension and Debt Obligations	0

EXHIBIT 1 (cont'd)

III. ENFORCEMENT OF THE PUERTO RICO ELECTRIC POWER AUTHORITY FY23 BUDGET

Section 2.- All expenditures authorized in any prior fiscal year are terminated and no disbursement of public funds may be covered by such expenditure authorization, except: (1) expenditures to carry out capital improvements that have been accounted for and kept on the books; (2) capital and maintenance expenditures with procurement cycles that extend beyond the end of the fiscal year that have been accounted for and kept on the books; (3) the portion of any other expenditures authorized in the Puerto Rico Electric Power Authority (“PREPA”) Certified Budget for fiscal year 2022; and (4) the portion of the appropriations authorized for fiscal year 2022 that have been allocated, transferred or designated on or before June 30 of such fiscal year. This restriction on expenditures authorized in any prior fiscal year shall not apply to: (i) programs financed in whole or part with federal funds; (ii) orders by the United States district court with jurisdiction over all matters under Title III of PROMESA; and (iii) matters pertaining to any consent decree or injunction, or an administrative order or settlement entered into with a Federal Agency, with respect to Federal programs. In addition, the foregoing exceptions to the restrictions on expenditures authorized in any prior fiscal year are conditioned on the prior written approval of the Oversight Board.

Section 3.- On or before August 31, 2022, the Executive Director of PREPA will provide to the Oversight Board a certification indicating whether there are any unused amounts of the fiscal year 2022 certified budget for items (1), (2), (3), and (4) of Section 2 and, if so, an itemization of such unused amounts.

Section 4.- Notwithstanding any other statement, no unused budget allotments from any previous fiscal year shall be used by PREPA to fund current fiscal year expenditures, except as otherwise expressly authorized by the Oversight Board in writing after June 30, 2022.

Section 5.- The Executive Director of PREPA shall be responsible for not spending or encumbering during fiscal year 2023 any amount that exceeds the expenditures authorized for GenCo and HoldCo herein for fiscal year 2022, other than amounts above those budgeted for fuel and purchased power, which may fluctuate based on market factors or increase due to unforeseen expenses necessary to maintain the electric system’s reliability and safety.

Section 6.- Except for additional expenditures related to fuel and purchased power, the expenditures approved in this budget, including payroll and related expenses, may only be reprogrammed with the prior express written approval of the Oversight Board. For the avoidance of doubt, this prohibition includes any reprogramming of any amount, line item or expenditure provided in this budget. In the case of reprogramming to the fuel and purchased power budget, the Executive Director of PREPA must provide written notice to the Oversight Board of any change to such amounts within 5 days after any such change taking place.

Section 7.- Pursuant to Section 203 of PROMESA, PREPA must submit to the Oversight Board, no later than 15 days after the last day of each quarter of fiscal year 2023, a budget to actual report, along with an explanation of relevant variances as provided in the certified Fiscal Plan. The Oversight Board may determine to provide PREPA a template to be used for such reporting, in which case any quarterly budget to actual reports submitted by PREPA must be submitted consistent with such reporting template.

Section 8.- The Oversight Board reserves the right to, in its sole discretion, issue a notice to the Governor, pursuant to PROMESA Section 202(a), setting forth a schedule for revising PREPA's budget.

Section 9.- The PREPA budget for FY2023 shall take effect on July 1, 2022.