

Moving towards financial stability and sustainability

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- 1 Overview
- 2 Environmental Compliance and CIP
- 3 Financial Situation
- 4 Next Steps
- 5 Closing Remarks

PRASA - Sole Provider of Water and Sewer



Service Area (approx)
3,500 square miles



1,256,000 clients

Water: 97%
Sewer: 59%



8 Dams



126 Water
Treatment Plants

- Production = 546 MGD



56 Wastewater
Treatment Plants

- Sewer treated = 228 MGD



More than 4,000
ancillary facilities:

- Water Storage Tanks (1,723)
- Pump Stations (2,186)
- Wells (299)



Almost 20,000
miles of pipelines
island wide

- Water
- Sewer

PRASA's system is complex and unique

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Compliance Overview

One of PRASA's main objectives has been and will continue to be full compliance with all the environmental regulations

- Full compliance with environmental agreements signed with EPA¹ and DOH²
 - Criminal Case: Probation period placed by a Plea Agreement with the U.S. Department of Justice (May 2006) expired in April 2012
 - Requirements consolidated in four agreements with:
 - EPA:
 - Wastewater Pump Stations (July 2003)
 - Wastewater Consent Decree (June 2006)
 - Sludge Treatment System Agreement (May 2010)
 - DOH: Water Consent Agreement (June 2008, final approval)
 - The agreements require \$3.4 billion mandatory investment in 15-year periods



¹EPA: Environmental Protection Agency

²DOH: Department of Health

Capital Improvement Program Objectives

Regulatory Compliance

Operational Efficiency

System Simplification

Technology Modernization

Growth



Enrique Ortega WTP

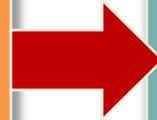


Fajardo WWTP

Environmental Agreements Renegotiation

Today

- Pump Station Decree
- Wastewater MCD-EPA
- Sludge STS-EPA
- ATE-DOH



Renegotiation

- Revised MCD
- Revised ATE



Environmental Agreements Renegotiation

- Projects' scope of work were revisited to determine if it could be modified:
 - Expansions that are no longer needed
 - Facilities already in compliance
 - Reductions in scope of work
- Opportunity to add projects that were not originally included in the Consent Decrees:
 - Combined Sewer Systems
 - Caño Martín Peña Project
 - Rehabilitation and Improvement Projects
- Opportunity to look at the implementation of all mandatory projects as a whole by developing a Prioritization System

Renegotiation Proposal

- Base List

- Projects identified as high priority and for which specific deadlines have been discussed

- Prioritization System

- Derived from PRASA Water & Wastewater Infrastructure Master Plan
- Provides an objective guideline to prioritize the implementation of infrastructure compliance mandatory projects in PRASA's CIP
- Establishes the relative priority of all planned upcoming projects with the objective of allocating its limited financial resources according to such priority



CIP Sources and Uses

For the Fiscal Years (Amounts expressed in \$'000)	5-year CIP					Total
	2013	2014	2015	2016	2017	
Sources of Funds						
Surplus Cash Available from CIP	-	1,853	5,130	157	4,698	-
Federal Funds - Rural Development Bonds ¹	15,000	15,000	15,000	15,000	15,000	75,000
Federal Funds - State Revolving Funds ¹	50,933	45,084	49,200	46,754	40,000	231,971
Interim Financing/Bond Proceeds	180,000	340,000	280,000	220,000	185,000	1,205,000
Total Sources of Funds	245,933	401,937	349,330	281,911	244,698	1,511,971
Uses of Funds						
Repair & Replacement of Fixed Assets	22,708	59,270	60,051	56,077	56,000	254,106
Capital Improvement Program - Infrastructure	221,372	337,537	289,122	221,136	182,618	1,251,785
Total Uses of Funds	244,080	396,807	349,173	277,213	238,618	1,505,891
Available cash	1,853	5,130	157	4,698	6,080	6,080

¹ Current PRASA financial model projects a level of \$55M to \$65M of federal funds per fiscal year



Camuy WWTP



Toa Vaca Reservoir and WTP

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Recent Financial History

- FY¹2006: Implementation of the last rate increase
- FY 2008: Return to the capital markets
 - Restored Investment Grade rating
 - Bond issuance of \$1.6 billion
- FY 2009: Automatic rate adjustment of 4.5% was not implemented
 - Reliance on non-recurrent Commonwealth Appropriations
 - Management proposed a rate increase starting on FY 2010, to generate \$150M
- FY 2012: Changes to the Master Agreement of Trust
 - Gross revenue pledge
 - Bond issuance of \$2.1 billion
 - A Budgetary Reserve Fund was created to cover operational expenses until FY 2013
- Dec 2012/March 2013: Rating revision from Moody's, Standard & Poor's and Fitch Ratings from Baa2/BBB-/BBB to Ba1/BB+/BBB-, respectively, as a result of PRASA's dependency from the Central Government
- Feb 2013: The Central Government and GDB² informed PRASA that additional appropriations will not be assigned to cover PRASA's FY 2014 projected deficit
- PRASA started a rate structure revision on February 2013 (to be effective on July 2013) to recover financial independency and improve credit ratings

¹FY: Fiscal Year

²GDB: Government Development Bank

Financial Agreements

Fiscal Oversight Agreement (FOA)

- Agreement by and between PRASA, GDB and the Commonwealth (as amended on February 2012)
- Formalizes controls and oversight by GDB
- Establishes procedures for advancing Commonwealth support for PRASA's operations
- Requires monthly financial reporting to GDB



Fiscal Improvement Plan (FIP)

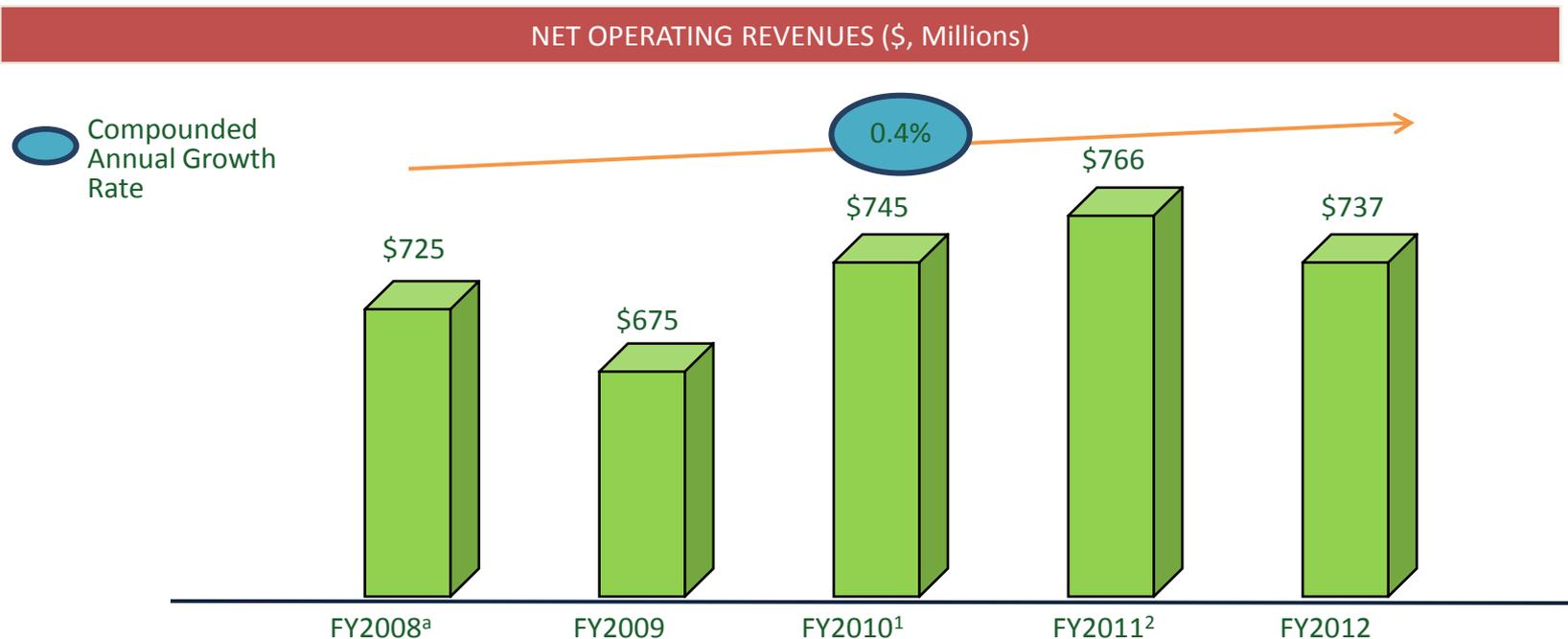
- Multi-year financial and operating plan to be updated on August and February 1st of each year
- The FIP determines the need of operating funds for the subsequent fiscal years (Budgetary Reserve Requirement), which should be communicated by PRASA to GDB on February 1st of each year
- GDB and the Commonwealth must communicate to PRASA on February 1st their decision to provide support for each budget

Master Agreement of Trust (MAT)

- Master Agreement of Trust – Rate Covenant – Section 7.01
- PRASA will be required under the Trust Agreement and the FOA to initiate a change in the rate structure if funds are not available to cover expenses and debt service and comply with the Rate Covenant

Operating Revenues

- Since FY 2006 PRASA has implemented operational initiatives to increase its revenues
 - Reduction in commercial losses has resulted in revenue increases from \$14 million (FY 2009) to \$74 million (FY 2012)
- Even with the implementation of these initiatives, revenues have remained stable after the rate increase in FY 2006, mainly as a result of the economic recession suffered by Puerto Rico since FY 2008

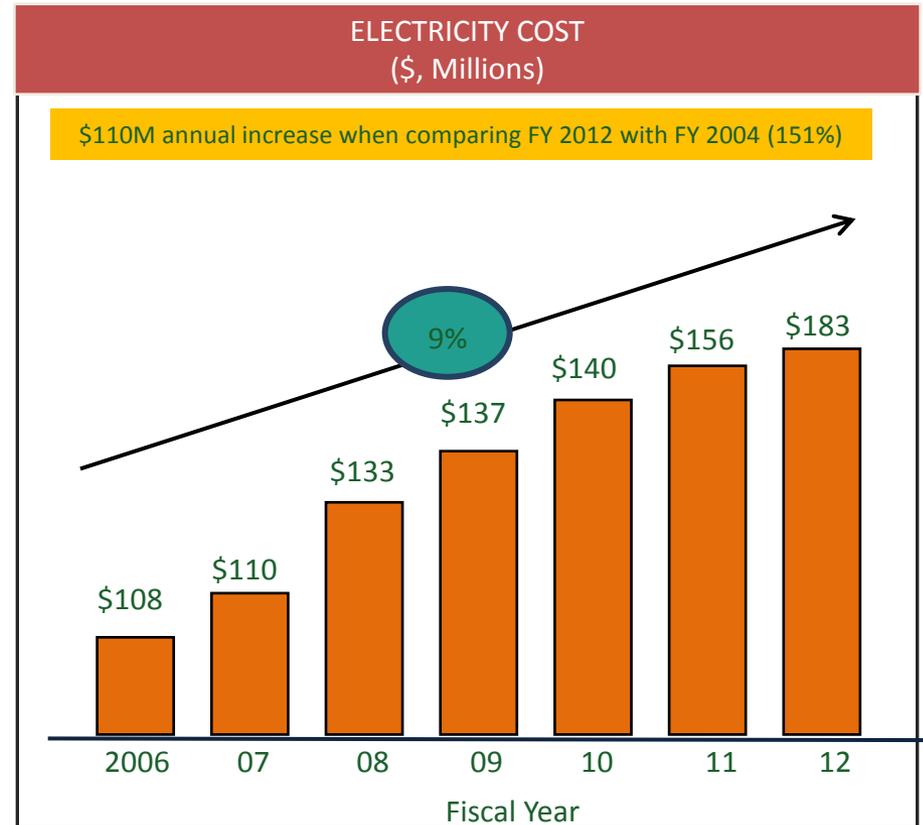
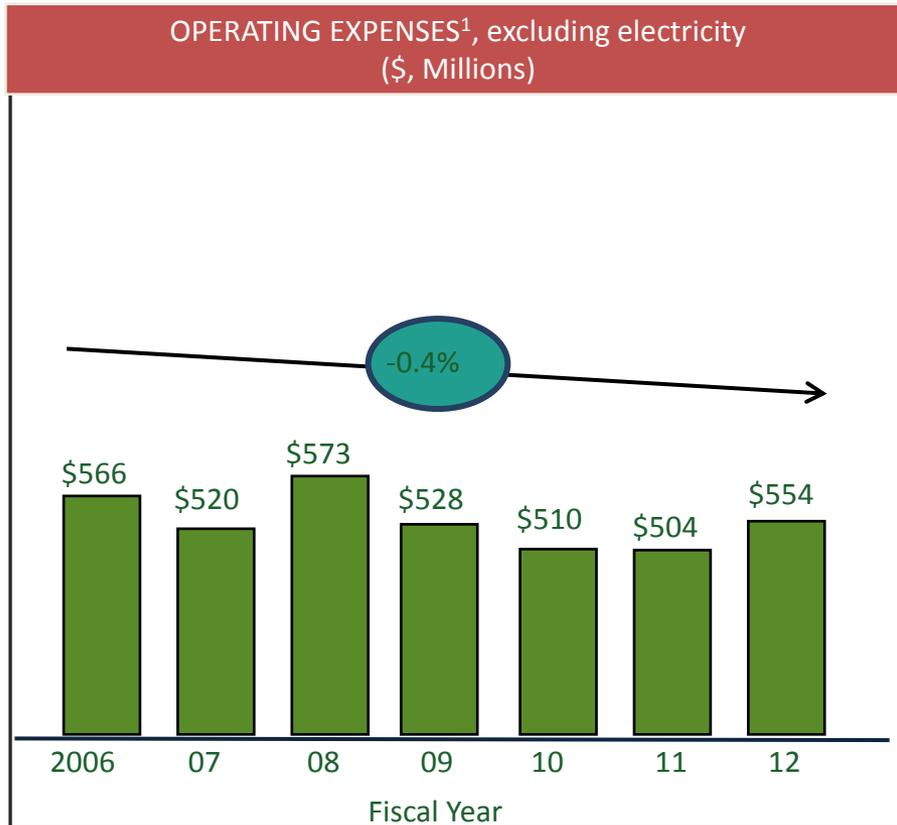


¹Excludes reimbursement of funds

²Includes one time collections of prior year receivables

Operating Expenses

- PRASA has maintained control over its operating expenses, including payroll costs
- Nevertheless, the increase on the electricity cost has resulted in an increase on PRASA's total expenses

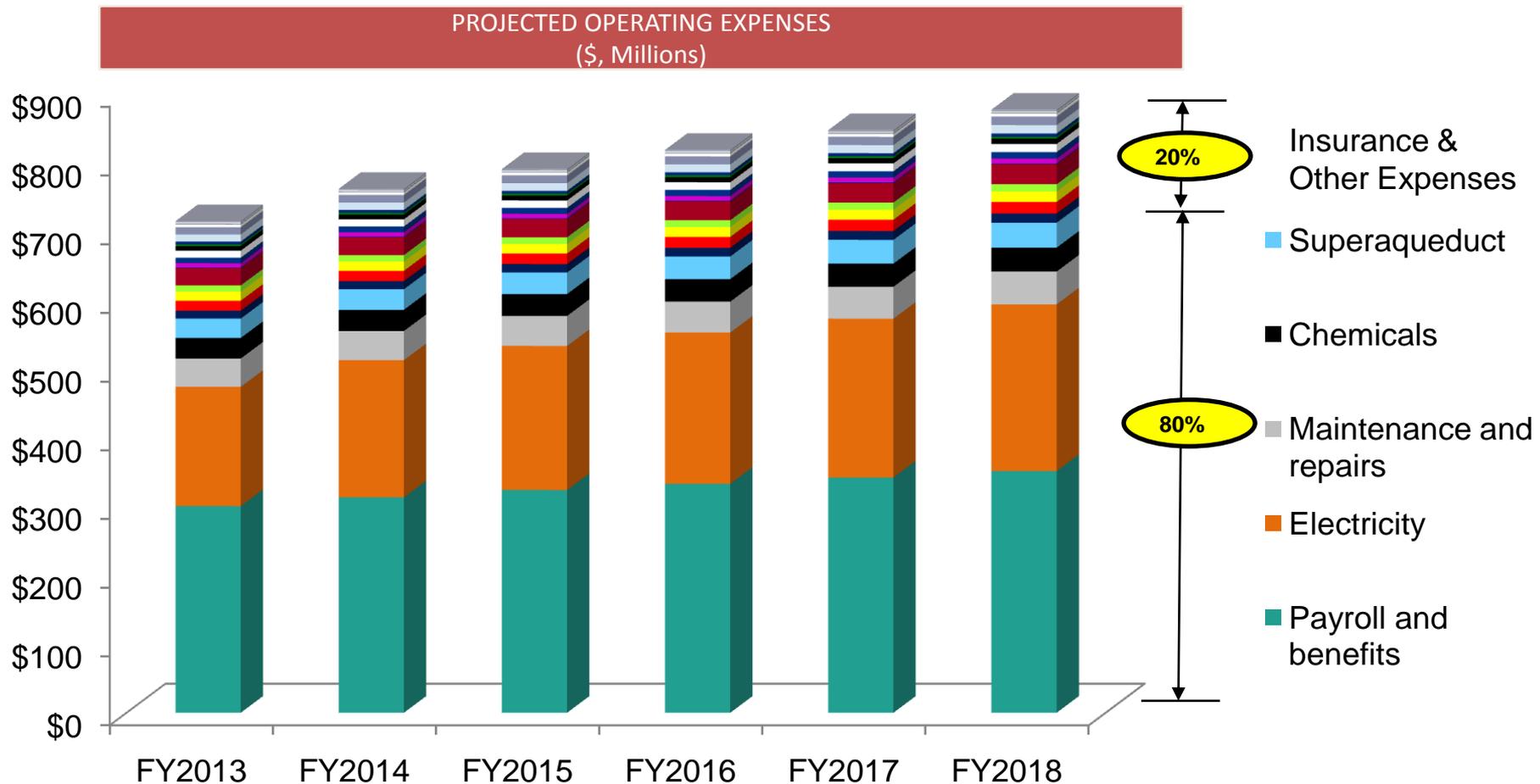


 = Compounded Annual Growth Rate

¹Operating Expenses prior to costs capitalization

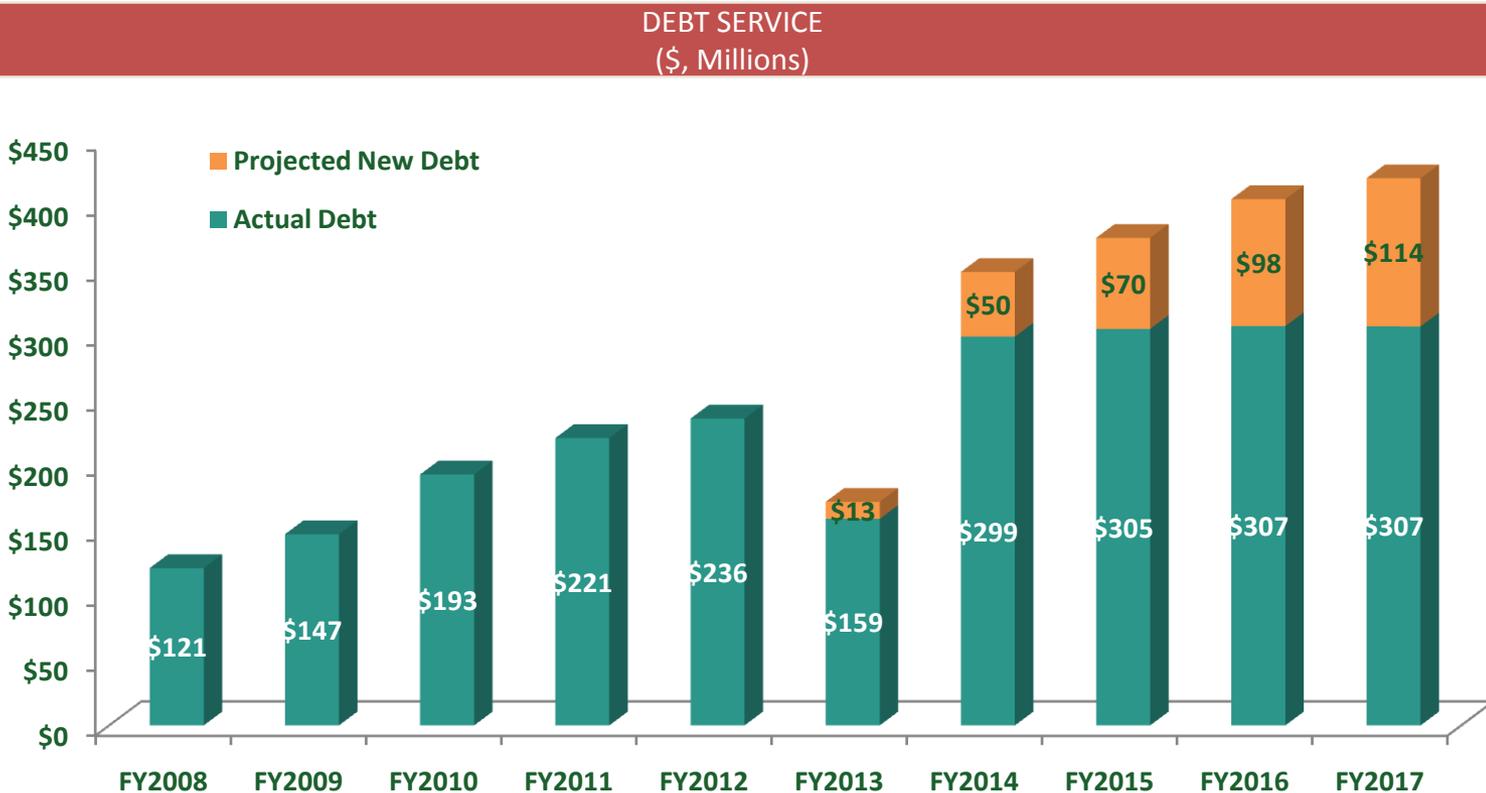
Projected Operating Expenses

- After FY2013 an increase in expenses is projected as a result of:
 - Payroll costs increases due to the negotiated labor agreements
 - Annual increase of 3% for all expenses excluding electricity and Superaqueduct, which are projected to increase at 5%



Debt Service

- The level of the CIP, to comply with all the regulations and the maintenance of the system, resulted in annual increases of \$300 to \$400 million in new debt
 - This resulted in an increase in the debt service



Financial Situation – Major Variances

Amounts expressed in \$'000	FY 2005	FY 2013	FY 2014	FY 2014 vs. FY 2005	
				\$	CAGR
Service Collections	\$ 326,015	\$ 744,584	\$1,164,413	\$ 838,398	15%
Payroll	243,871	265,900	278,315	34,444	1%
Electricity	85,465	190,000	199,500	114,035	10%
Others	228,638	240,600	240,622	11,984	1%
Debt Service	59,512	172,042	348,804	289,292	22%
Operating Expenses and Debt Service	\$ 617,486	\$ 868,542	\$1,067,242	\$ 449,756	6%
Operating Result	\$ (291,471)	\$ (123,958)	\$ 97,171		
Subsidies/Op. Financing	342,525	145,000	-		
Net Result	\$ 51,054	\$ 21,042	\$ 97,171		

Rate Increase

Increase in electricity costs

Increase in debt service

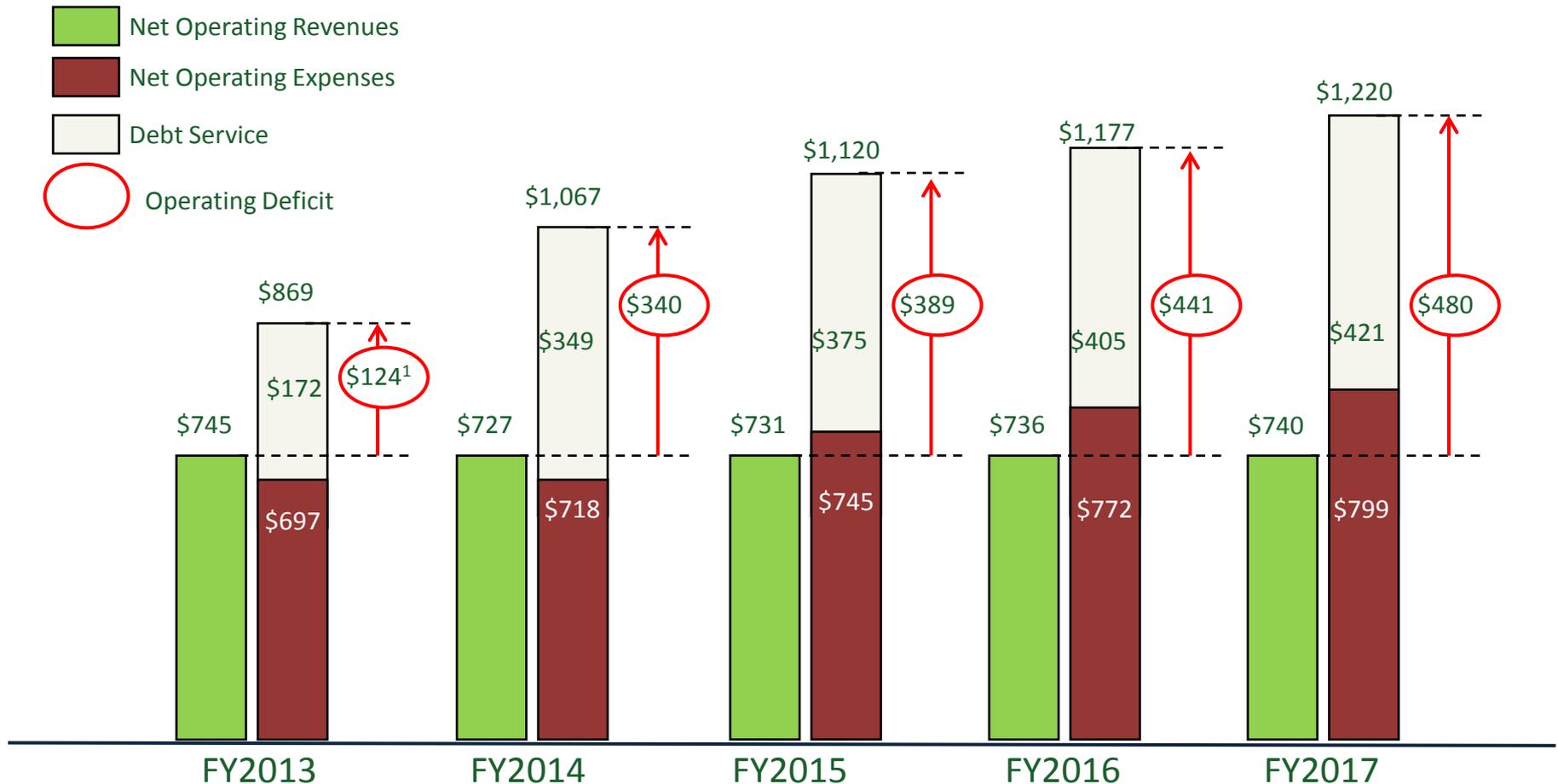
No need for further Commonwealth Support

Operating expenses, excluding electricity, have remained stable, increasing at a rate of 1% (lower than inflation)

Note: Operating Expenses are presented net of capitalized costs

Projected Financial Situation

- The projected increase in debt service and electricity costs, combined with projected stable revenues and the elimination of central government subsidies, was expected to result in projected deficits, starting in FY 2014



¹Deficit covered with a Budgetary Reserve Fund

Note: Amounts expressed in millions

Financial Projections

Operating Revenues includes \$485 million in additional annual billings starting in FY 2014, as a result of the proposed rate increase

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<i>(Figures expressed in \$'000)</i>	Actual	Projected	Projected	Projected	Projected	Projected
Operating Revenues	737,473	744,584	1,164,413	1,168,442	1,172,794	1,176,885
Central Government Appropriation	70,264	-	-	-	-	-
Budgetary Reserve Fund	95,000	145,000	-	-	-	-
Authority Revenues (cash basis)	902,737	889,584	1,164,413	1,168,442	1,172,794	1,176,885
Payroll and Benefits	307,005	308,000	313,228	323,934	332,942	342,106
Other Expenses (Maintenance, chemicals, etc)	246,495	240,600	249,136	257,214	265,565	274,191
Operating Expenses (excl. electricity)	553,500	548,600	562,364	581,148	598,507	616,297
Electricity (excl. Superaqueduct)	182,863	190,000	199,500	209,475	219,949	230,946
Total Operating Expenses	736,363	738,600	761,864	790,623	818,456	847,243
Expense Capitalization	(33,756)	(42,100)	(43,426)	(45,066)	(46,652)	(48,293)
Total Net Operating Expenses	702,607	696,500	718,438	745,558	771,804	798,950
Rate Stabilization Fund/Non Cash Adjustments	36,284	-	-	97,171	144,700	140,903
Funds Available for Debt Service	236,414	193,084	445,975	520,055	545,690	518,838
Total Debt Service	236,243	172,042	348,804	375,355	404,787	420,886
Funds to be transferred to the Rate Stabilization Fund	\$ 171	\$ 21,042	\$ 97,171	\$ 144,700	\$ 140,903	\$ 97,952

Debt Service Coverage

A strong debt service coverage is projected

	FY 2012 Actual	FY 2013 Projected	FY 2014 Projected	FY 2015 Projected	FY 2016 Projected	FY 2017 Projected
Operating Revenues	737,473	744,584	1,164,413	1,168,442	1,172,794	1,176,885
1) Senior Bonds	\$ 90,600	\$ 90,600	\$ 260,201	\$ 260,203	\$ 260,205	\$ 260,203
<i>Senior Debt (Level 1) - 2.5x</i>	8.14	8.22	4.48	4.49	4.51	4.52
3) Senior Subordinated Debt - Term Loan	\$ 5,825	\$ -	\$ -	\$ 21,591	\$ 40,642	\$ 53,343
<i>Senior Subordinated (Levels 1-3) - 2.0x</i>	7.65	8.22	4.48	4.15	3.90	3.75
Net Revenues available for Debt Service	236,414	193,084	445,975	520,055	545,690	518,838
8a) Commonwealth Guaranteed Indebtedness (2008 Ref Bonds, RD, SRF, GDB)	\$ 112,104	\$ 81,442	\$ 88,604	\$ 91,966	\$ 94,940	\$ 98,341
<i>CGI (Levels 1-8a) - 1.0x</i>	1.13	1.12	1.28	1.39	1.38	1.26
8b) Commonwealth Supported Obligations	\$ 27,714	\$ -	\$ -	\$ 1,594	\$ 8,999	\$ 8,999
<i>CSO (Levels 1-8b) - 1.0x</i>	1.00	1.12	1.28	1.39	1.35	1.23
TOTAL DEBT SERVICE	236,243	172,042	348,804	375,355	404,787	420,886

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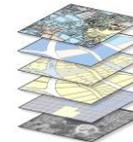
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Closing Remarks

PRASA's Projects and Next Steps

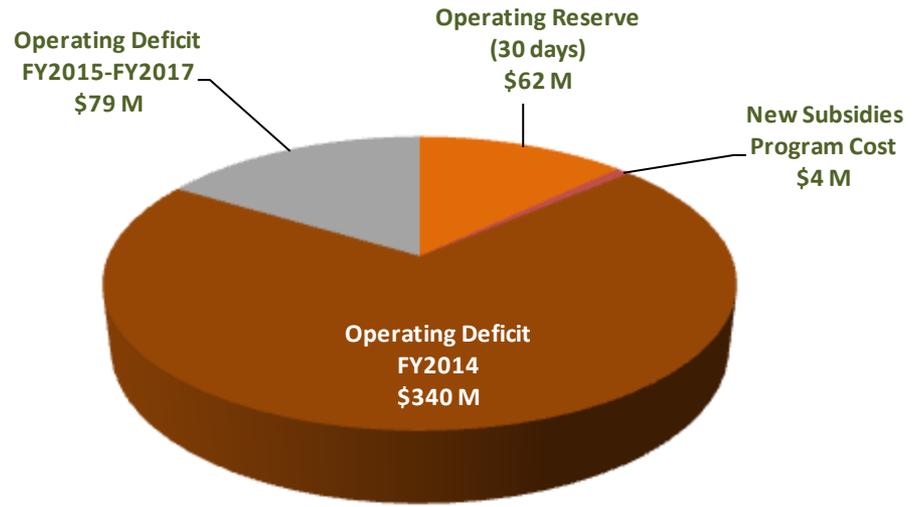
- 1 New Rate Structure
- 2 Reduction of Energy Costs
- 3 Large Meters Remote Reading
- 4 Geodatabase
- 5 Physical Water Loss Control





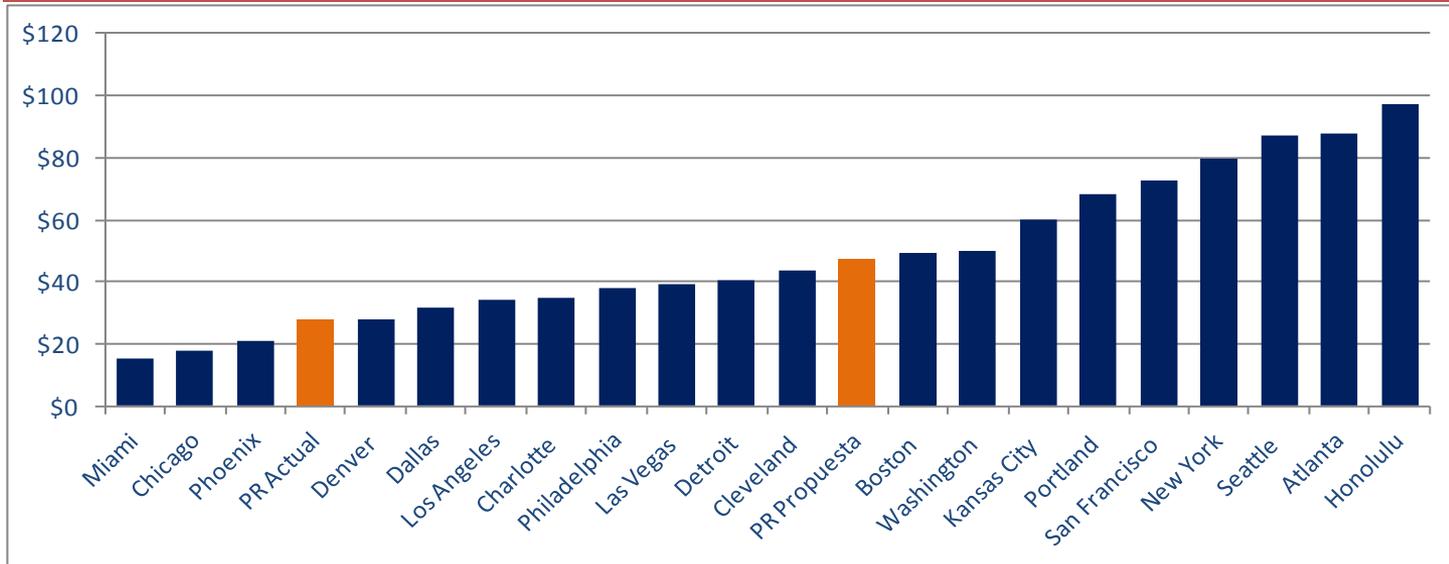
1 New Rate Structure – Proposal

- A rate increase is needed starting on FY 2014
 - The proposed change to the rate structure is expected to generate an additional \$485 million to cover the projected deficits and required reserves for fiscal years 2014 to 2017



Additional Revenues : \$485 M

Water and Sewer Service Monthly Bill (14 m³ for residential clients with 5/8" meters)



Source: Black & Veatch Rate Survey – 2012 Selection of 20 cities versus PR

1

New Rate Structure – Components



Rate Increase

Designed to promote an efficient water usage and consumption

Minimize the impact to clients with low volume of water usage

Will generate approx. \$185 million in additional annual revenues

Environmental Compliance and Regulatory Charge (ECRC)

To cover operating costs and debt service required by environmental compliance and/or regulatory agreements

Designed to promote an efficient water usage and consumption

Will generate approx. \$300 million in additional annual revenues

Special Fixed Charge

Special Charge of \$1 per month per client for a watersheds fund

Special Charge of \$1 per month per client for a Non-PRASA Systems Fund

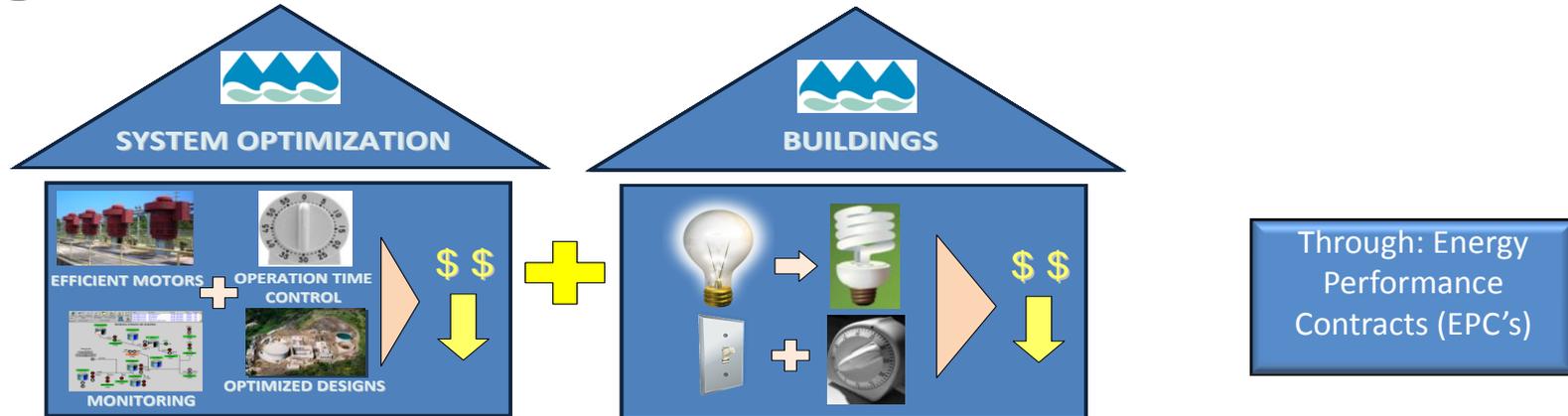
Will generate approx. \$10/\$15 million in additional annual revenues for each cause

\$485 million per year

\$20-30 million per year

2 Electricity Cost Reduction Initiatives

1. Demand side initiatives – reduce energy consumption



Alternatives include:

- Energy efficient motors
- Variable Frequency Drives (VFDs)
- HVAC improvements
- Lighting improvements
- Process improvements
- Controls improvements
- Energy management systems
- Ongoing commissioning
- Operations modifications



2. Supply side initiatives – reduce purchased energy cost





ESCO	EPC	Facility Name	Status
Honeywell Building Solutions	Water and Wastewater Treatment Plants	Barceloneta WWTP	Design phase (HW)
		Bayamón WWTP	TOS to be signed in May 2013 (MPPR/PRASA)
		Puerto Nuevo WWTP	Memo received. TOS to be developed (HW)
		Caguas WWTP	Implementation phase (HW)
		Fajardo WWTP	Not recommended at this time due to budget.
		Sergio Cuevas WTP	TOS to be signed in June 2013 (HW)
	Superaqueduct	Raw Water Pump Station	Draft TOS in May 2013 (HW)
		Santiago Vazquez WTP	Not recommended
		9 TWSTs	Not recommended
OMWE, LLC	Water and Wastewater Treatment Plants	Rio Blanco WTP	Not recommended at this time due to budget
		Fajardo WTP	Not recommended – need resolution of IGEA payment (PRASA/MPPR)
		Aguadilla WTP	
		Mayaguez WWTP	
	Buildings	PRASA Headquarters	Awaiting resolution of development costs (MPPR/PRASA)
		Central Laboratory	Not recommended
		Operation Centers (Arecibo, Trujillo Alto, Fajardo, Humacao, Guayama and Ponce)	Awaiting resolution of development costs (MPPR/PRASA)
TBD	Carraizo Hydro	Carraizo Dam	Development of RFQ/RFP (by others)

2 PPA Contracts



Company	MW	kWh/yr	\$/ kWh
<u>Existing Contracts</u>			
Aspenall Energies Greywaters	11.25	21,681,000*	\$0.11 - \$0.16 + 1.5% EF**
Windmar Renewable Energy			
Culebra WWTP, Vieques WWTP, Arcadia PS	0.624	1,135,214	\$0.12
Canóvanas WTP	1.0	1,858,950	\$0.154
El Yunque WTP, Humacao WWTP, Guaynabo WTP, Aguada WWTP, Caguas Norte WTP, San Germán WWTP, Cayey WWTP, PF Superacueducto WTP, Rio Blanco WTP	7.0	13,588,232	\$0.154
Renewable Power Development	30	262,800,000	\$0.12 + 3% EF + Wheeling
<u>Proposed Contracts</u>			
Element Power Solar Development	3	4,730,400	\$0.149
Organics Management Puerto Rico	0.6	1,300,000	\$0.12
Total	53.47	307,093,796	

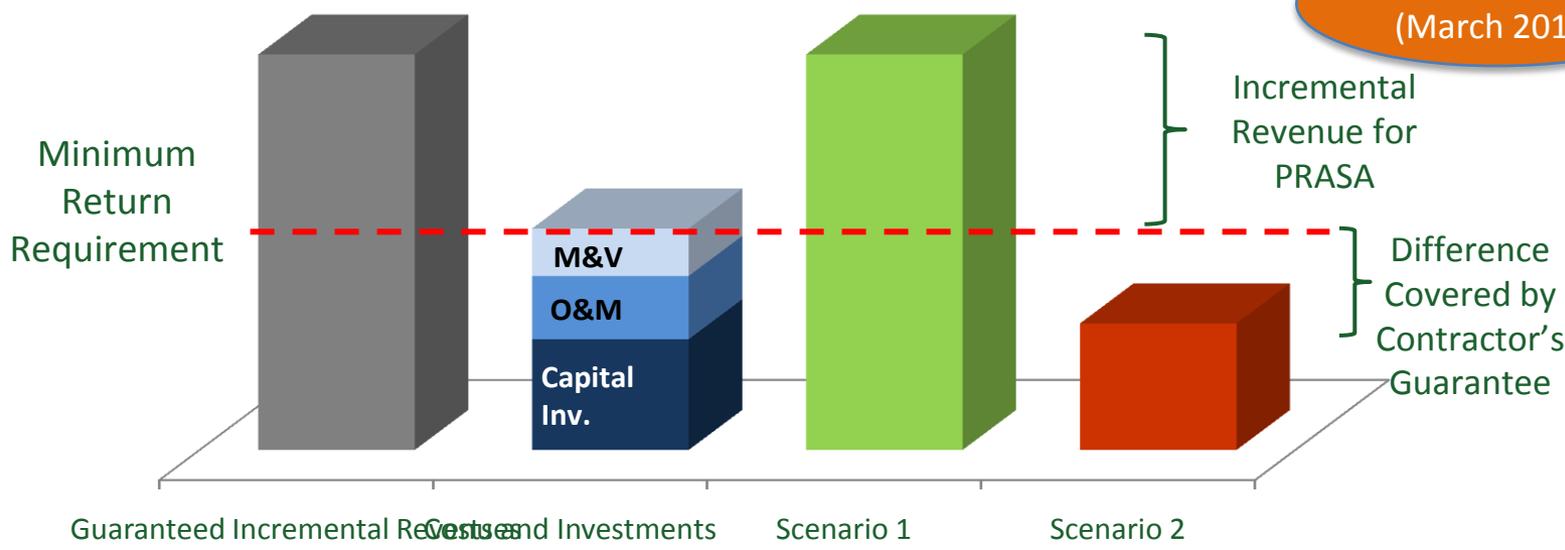
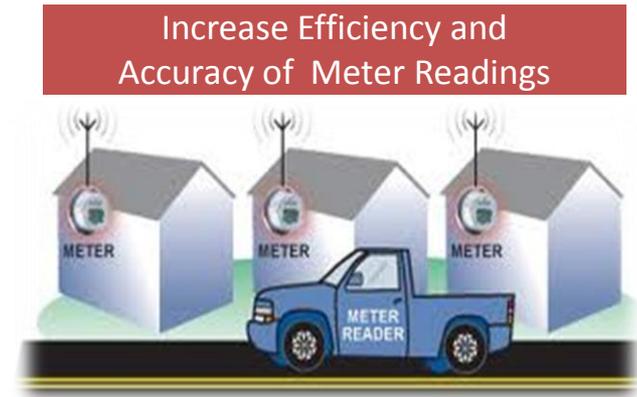
* Estimated value to be confirmed with final study report

** EF = Escalation Factor

3 Large Meters Remote Reading



- Metro Region Large Meter Customers
 - Includes customers with water meters $\geq 1\text{-}1/2$ inches in diameter (approx. 3,306)
 - $<1\%$ of PRASA's customers in the Metro Region
 - Consume $\sim 23\%$ of the total billed volume (annual revenue)
- Project Contract Method
 - Incremental revenues above investment costs will belong to PRASA
 - If realized revenues are less than the minimum revenue requirement, Contractor's guarantee covers the difference



5 Physical Water Loss Control



Leak Detection

Leak detection survey in the distribution system:

- Pinpointing water leakage within the water mains, valves and hydrants
- Project started on May 2013 and an action program will be implemented during FY 2014 based on the findings
- Preliminary results indicate that majority of the leaks are located in the service connections

Other initiatives

- Technologies to control tanks overflows was implemented in critical tanks
- Speed of repairs, reducing leaks (from 7 days to 48 hours)

Pressure Management

Pressure Optimization Program island-wide and as a result:

- Several pump stations were closed
- Energy consumption and pipeline breakages were reduced

Leaks (Over 7 days)



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Closing Remarks

Electricity costs and capital required to comply with environmental regulations are PRASA's main challenges

- Achievements:

- Strong commitment and timely compliance with environmental regulations and consent decrees
- Comprehensive Capital Improvement Program revision and execution
- Improvements to the system and operations
- Control of manageable expenses
- Maintaining a stable revenue level through the current economic recession period

- Challenges:

- Environmental regulation commitments and obligations continue to require ambitious CIP expenditures in the near future
- Debt service obligations continue to increase in future years
- Minimizing the impact of the electricity costs
- Implementation of the proposed rate increase and maximize the impact on revenues
- Execution of other revenue increase and expense reduction initiatives for continuing improvement of PRASA's financial health and increase the efficiency of the Authority

Moving towards financial stability and sustainability

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