



GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

August 4, 2017

Dominic J. Frederico
President and Chief Executive Officer
Assured Guaranty Corporation
1633 Broadway
New York, New York 10019

Re: Letter of July 21, 2017; *Puerto Rico Electric Power Authority Rate Increase*

Dear Mr. Frederico:

We have reviewed your letter dated July 21, 2017 to the Honorable Ricardo Rosselló Nevares and the Financial Oversight and Management Board for Puerto Rico, in which you request that the Puerto Rico Electric Power Authority (“PREPA”) increase rates charged to customers for energy usage. The Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) writes this responsive letter in its capacity as the fiscal agent for PREPA.

Without addressing each of your specific assertions, please note that we are constrained to disagree with many of the legal and factual statements contained in your letter, and reserve all rights in connection therewith. Further, your letter misstates the situation facing PREPA and Puerto Rico generally. Without a full response, we note that:

- PREPA does not set its own rates. The current rate was set by the Puerto Rico Energy Commission (“PREC”). In May 2016, PREPA submitted a petition to PREC requesting a rate increase. PREC approved both a permanent increase in PREPA’s rates that will become effective in October 2017 and a provisional increase during the interim. PREPA implemented the provisional rate and is preparing to implement the permanent rate as required by PREC.
- PREPA is operating under a certified Fiscal Plan, as amended, that requires PREPA to achieve a rate by 2023 that is inconsistent with the rate increase you request for the benefit of creditors.
- PREPA was not created to act like an independent corporation. Pursuant to its enabling legislation, PREPA was charged with the conservation, development, and utilization of the energy resources of Puerto Rico to promote the general welfare of Puerto Rico’s inhabitants and to increase commerce and prosperity. PREPA’s rate structure must thus support the economic recovery of Puerto Rico as set forth in the Commonwealth Fiscal Plan.





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- A rate increase of the magnitude intimated by the July 21 letter is inconsistent with the objectives of Puerto Rico's transformation.

We do, however, agree with you that an operational transformation of PREPA and the electric utility services available to the people of Puerto Rico are critical. The planning for that transformation of PREPA is already in process. We further expect to use PREPA's case under Title III of PROMESA to implement the necessary changes to PREPA's business to create the modern, sustainable utility the people of Puerto Rico deserve.

Finally, please be assured that we remain open to discussions with creditors that are grounded in recognition of the needs of PREPA and the Government of Puerto Rico.

Sincerely,

A handwritten signature in blue ink, appearing to read "G. Portela Franco", written over a horizontal line.

Gerardo J. Portela Franco
Executive Director
Fiscal Agency & Financial Advisory Authority

cc: Honorable Ricardo Rosselló Nevares

