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## ENERGY ALERT

### ***Preferential Rate for Electric Services provided to the Puerto Rico Aqueduct and Sewer Authority by the Puerto Rico Electric Power Authority***

Puerto Rico Act No. 50-2013, enacted on July 1<sup>st</sup>, 2013 (hereinafter "Act50"), mandates the Puerto Rico Electric Power Authority ("PREPA") to establish a preferential rate of \$0.22 per kilowatt hour (kWh) for all electrical services accounts held by the Puerto Rico Aqueduct and Sewer Authority ("PRASA"). This "Preferential Rate" will be subject to the current price of natural gas, and will be an "all-in rate" covering all charges and fees in connection to the electricity purchased by PRASA.

The Preferential Rate will be in effect during fiscal years 2014, 2015 and 2016. From fiscal year 2017 onwards, the Preferential Rate will be lowered to \$0.16 per kWh, subject to current natural gas prices at that time, and unless PREPA's cost of power is less than \$0.16 per kWh. The Preferential Rate will be limited to a maximum annual consumption of 750 million kWh by PRASA. Any consumption that exceeds this amount will be annually billed at the average energy cost that PREPA charged its customers during the previous year. Compliance with this maximum kWh consumption threshold will be measured annually on a fiscal year basis.

PRASA must use the savings obtained from the Preferential Rate to achieve a reduction in the rates charged to its residential clients. Following fiscal year 2017, PRASA must use such savings to, among others, develop one or more capital improvement projects targeted to achieve greater operational efficiency, improve PRASA's system reliability and provide for future expansions of its system.

Act 50 also requires PRASA to develop a detailed plan that will include measures targeted to reduce the amount of water lost by its system and to achieve a reduction of fifteen percent (15%) in its energy consumption costs through the use of engineering controls. The benchmark for calculating this fifteen percent (15%) reduction in PRASA's energy costs will be PRASA's energy costs for fiscal year 2012-2013.

Despite the foregoing, Act 50 authorizes PREPA and PRASA to establish all of the necessary agreements to negotiate the terms and conditions of this Preferential Rate. Furthermore, Act 50 allows PREPA to modify or vacate the Preferential Rate if such is necessary to allow PREPA to comply with its obligations to bondholders.

If you have any questions or comments or wish additional information regarding this matter please contact any of the attorneys listed below, members of our Environmental, Energy & Land Use Practice Group:

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