



PREPA Fiscal Year 2015 Budget Variance Analysis Presentation





Executive Summary

- PREPA's Fiscal Year 2015 ("FY15") budget was prepared by the Finance directorate with input from other directorates
- Relative to Fiscal Year 2014 ("FY14") actual results, Total Revenues are expected to decline by 1.0% (\$45 million), from \$4,679 million to \$4,634 million
 - Revenue decline is driven by several macroeconomic factors as well as a forecast of reduced fuel expenditures
- During this period, Total Expenses are expected to decline by 2.7% (\$135 million), from \$4,991 million to \$4,857 million, largely due to anticipated reductions in Fuel and Labor expenses
 - In FY15, Fuel expenses are forecast to decline by 5.1% (\$120 million), from \$2,345 million to \$2,225 million, although this figure will be offset modestly by a 7.9% (\$64 million) increase in Purchased Power costs, from \$808 million to \$872 million
 - Due largely to Act No. 66-2014, PREPA's workforce has decreased by 8.6% (698 employees), from 8,135 in April 2014 to 7,437 in August 2014, resulting in lower forecasted Labor expenses for the FY15 budget
 - This reduction will have a significant impact on salaries, wages, fringe benefits and overtime costs
 - Overall, Labor expenses are forecast to drop by 11.4% (\$60 million) in FY15, from \$529 million to \$468 million
- Contributed Capital, which includes developer-constructed infrastructure transferred to PREPA and income from commercial clients to finance capital projects, is forecast to decrease by 42% (\$19 million), from \$45 million to \$26 million
- Overall, PREPA's Change in Net Position for FY15 is forecast to improve by 26% (\$70 million), from (\$267) million to (\$197) million



Summary of Variances (GAAP)

- Revenues are expected to decline 1.0% (\$45 million), from \$4,679 million to \$4,634 million, due to decreased energy consumption in the Commonwealth, as well as a decrease in fuel expenditures and an increase in purchased power, a cheaper energy supply (both passed through to clients)
- Other operating expenses are expected to decline primarily due to a lower employee headcount and associated reductions in overtime and fringe benefits expenses benefiting from the lower headcount

\$ in thousands

	<u>FY 2014 Actual</u>		<u>FY 2015 Budget</u>		<u>Variance</u>	
					Amount	%
<i>Revenue</i>						
Operating revenues	\$	4,634,525	\$	4,598,098	\$ (36,427)	-0.8%
Other income		44,891		36,166	(8,725)	-19.4%
Total revenues		4,679,416		4,634,264	(45,152)	-1.0%
<i>Operating expenses</i>						
Fuel		2,344,999		2,225,325	(119,674)	-5.1%
Purchased power		808,237		871,976	63,739	7.9%
Other operating expenses		745,318		684,018	(61,300)	-8.2%
Total operating expenses		3,898,554		3,781,319	(117,235)	-3.0%
Depreciation		339,268		345,440	6,172	1.8%
OPEB		7,836		7,841	5	0.1%
Total Interest Charges, net		462,534		458,628	(3,906)	-0.8%
CILT and other appropriations		283,132		263,595	(19,537)	-6.9%
Total expenses		4,991,324		4,856,823	(134,501)	-2.7%
Contributed capital		44,958		25,984	(18,974)	-42.2%
Change in Net Position	\$	(266,950)	\$	(196,575)	\$ 70,375	26.4%

Sources: PREPA financial data



Generation Variances

- Total generation is forecast to decline by 1.8% (377 gwh), from 21,363 gwh to 20,986 gwh
- Generation mix is forecast to remain relatively stable, with a modest increase in reliance on purchased power and renewables
- Line loss is forecast to decline by 1.2% (44 gwh), from 3,623 gwh to 3,578 gwh, representing 17.0% and 17.1% of Total Generation, respectively
- In FY14, approximately 2/3 of line loss was due to PREPA self-consumption and technical losses, which include line load loss experienced from moving energy through the transmission and distribution system, while approximately 1/3 was due to non-technical losses, which include theft, non-billing, meter issues, etc.

<i>GWHs</i>	FY 2014 Actual		FY 2015 Budget		Variance	
	Amount	% of total	Amount	% of total	Amount	% change
PREPA - Steam and Gas	13,874	65%	13,154	63%	(720)	-5.2%
PREPA - Hydro	70	0%	146	1%	76	108.3%
Purchased Power - Eco Electrica	3,614	17%	3,907	19%	293	8.1%
Purchased Power - AES	3,557	17%	3,356	16%	(201)	-5.7%
Renewables	247	1%	423	2%	176	71.0%
Total Generation	21,363	100%	20,986	100%	(377)	-1.8%
Electricity Sales	17,740		17,408		(333)	-1.9%
Line Loss	3,623		3,578		(44)	-1.2%
<i>as % of Generation</i>	17.0%		17.1%		0.0%	

Sources: PREPA planning and financial data



Revenue variances (GAAP)

- Puerto Rico's GNP is forecasted to decline by 0.8% in FY15, driven by several factors
 - Fuel prices have increased more than 40% within the past eight years
 - Continued decline in population, affecting all sectors of the economy
 - Extraordinary supply of vacant homes, especially in condominium projects
 - Continued crisis in manufacturing sector, as recent tax incentives have not replaced benefits lost under Section 936
- Due to the GNP forecast, electricity sales are expected to decline by 1.9% (333M kwh), from 17,740 million kwh to 17,408 million kwh
- Decreased energy demand, along with reduced fuel prices, are forecast to result in a revenue decrease of 1.0% (\$45 million), from \$4,679 million to \$4,634 million

	<u>FY 2014 Actual</u>		<u>FY 2015 Budget</u>		<u>Variance</u>	
	Amount	% of total	Amount	% of total	Amount	% change
<i>Electricity sales (KWH in millions)</i>						
Residential	6,339.6	35.7%	6,141.6	35.3%	(198.0)	-3.1%
Commercial	8,579.9	48.4%	8,536.5	49.0%	(43.4)	-0.5%
Industrial	2,460.9	13.9%	2,369.8	13.6%	(91.1)	-3.7%
Public lighting	301.1	1.7%	301.1	1.7%	0.0	0.0%
Agricultural	26.7	0.2%	26.7	0.2%	0.0	0.0%
Other	32.0	0.2%	32.0	0.2%	0.0	0.0%
Total electricity sales	17,740.2	100.0%	17,407.7	100.0%	(332.5)	-1.9%
<i>Revenue (\$ in thousands)</i>						
Basic revenue	\$ 1,116,139		\$ 1,111,433		\$ (4,706)	-0.4%
Fuel oil adjustment	2,643,341		2,506,986		(136,355)	-5.2%
Purchased power	890,209		979,699		89,490	10.1%
Operating revenues	\$ 4,634,525		\$ 4,598,098		(36,427)	-0.8%
Other income	44,891		36,166		(8,725)	-19.4%
Total revenues	\$ 4,679,416		\$ 4,634,264		(45,152)	-1.0%

Note: Revenue figures will not sum to Operating Revenue total due to subsidies and other adjustments

Sources: PREPA financial data



Operating expense variances (GAAP)

Budget view

\$ in thousands

	FY 2014 Actual	FY 2015 Budget	Variance	
			Amount	%
Fuel	\$ 2,344,999	\$ 2,225,325	\$ (119,674)	-5.1%
Purchased power	808,237	871,976	63,739	7.9%
Other operating expenses				
Other production	64,200	60,024	(4,176)	-6.5%
Transmission & Distribution	171,822	145,021	(26,801)	-15.6%
Customer Accounting and Collection	111,032	105,405	(5,627)	-5.1%
Administrative and General	201,286	160,351	(40,935)	-20.3%
Maintenance	196,978	213,216	16,238	8.2%
Total other operating expenses	745,318	684,018	(61,300)	-8.2%
Total operating expenses	\$ 3,898,554	\$ 3,781,319	\$ (117,235)	-3.0%

- Budget anticipates reduced fuel purchases and increases in purchased power
- Lower employee headcount and the associated reduced overtime are largest components of the decrease in Other operating expenses

Operating expenses by category

\$ in thousands

	FY 2014 Actual	FY 2015 Budget	Variance	
			Amount	%
Fuel	\$ 2,344,999	\$ 2,225,325	\$ (119,674)	-5.1%
Purchased power	808,237	871,976	63,739	7.9%
Other operating expenses				
Salaries and wages	528,647	468,285	(60,362)	-11.4%
Materials	34,590	32,470	(2,120)	-6.1%
Transportation	27,971	27,788	(183)	-0.7%
Per diems	6,552	6,504	(48)	-0.7%
Mileage	2,733	3,421	688	25.2%
Misc. operating costs	144,825	145,550	725	0.5%
Total other operating expenses	745,318	684,018	(61,300)	-8.2%
Total operating expenses	\$ 3,898,554	\$ 3,781,319	\$ (117,235)	-3.0%

- Recasting operating expenses into expense categories, it is apparent labor is the main driver of reduced operating expenses

Sources: PREPA financial data



Operating expense variances (GAAP) – Fuel and purchased power

- Fuel costs are forecast to drop by 5.1% (\$120 million), from \$2,345 million to \$2,225 million, even with an expected increase in natural gas prices, as fuel consumption is expected to decrease by 6.7% (1.5 million BBLs), from 22.0 million BBLs to 20.5 million BBLs, and fuel mix remains relatively stable
- Reduced fuel costs are offset by an increase in purchased power costs driven by a higher volume purchased
- Total spending on fuel and purchased power is forecast to decline by 1.8% (\$56 million), from \$3,153 million to \$3,097 million

Fuel Cost

	FY 2014 Actual			FY 2015 Budget			Variance (Amount)			Variance (%)		
	BBLs	\$/ BBL	Total	BBLs	\$/ BBL	Total	BBLs	\$/ BBL	Total	BBLs	\$/ BBL	Total
Fuel oil #6	13,978	\$ 109.31	\$ 1,527,973	12,054	\$ 108.89	\$ 1,312,560	(1,924)	\$ (0.42)	\$ (215,413)	-13.8%	-0.4%	-14.1%
Diesel #2	2,480	\$ 133.97	332,245	2,917	\$ 132.09	385,307	437	\$ (1.88)	53,061	17.6%	-1.4%	16.0%
Natural Gas	5,518	\$ 87.85	484,781	5,542	\$ 95.17	527,432	24	\$ 7.32	42,651	0.4%	8.3%	8.8%
Fuel total	21,976	\$ 106.71	\$ 2,344,999	20,513	\$ 108.48	\$ 2,225,299	(1,463)	\$ 1.78	\$ (119,700)	-6.7%	1.7%	-5.1%

Purchased Power Cost

	FY 2014 Actual			FY 2015 Budget			Variance (Amount)			Variance (%)		
	Mwh	\$/Mwh	Total	Mwh	\$/Mwh	Total	Mwh	\$/Mwh	Total	Mwh	\$/Mwh	Total
AES - Carbon	3,226	\$ 107.80	\$ 347,690	3,356	\$ 104.07	\$ 349,259	130	\$ (3.73)	\$ 1,496	4.0%	-3.5%	0.4%
EcoEléctrica - Gas	3,614	\$ 116.50	421,217	3,907	\$ 117.12	457,588	293	\$ 0.62	36,557	8.1%	0.5%	8.7%
Renewable	247	\$ 159.23	39,330	423	\$ 153.97	65,129	176	\$ (5.26)	25,800	71.3%	-3.3%	65.6%
Purchased power total	7,087	\$ 114.04	808,237	7,686	\$ 113.45	\$ 871,976	599	\$ (0.60)	\$ 63,739	8.5%	-0.5%	7.9%

Total fuel and purchased power spend		\$ 3,153,236			\$ 3,097,275			\$ (55,961)			-1.8%
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Notes: Some figures may not compute due to rounding; Fuel costs presented above include all delivery costs to PREPA; Purchased power costs take into account all relevant capacity charges and purchase minimums
Source: PREPA financial data



Operating expense variances (GAAP) – Labor costs

- Labor expenses are forecast to drop by 11.4% (\$60 million), from \$529 million to \$468 million
- Largely due to Act No. 66-2014, PREPA’s workforce has decreased by 8.6% (698 employees), from 8,135 in April 2014 to 7,437 in August 2014, resulting in lower forecasted salaries, fringe benefits costs and overtime costs for the FY15 budget
 - Overall reduction in overtime spending due to lower headcount, but there is no large-scale initiative to reduce overtime by existing employees
 - Overall reduction in fringe benefit spending due to lower headcount and reduced fringe benefits as a percentage of salaries and wages
- Administrative & General had the highest percentage of headcount reduction (10%)
 - Reduction in Administrative & General headcount, however, is offset by an increase in overtime, as it is anticipated that remaining employees will need to work longer hours
- Transmission & Distribution and Customer Accounting had the highest drop in overtime expense, accounting for most of the savings

\$ in millions

	Fiscal Year 2014						Fiscal Year 2015					
	Employees	Basic Salaries	Fringe Benefits	OT / CT	Temp. emp. costs	Total labor costs	Employees	Basic Salaries	Fringe Benefits	OT / CT	Temp. emp. costs	Total labor costs
Directorate												
Transmission & Distribution	3,287	\$ 94.5	\$ 64.9	\$ 22.6	\$ 5.1	\$ 187.0	3,000	\$ 91.9	\$ 57.0	\$ 16.0	\$ 0.0	\$ 164.9
Generation	1,877	74.7	52.3	11.1	1.6	139.7	1,724	69.0	42.8	10.3	1.5	123.6
Customer Accounting and Collection	1,373	52.5	36.4	10.1	3.2	102.3	1,278	51.2	31.2	7.4	2.5	92.4
Administrative & General	1,598	65.7	29.9	2.8	1.2	99.7	1,435	50.6	31.4	4.4	1.0	87.4
Total	8,135	\$ 287.4	\$183.5	\$ 46.6	\$ 11.1	\$ 528.6	7,437	\$ 262.7	\$162.3	\$ 38.1	\$ 5.1	\$ 468.3

	Variance (Amount)						Variance (%)					
	Employees	Basic Salaries	Fringe Benefits	OT / CT	Temp. emp. costs	Total labor costs	Employees	Basic Salaries	Fringe Benefits	OT / CT	Temp. emp. costs	Total labor costs
Directorate												
Transmission & Distribution	(287)	\$ (2.6)	\$ (7.9)	\$ (6.6)	\$ (5.0)	\$ (22.1)	-8.7%	-2.8%	-12.2%	-29.0%	-99.0%	-11.8%
Generation	(153)	(5.7)	(9.5)	(0.8)	(0.1)	(16.1)	-8.2%	-7.6%	-18.2%	-7.4%	-5.9%	-11.5%
Customer Accounting and Collection	(95)	(1.3)	(5.2)	(2.7)	(0.7)	(9.9)	-6.9%	-2.5%	-14.3%	-26.4%	-20.6%	-9.6%
Administrative & General	(163)	(15.1)	1.4	1.6	(0.2)	(12.3)	-10.2%	-23.0%	4.8%	54.8%	-14.5%	-12.3%
Total	(698)	\$ (24.7)	\$ (21.2)	\$ (8.5)	\$ (6.0)	\$ (60.4)	-8.6%	-8.6%	-11.5%	-18.2%	-53.9%	-11.4%

Notes: FY14 and FY15 employee counts as of April and August 2014, respectively; Total labor expense for FY15 shown above (\$468M) may not match figure elsewhere due to inconsistent inclusion of temporary employee costs.
Sources: PREPA financial data



Appendix



Operating expense variances (GAAP) – Generation

\$ in millions

	FY 2014 Actual	FY 2015 Budget	Variance	
			Amount	%
Total employee compensation	\$ 139.7	\$ 123.6	\$ (16.1)	-11.5%
Materials	19.3	18.9	(0.4)	-2.2%
Transportation	3.5	3.3	(0.2)	-4.7%
Per diems	2.0	2.0	(0.0)	-1.4%
Mileage	0.9	1.3	0.4	40.2%
Other operating costs	14.1	14.6	0.5	3.6%
Total Generation operating costs	\$ 179.5	\$ 163.6	\$ (15.8)	-8.8%

- Overall Generation expenses are forecast to decrease by 8.8% (\$16 million), from \$180 million to \$164 million
- Labor expenses, the largest component, are forecast to decrease by 11.5% (\$16 million), from \$140 million to \$124 million
- To reduce overtime spending, Generation may choose to extend planned outages (i.e., perform a four-week outage over eight weeks using regular shifts and less or no overtime)
- For Generation, Other Operating Costs include, but are not limited to, technical advisors, equipment rentals, and services contracts, including maintenance

Sources: PREPA financial data



Operating expense variances (GAAP) – Transmission & Distribution

\$ in millions

	FY 2014 Actual	FY 2015 Budget	Variance	
			Amount	%
Total employee compensation	\$ 187.0	\$ 164.9	\$ (22.1)	-11.8%
Materials	9.6	8.9	(0.8)	-7.9%
Transportation	17.8	18.4	0.6	3.4%
Per diems	3.0	2.9	(0.1)	-4.0%
Mileage	1.3	1.2	(0.1)	-5.9%
Other operating costs	0.7	0.8	0.2	27.9%
Total Transmission & Distribution operating costs	\$ 219.4	\$ 197.1	\$ (22.3)	-10.2%

- Overall Transmission & Distribution expenses are forecast to decrease by 10.2% (\$22 million), from \$219 million to \$197 million
- Labor expenses, the largest component, are forecast to decrease by 11.8% (\$22 million), from \$187 million to \$165 million
- Transportation expenses are forecast to increase by 3.4% (\$0.6 million), from \$17.8 million to \$18.4 million, due to an increasing number of repairs required for an aging vehicle fleet
- Budget contemplates a reduction in in non-essential materials purchases, particularly for those not related to emergency response

Sources: PREPA financial data



Operating expense variances (GAAP) – Customer accounting and collection

\$ in millions

	<u>FY 2014 Actual</u>	<u>FY 2015 Budget</u>	<u>Variance</u>	
			Amount	%
Total employee compensation	\$ 102.3	\$ 92.4	\$ (9.9)	-9.6%
Materials	3.9	2.9	(1.0)	-24.7%
Transportation	5.9	5.3	(0.6)	-10.1%
Per diems	1.1	1.0	(0.0)	-4.0%
Mileage	0.2	0.1	(0.0)	-7.9%
Other operating costs	2.5	2.8	0.3	11.7%
Total Customer accounting and collection operating costs	\$ 115.7	\$ 104.5	\$ (11.2)	-9.7%

- Overall Customer Accounting and Collection expenses are forecast to decrease by 9.7% (\$11.2 million), from \$116 million to \$105 million
- Labor expenses, the largest component, are forecast to decrease by 9.6% (\$10 million), from \$102 million to \$92 million
- Materials expenses are forecast to decrease by 24.7% (\$1 million), from \$3.9 million to \$2.9 million



Operating expense variances (GAAP) – Administration and general (all other directorates)

\$ in millions

	FY 2014 Actual	FY 2015 Budget	Variance	
			Amount	%
Total employee compensation	\$ 99.7	\$ 87.4	\$ (12.3)	-12.3%
Materials	1.7	1.8	0.0	2.3%
Transportation	0.8	0.8	(0.0)	-4.1%
Per diems	0.5	0.6	0.1	30.5%
Mileage	0.4	0.8	0.4	113.7%
Other operating costs	127.6	127.3	(0.3)	-0.2%
Total Administration and general operating costs	\$ 230.7	\$ 218.7	\$ (12.0)	-5.2%

- Overall Administration and General expenses are forecast to decrease by 5.2% (\$12 million), from \$231 million to \$219 million
- Labor expenses, the largest component, are forecast to drop by 12.3% (\$12 million), from \$100 million to \$87 million
- For the directorates comprising Administration and General, Other Operating Costs include, but are not limited to, professional services, insurance premiums, IT, retirement plan obligations, and restructuring fees