

A-6 shall present all charges and costs included under "Fuel Adjustment" and "Energy Purchase Adjustment" as of the effective date of Act 57-2014 and shall detail PREPA's proposed method of recovering fuel and purchased power costs. PREPA's proposed method for recovery of fuel and purchased energy costs must conform with the following requirements from Act 4-2016: The Commission shall approve under the "fuel adjustment" and "energy purchase adjustment" items only those costs directly related to the purchase of fuel and the purchase of energy, respectively, or such variable portion in the fuel and energy price that is not included in the basic rate, as the case may be. No other expense or charge may be denominated nor included as "fuel adjustment" or "energy purchase adjustment."

See PREPA Rate Case Financial Model 2016-06-16_Debt Restructuring_No Rate Change RF_Schedules tab for high level calculations, detailed information on costs were provided by PREPA and shown below. Some items in the cost list were not estimable or included in the gross amount (e.g. taxes)

Please Refer to Exhibit 4.0 for detailed discussion of current and proposed fuel and purchased power cost recovery mechanism. Below is a list of costs recovered under the "Fuel Adjustment" and "Energy Purchase Adjustment"

Costs Included in the Fuel Purchase Adjustment Clause:

A. Purchase Fuels

- 1) Residual Number 6
- 2) Light Distillate No. 2 (Diesel)
- 3) Natural Gas
- 4) Propane
- 5) Additives

B. Cost of Fuel Transportation (40 ¢ per barrel)

C. Inspection

D. Laboratories

E. Storage

F. Handling

G. Delays

H. Taxes (taxes)

- 1) Municipal Patent (applies to fuel No. 6 and 2)
- 2) Excise Tax (applies to fuel No. 2)
- 3) Federal Tax (applies to fuel No. 6 and 2)

I. Fuel Hedging

Costs Included in the Power Purchase Adjustment Clause:

A. Energy Purchase to cogenerators AES and EcoEléctrica

- 1) Payment for Energy
- 2) Payment for Capacity

B. Energy Purchase to Renewable Energy Projects

- 1) Payment for Energy
- 2) Costs Associated with Renewable Energy Certificates (REC's)
 - a) Registration in the North American Renewables Registry (NAR)

Below is an illustration of how cash flows are and would be categorized under the current and proposed approach. The current approach includes a provision for CILT & Subsidies in the Fuel and Purchased Power Adjustment Clause. The proposed approach will collect CILT & Subsidy costs separately and directly from customers as a pass through, such that the Fuel & Purchased Power Adjustment Clause will not be adjusted to collect for these expenses.

<u>Current Method</u>				
Fuel & Purchased Power Expense	FY 2014	FY 2015	FY 2016	FY 2017
Fuel	\$2,344,999,982	\$1,900,553,552	\$1,078,267,293	\$763,695,078
Residual #6	\$1,526,943,666	\$1,076,409,894	\$493,772,280	\$387,448,919
Light Distillate #2-Diesel	\$333,112,296	\$397,534,450	\$340,150,007	\$168,314,322
Natural Gas	\$484,781,346	\$419,771,618	\$238,089,135	\$202,010,094
Propane	\$162,674	\$90,528	\$60,255	\$0
Loading Charges and Other	\$0	\$6,747,062	\$6,195,616	\$5,921,743
Purchased Power	\$807,403,115	\$783,949,584	\$759,089,846	\$828,393,012
AES - Capacity	\$151,479,657	\$154,075,619	\$162,929,286	\$155,948,960
AES - Energy	\$196,068,008	\$192,283,509	\$156,744,125	\$149,190,627
EcoEléctrica - Capacity	\$208,581,904	\$209,144,297	\$213,726,201	\$225,557,014
EcoEléctrica - Energy	\$212,304,141	\$181,527,136	\$154,164,268	\$161,876,138
Renewables - PPOA - Energy	\$32,321,535	\$38,878,475	\$59,390,891	\$114,402,756
Renewables - PPOA - REC	\$6,647,871	\$8,040,547	\$12,135,075	\$21,417,518
Performance Improvement	\$0	\$0	(\$63,043,392)	(\$116,212,842)
Fuel & Purchased Power Expense	\$3,152,619,496	\$2,684,503,136	\$1,774,313,748	\$1,475,875,249
CILT in F&PP Adjustment Clause	\$389,649,601	\$331,792,522	\$219,297,205	\$182,411,548
Total F&PP Adjustment Clause	\$3,542,269,097	\$3,016,295,658	\$1,993,610,952	\$1,658,286,796
Contribution to municipalities (CILT)	249,310,364	235,261,237	59,709,663	51,783,821
Public Lighting	-	-	100,804,774	93,241,901
Special Customer Subsidies	116,694,478	116,700,980	82,471,339	75,071,019
Total Cost of Subsidies	366,004,842	351,962,217	242,985,776	220,096,742
Recovery Required in Base Rate	(23,644,759)	20,169,695	23,688,571	37,685,194

Note: the definition of CILT changed since 2014. See Schedule E-8 for more detail

Proposed Method

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Fuel & Purchased Power Expense				
Fuel	\$763,695,078	\$1,078,952,737	\$1,097,301,005	\$1,125,068,239
Residual #6	\$387,448,919	\$461,742,335	\$325,131,928	\$309,940,937
Light Distillate #2-Diesel	\$168,314,322	\$130,062,340	\$52,364,843	\$105,890,187
Natural Gas	\$202,010,094	\$483,065,106	\$717,131,375	\$706,417,929
Handling and Others	\$5,921,743	\$4,082,956	\$2,672,858	\$2,819,187
Purchased Power	\$828,393,012	\$882,777,834	\$954,238,566	\$1,025,449,111
AES - Capacity	\$155,948,960	\$158,031,820	\$160,178,946	\$160,365,787
AES - Energy	\$149,190,627	\$165,134,506	\$160,062,524	\$165,119,688
EcoEléctrica - Capacity	\$225,557,014	\$230,068,155	\$234,669,518	\$240,731,466
EcoEléctrica - Energy	\$161,876,138	\$146,155,975	\$157,134,748	\$159,011,944
Renewables - PPOA - Energy	\$114,402,756	\$155,879,588	\$207,124,233	\$256,970,256
Renewables - PPOA - RECS	\$21,417,518	\$27,507,789	\$35,068,597	\$43,249,971
Performance Improvement	(\$116,212,842)	(\$74,552,264)	(\$61,622,987)	(\$61,185,345)
Fuel & Purchased Power Expense	\$1,475,875,249	\$1,887,178,307	\$1,989,916,585	\$2,089,332,006
CILT in F&PP Adjustment Clause	\$0	\$0	\$0	\$0
Total F&PP Adjustment Clause	\$1,475,875,249	\$1,887,178,307	\$1,989,916,585	\$2,089,332,006
Contribution to municipalities (CILT)	\$51,783,821	\$52,628,550	\$54,199,213	\$55,480,842
Public Lighting	\$93,241,901	\$101,875,967	\$104,618,781	\$106,743,143
Special Customer Subsidies	\$75,071,019	\$83,787,403	\$87,337,326	\$89,310,851
Total Cost of Subsidies	\$220,096,742	\$238,291,920	\$246,155,320	\$251,534,836
CILT Subsidy Recovery Required in Base Rate	\$220,096,742	\$238,291,920	\$246,155,320	\$251,534,836

Note: Detailed cost items for Fuel and Purchased Power were provided by PREPA specifically for the required schedule.