

**TERM SHEET FOR
T&D SYSTEM PARTNERSHIP CONTRACT**

*The summary of terms and conditions is provided for discussion purposes only and is not a commitment by the Puerto Rico Electric Power Authority (“**PREPA**”) to enter into a contract (the “**Partnership Contract**”). The terms and conditions contained below are an indication of the terms and conditions that the Puerto Rico Public-Private Partnerships Authority (the “**Authority**”) and PREPA believe should be included in any negotiated Partnership Contract resulting from the Request for Proposals 2019-2 (the “**RFP**”) issued by the Authority. It is the intention to use the terms and conditions below as the basis for a definitive Partnership Contract; provided, however, that the terms and conditions set forth below are subject to change.*

*This term sheet (the “**Term Sheet**”) is subject to the terms and conditions set forth in the RFP, and neither this Term Sheet nor any of its contents may be used for any other purpose without the prior written consent of the Authority and PREPA. No legal obligation or liability shall arise between the parties with respect to the subject matter hereof unless and until the Partnership Contract shall have been finalized in mutually acceptable form, approved by the parties’ respective governing bodies and by the relevant Puerto Rico governmental authorities and executed by both parties, and then only in accordance with the terms and conditions thereof. Although the terms “**Concession**” and “**Concessionaire**” are used throughout this Term Sheet, Puerto Rico law will likely require the Partnership Contract to be structured, as a formal legal matter, as a lease and management agreement.*

1. GENERAL

1.1. Parties: PREPA (together with its successors, “**Owner**”) and a special purpose vehicle (“**Concessionaire**” and, together with Owner, the “**Parties**”) formed and owned by a selected private sector company or consortium (“**Parent Co.**”) solely for the purpose of carrying out the Concession (as defined below). Concessionaire shall not engage in any unrelated business or own any unrelated assets.

1.2. Project: Pursuant to the Partnership Contract, Owner shall grant Concessionaire, on an exclusive basis, the right and responsibility to, among other things: (i) manage, operate, maintain, rehabilitate, repair, refurbish, replace, improve, expand, as needed, and finance the electric power transmission and distribution system and related facilities (the “**T&D System**”) owned by Owner; (ii) provide all transmission and distribution services to customers of the T&D System (“**T&D Customers**”); (iii) enter into agreements to procure electric power from third parties to meet the demand of the T&D Customers and dispatch all available power in accordance with Industry Standards (as defined below) and the terms of the Partnership Contract; (iv) bill and collect from T&D Customers for Concessionaire’s own account all applicable revenues, fees and charges in accordance with the Partnership

Contract and Industry Standards and pursuant to rates and charges approved by the Puerto Rico Energy Bureau (the “**PREB**”); (v) act as servicer under the Servicing Contract (as defined below) and bill, collect and remit the Charges (as defined below) in accordance with the Servicing Contract; (vi) assist Owner, Administrator (as defined below) and Grant Manager (as defined below) with the procurement associated with, and the management and deployment of, funding for the restoration of the T&D System received or to be received from any U.S. federal agency, including, without limitation, the U.S. Federal Emergency Management Agency (“**FEMA**”) and the U.S. Department of Housing and Urban Development (“**HUD**”) (any such funding, “**Federal Funding**”); (vii) assume and perform all executory agreements and other necessary agreements required for the operation, maintenance and restoration of the T&D System as provided in the Partnership Contract; and (viii) procure such ancillary services as may be necessary to support the safe and reliable operation of the T&D System (such rights and responsibilities described in clauses (i) through (viii) above, collectively, the “**Concession**”).

1.3. Administrator:

Owner shall assign and delegate certain rights and obligations under the Partnership Contract to another entity of the Government of Puerto Rico (“**Administrator**”). Administrator shall be deemed a Party to the Partnership Contract for purposes of any such right or obligation. Administrator may exercise its rights and perform its obligations under the Partnership Contract based on the advice of and/or in consultation with one or more third party consultants.

1.4. Term:

The Partnership Contract shall become effective on the date on which it is executed (the “**Effective Date**”), which shall occur following satisfaction of the Conditions to Execution (as defined below), and shall remain in full force and effect for a period of [thirty (30)] years from the Commencement Date (as defined below) unless earlier terminated in accordance with the terms of the Partnership Contract (the “**Term**”).

1.5. Title III Order: Owner, acting through its authorized representative, shall request that the United States District Court for the District of Puerto Rico, in its capacity as the court presiding over Owner's case (the "**Title III Case**") pursuant to Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (known as PROMESA), issue a court order (the "**Title III Order**") providing the following:

- Concessionaire has free and clear title to revenues collected from T&D Customers (other than the Charges, as defined below) it may receive as part of the Concession (the "**Free and Clear Finding**");
- Concessionaire is not a legal successor to Owner;
- Owner is authorized to enter into the Partnership Contract and assume and assign executory contracts and unexpired leases in connection therewith;
- the Partnership Contract is a legal, valid, binding and enforceable obligation of Owner under Puerto Rico and federal law; and
- certain covenants to be specified in the Partnership Contract related to the Government of Puerto Rico (including, without limitation, a non-impairment covenant) are legal, valid, binding and enforceable.

1.6. Conditions to Execution: The Parties shall execute the Partnership Contract upon satisfaction of the following "**Conditions to Execution**":

- receipt of approvals from each of: the PREB; the board of directors of each of Owner and the Authority; the Governor of Puerto Rico or his delegate; and the Financial Oversight and Management Board for Puerto Rico (the "**FOMB**");
- receipt of a Title III Order covering at least the Free and Clear Finding;
- Concessionaire demonstrating to the satisfaction of the Authority that it has, or has unconditional (other than customary routine conditions) access to, the funds necessary to carry out the Concession and to otherwise perform its obligations under the Partnership Contract; and
- Concessionaire delivering confirmation of the Parent Guaranty (as defined below) and establishing the Performance Security Fund (as defined below).

1.7. Conditions to Commencement:

There shall be a transition period commencing on the Effective Date during which Concessionaire shall be responsible for, among other things, ensuring that the following conditions (the “**Conditions to Commencement**”) occur:

- the orderly transition of control, possession, custody, operation, management and maintenance of the T&D System in accordance with the transition plan agreed to by the Parties (an initial version of which shall be included as part of Parent Co.’s RFP submission), which plan shall set forth the manner in which Concessionaire shall assume Owner’s obligations under the Concession and the principles and methods pursuant to which Concessionaire shall carry out the Concession commencing on the Commencement Date;
- the receipt of all Required Permits (as defined below); and
- the procurement of all required insurance.

“**Applicable Law**” shall mean all constitutions, treaties, laws, ordinances, rules, regulations, interpretations, permits, judgments, decrees, the Title III Order, injunctions, writs and orders of any governmental authority that apply to either or both of the Parties, the T&D System, the Concession or the terms of the Partnership Contract.

1.8. Commencement Date:

The “**Commencement Date**” shall occur on the third (3rd) business day following written acknowledgement by Administrator that the Conditions to Commencement have been satisfied or waived and that the Upfront Payment (as defined below) has been received; provided that such date shall be no later than a specified number of days from the Effective Date (the “**Outside Date**”).

The Partnership Contract may be terminated prior to the Commencement Date: (i) with the Parties’ mutual consent; or (ii) by Administrator, with the prior approval of the FOMB to the extent such approval is required by Applicable Law, if any of the Conditions to Commencement have not been satisfied by the Outside Date. The right to terminate the Partnership Contract prior to the Commencement Date, however, shall not be available to any Party whose failure to comply with the Partnership Contract has been the cause of, or resulted in, the failure of such Conditions to Commencement to be satisfied.

1.9. Federal Disaster Recovery Funding:

Concessionaire shall carry out the Concession in compliance with all FEMA, HUD and other applicable federal agency requirements in order to ensure the T&D System’s eligibility to receive and apply Federal Funding.

Concessionaire shall be required to cooperate with Owner, other relevant governmental authorities and any third parties authorized to act as grant manager to administer Federal Funding (“**Grant Manager**”) in order to help seek, administer and apply Federal Funding for the restoration of the T&D System and related costs. As between the Parties, Owner shall retain the exclusive right to receive monies from all Federal Funding for the T&D System.

Any work related to the T&D System, the cost of which may be submitted for Federal Funding, shall be procured in full compliance with Applicable Law, including but not limited to the procurement rules set forth in 2 C.F.R. Part 200 applicable to Owner. The Partnership Contract and any other contracts for work related to the T&D System shall include all necessary clauses and certifications as may be required by Applicable Law as a result of the receipt of Federal Funding.

1.10. Reliance:

Concessionaire shall acknowledge that Owner provides an essential public service and that, to comply with Applicable Law, Owner will rely on the performance by Concessionaire of its obligations under the Partnership Contract.

2. SCOPE OF CONCESSION AND CONCESSIONAIRE'S OBLIGATIONS

2.1. Concession Generally:

Commencing on the Commencement Date, Concessionaire shall carry out the Concession in accordance with the operating standards to be set forth in the Partnership Contract, Applicable Law, Prudent Utility Practice (as defined below) and applicable permit requirements (collectively, "**Industry Standards**"), it being understood that the Parties intend that all risks, benefits, revenues, losses, liabilities, obligations and expenses arising out of or related to the Concession shall belong to and be for the account of Concessionaire. The scope of the Concession shall include, without limitation, the rights and responsibilities set forth in this Section 2.

Owner shall covenant and agree with Concessionaire that, except as otherwise provided in the Partnership Contract, Concessionaire, its employees, subcontractors and agents shall be entitled to the exclusive use of the T&D System for the purpose of carrying out the Concession in accordance with the terms of the Partnership Contract.

"**Prudent Utility Practice**" shall mean those methods, techniques, standards and practices which, at the time they are to be employed and in light of the circumstances known or reasonably believed to exist at such time, are generally recognized and accepted as the highest U.S. standards applicable in the electric transmission and distribution industry.

2.2. Risk of Loss:

The Parties shall acknowledge and agree that as between Owner and Concessionaire, risk of loss of, or damage to, the T&D System shall be borne by Concessionaire from the Commencement Date through the expiration of the Term or the earlier termination of the Partnership Contract.

2.3. Regulatory Oversight:

As between Concessionaire and Owner, Concessionaire shall be the sole representative before the PREB with respect to the T&D System. The PREB shall regulate Concessionaire in carrying out the Concession in accordance with Applicable Law. Nothing in the Partnership Contract shall prejudice the powers of the PREB or any other governmental authority to regulate Concessionaire in accordance with Applicable Law or be deemed to provide Owner with any regulatory powers.

Without limiting the foregoing, any action taken by the PREB or any other governmental authority in connection with the exercise of its regulatory powers or in response to a Force Majeure Event (as defined below) shall not constitute a failure of the Government of Puerto Rico to comply with the non-impairment covenant identified in Section 1.5 above.

2.4. Ownership of T&D System:

Owner shall retain title to its real property assets related to the T&D System and to the Retained Assets and Obligations (as defined below), but shall otherwise transfer to Concessionaire all rights and responsibilities primarily related to the T&D System held by Owner as of the Commencement Date necessary for Concessionaire to carry out the Concession, subject to any limitations under Applicable Law (including, without limitation, any restrictions on such transfers pursuant to Owner's existing agreements or set forth in the Puerto Rico Electric System Transformation Act, Act No. 120-2018, as amended). Notwithstanding the foregoing, Concessionaire shall assume all of the responsibilities as if it were the owner of the T&D System, including, without limitation, the obligation to pay license fees, taxes, renewal fees and other charges payable during the Term.

Owner shall not, without Concessionaire's prior written consent, sell, dispose of or create any lien or encumbrance over T&D System assets owned by Owner except as provided under the Partnership Contract.

Administrator may authorize Concessionaire to sell or otherwise dispose of T&D System assets owned by Owner that become obsolete or redundant for purposes of the Concession; provided that any such disposal shall be carried out in compliance with Applicable Law, including, without limitation, any laws or requirements applicable as a result of receipt of Federal Funding, including but not limited to those implemented through 2 C.F.R. Part 200.

2.5. No Representation or Warranty for T&D System:

Owner shall make no representation or warranty of any kind in relation to T&D System and shall expressly disclaim all warranties or merchantability or fitness for a particular purpose that may be implied by Applicable Law.

2.6. Contracts:

Concessionaire shall assume all of Owner's rights and obligations under existing contracts related to the T&D System (including but not limited to any power purchase and operating agreements), which shall be listed in the Partnership Contract and include, without limitation, certain executory agreements and leases that Owner shall have assumed prior to the Effective Date and post-petition agreements and leases entered into by Owner.

Concessionaire shall ensure that any contract (including, without limitation, leases and licenses) to be entered into by Concessionaire during the Term relating to carrying out the Concession that (i) is for a term of twelve (12) months or more, (ii) involves the payment of money to or the receipt of money by Concessionaire in excess of \$1,000,000 or (iii) is otherwise material to or necessary for the operation of the T&D System shall only be entered into by Concessionaire if such contract includes an express provision of assignability, at Administrator's option, to Administrator or its nominee upon the expiration of the Term or the earlier termination of the Partnership Contract.

**2.7. T&D Customer
Billing; Charges:**

Concessionaire shall be responsible for and have the right to bill and collect from T&D Customers, for Concessionaire's own account, all applicable fees, charges and revenues related to the Concession in accordance with the Partnership Contract and Industry Standards.

In addition, Concessionaire, acting as servicer, shall be responsible for billing and collecting all "Transition Charges," "Pension Charges" and other charges (collectively, the "Charges") imposed to support legacy obligations established under or in connection with Owner's Title III plan of adjustment (the "**Title III Plan**"), and shall be required to enter into a Servicing Contract. Concessionaire shall remit the Charges in accordance with the Servicing Contract and the Title III Plan. Concessionaire shall be compensated for acting as servicer with respect to the Charges in accordance with the terms of the Servicing Contract.

"**Servicing Contract**" shall mean the contract or contracts approved pursuant to the Title III Plan to govern the collection and remittance of the Charges, which contract(s) shall be in form and substance customary for utility securitization transactions and shall, among other provisions, require that Concessionaire, as servicer, (i) obtain meter reads, calculate or estimate electricity usage and bill the Charges to the customers as a separate line item on electric bills; (ii) collect the Charges from customers and take any actions consistent with Applicable Law to collect such Charges; (iii) remit collected Charges to the appropriate parties established under the Title III Plan; (iv) provide reasonable reporting; and (v) indemnify the trustee for the securitization transactions for losses occasioned by the negligence or willful misconduct of Concessionaire.

2.8. Permits: Concessionaire shall apply for, obtain and maintain all necessary permits, licenses and approvals (and renewals thereof) required to allow Concessionaire to carry out the Concession pursuant to the Partnership Contract (the “**Required Permits**”).

Owner shall provide reasonably necessary assistance to Concessionaire in securing or transferring the Required Permits to Concessionaire. Concessionaire also shall file such reports, notices, and other communications as may be required by any governmental authority regarding such Required Permits or the Concession.

2.9. Labor: Concessionaire shall be responsible for ensuring that there is the necessary and appropriate personnel to carry out the Concession.

Prior to the Commencement Date, Concessionaire shall use its best efforts to interview any Owner employee as of the Effective Date who applies to Concessionaire for employment in a job category Concessionaire wishes to fill. Concessionaire may offer employment to any such Owner employee who meets Concessionaire’s stated requirements for employment but shall have no obligation to offer employment to any such Owner employee.

2.10. Insurance: Concessionaire shall maintain at its own expense the insurance coverage for the Term as shall be set forth in the Partnership Contract, including, without limitation:

- property and casualty insurance for the T&D System (which shall, among other things, be of the type and extent required to receive Federal Funding);
- commercial general liability insurance;
- excess liability insurance;
- business interruption insurance;
- cyber insurance;
- pollution legal liability insurance; and
- worker’s compensation insurance, employer’s liability insurance and all other employee-required insurance.

2.11. Access:

Concessionaire shall grant Administrator and its representatives reasonable access to the T&D System assets and all information, data and records concerning the T&D System to observe and audit Concessionaire's performance of the Concession. Concessionaire shall provide Administrator such access during normal business hours and upon reasonable advance written request from time to time. Concessionaire shall be entitled to impose reasonable restrictions on such rights of access in the interest of safety or to prevent undue disruption of its operations.

2.12. Records and Reporting:

Concessionaire shall prepare and maintain complete and accurate books and records related to the T&D System and shall have available a complete and updated copy of such books at an appropriately secure location. Concessionaire shall ensure the backup and storage in safe custody of all information, data and records concerning the T&D System in accordance with Industry Standards.

Concessionaire shall provide Administrator, the Authority, the FOMB (if then in existence), Grant Manager, the Comptroller General of the United States, FEMA, HUD and any of their authorized representatives access to any books, documents, papers, and records of Concessionaire that are directly pertinent to either (x) any work performed by Concessionaire or (y) as may be procured by Concessionaire and submitted for reimbursement using Federal Funding, for the purposes of making audits, examinations, excerpts, and transcriptions. These records shall be maintained for a minimum of three (3) years after the date of submission of the final expenditure report for each project involving Federal Funding. Concessionaire shall also permit any of the foregoing entities to reproduce and/or copy excerpts and transcriptions as reasonably needed and shall provide Grant Manager or its authorized representatives access to the T&D System as may be necessary to perform its functions.

Concessionaire shall prepare and present periodic reports relating to the Concession as required under the Partnership Contract and Applicable Law. Concessionaire shall be required to prepare such additional reports may be reasonably requested by Administrator and the FOMB.

Concessionaire shall notify Administrator, the Authority and the FOMB (if then in existence) as soon as reasonably practicable of any issues of which Concessionaire or Concessionaire's personnel is aware that could materially impact the ability of Concessionaire to carry out the Concession in accordance with Industry Standards.

Concessionaire shall also be required to comply with the reporting requirements set forth in the Servicing Contract and any other reporting requirements mandated by Applicable Law.

2.13. Subcontractors:

Concessionaire may engage subcontractors to assist in carrying out the Concession and otherwise perform any of its obligations arising out of the Partnership Contract in a manner consistent with Applicable Law, including, without limitation, the Federal Funding requirements applicable to the Concession. Concessionaire shall engage all subcontractors in its own name and shall be liable under the Partnership Contract for their acts and omissions as if they were Concessionaire's own employees. Concessionaire shall not subcontract any of its obligations relating to the Charges except in accordance with the Servicing Contract.

Concessionaire shall pay when due all claims and demands of subcontractors, mechanics, materialmen, laborers and others for any work performed on, or materials delivered for incorporation into any part of, the T&D System, and shall promptly discharge all mechanics', materialmen's and other construction liens.

2.14. Exit Transition Plan:

Concessionaire shall prepare and submit to Administrator, the Authority and the FOMB, within six (6) months of the Commencement Date, a plan for the transition by Concessionaire of the Concession upon expiration or the earlier termination of the Partnership Contract, which plan shall be updated on an annual basis as necessary or appropriate (the "**Exit Transition Plan**").

2.15. Taxes:

Concessionaire shall: (i) timely file all tax returns or reports required to be filed by it in respect of the Concession; (ii) pay when due all taxes that are or become payable in respect of the Concession; and (iii) timely and properly withhold and pay all taxes required to be withheld and paid by Concessionaire from other persons in respect of the Concession.

Subject to customary exceptions, if the Upfront Payment or any other payments to be made to Owner under the Concession (including indemnification and any other payments to be specified in the Partnership Contract) are subject to withholding taxes in any jurisdiction (including the jurisdiction in which Concessionaire or any of its beneficial owners is organized or domiciled), Concessionaire shall gross-up Owner for the amount of such withholding taxes. The Parties shall cooperate in good faith to reduce or eliminate the amount of such withholding taxes.

- 2.16. Relationship with Affiliates:** Concessionaire shall maintain an arm's length relationship with its affiliates and enter into transactions with affiliates with respect to the T&D System only on a commercially reasonable basis and pursuant to enforceable agreements.
- 2.17. Negative Covenants:** Concessionaire shall not, among other things (and as shall be further specified in the Partnership Contract):
- take any steps to liquidate, wind up, dissolve or otherwise transfer or dispose of all or any portion of its property, assets or business other than to carry out a permitted reorganization or restructuring;
 - lease, mortgage, grant, or permit any lien or encumbrance on any of the assets of the T&D System or of Concessionaire's rights under the Partnership Contract, except as provided under the Partnership Contract (which shall include the ability to secure debt incurred to finance Concessionaire's obligations under the Partnership Contract with a security interest in revenues (other than the Charges) collected from T&D Customers ("**Net System Revenues**")) and, to the extent applicable, the Servicing Contract;
 - establish or acquire any ownership interest in any other person or enter into any business other than the activities required and permitted under the Partnership Contract;
 - grant loans or other financial facilities to, or give any guaranty or indemnity for or hold in trust the debts of obligations of, any other person other than in accordance with Prudent Utility Practice or as otherwise permitted under the Partnership Contract;
 - declare or pay any dividend or any similar distribution if a Concessionaire default or Event of Default (as defined below) has occurred and is ongoing; or
 - subject to the requirements under Applicable Law and the Title III Plan, interfere with or impede the collection and remittance of the Charges.
- 2.18. Owner-Retained Assets and Obligations:** Notwithstanding anything to the contrary herein, Owner shall retain and remain liable for the following (the "**Retained Assets and Obligations**"):
- obligations in relation to loans existing prior to the Commencement Date, except those assumed by Concessionaire;
 - claims against Owner made after the Commencement Date arising from Owner's acts or omissions before the Commencement Date; and

- certain T&D System assets owned by Owner prior to the Commencement Date, which assets shall be specified in the Partnership Contract.

Notwithstanding the foregoing, Concessionaire shall be responsible for any incremental liability with respect to any of the Retained Assets and Obligations caused or aggravated by Concessionaire's acts or omissions.

2.19. Compliance with Applicable Law:

Concessionaire shall bear sole responsibility for complying with all Applicable Laws, including, without limitation, the Federal Funding requirements applicable to the Concession other than those Federal Funding requirements that may only be satisfied by Owner and/or Grant Manager.

3. CAPITAL INVESTMENTS

3.1. General:

The Parties shall acknowledge and agree that capital investments for the T&D System (“**Capital Investments**”) during approximately the first ten (10) years of the Term shall be principally financed through available Federal Funding. Concessionaire may be requested to provide a specified percentage of “matching” funds for Capital Investments principally financed through available Federal Funding.

Concessionaire shall be required to make additional Capital Investments or enhancements to ongoing Capital Investments contemplated as of the Effective Date in accordance with Prudent Utility Practice, including to provide maintenance-related Capital Investments during the period in which Federal Funding is being deployed.

3.2. Federal Funding for Capital Investments:

Concessionaire shall be responsible for carrying out any Capital Investments financed in full or in part with available Federal Funding, and shall complete all work related to such Capital Investments in compliance with all FEMA, HUD and other applicable federal agency requirements in order to ensure the Federal Funding anticipated or received is administered in accordance with all such requirements. In connection with any such Capital Investments, Concessionaire shall agree to enter into any additional agreements as may be necessary or required to ensure full compliance with Applicable Law, including but not limited to the procurement rules set forth in 2 C.F.R. Part 200 applicable to Owner.

3.3. Additional Capital Investments:

Concessionaire shall propose Capital Investments that are intended to carry out the Concession in accordance with Prudent Utility Practice. Such proposals shall be in the form required by the PREB and shall include, at a minimum: (i) a description of the proposed Capital Investments; (ii) a schedule for the implementation of such Capital Investment; and (iii) the impact of such Capital Investment on the T&D System, including rates charged to T&D Customers.

4. COMPENSATION

4.1. Upfront Payment to Owner:

On the Commencement Date, Concessionaire shall make a one-time, lump-sum payment to Owner in exchange for the right to carry out the Concession (the “**Upfront Payment**”). The amount of the Upfront Payment is intended to cover repayment of Owner’s debtor-in-possession financing, administrative expenses related to Owner’s Title III Case and the Authority’s expenses related to the transactions contemplated in this Term Sheet.

The estimated amount of the Upfront Payment shall be calculated no later than thirty (30) days prior to the Commencement Date. The definitive amount of the Upfront Payment shall be provided to Concessionaire no later than three (3) business days prior to the anticipated Commencement Date; provided that such amount shall be no greater than an amount to be set forth in the Partnership Contract.

4.2. Concessionaire Compensation Generally:

Concessionaire shall be entitled to earn fair and reasonable compensation for carrying out the Concession (“**Concessionaire Compensation**”). Concessionaire Compensation shall consist of (i) a fixed fee (the “**Fixed Fee**”), (ii) an incentive fee (the “**Incentive Fee**”) and (iii) return on Capital Investments by Concessionaire, each of which shall be paid from Net System Revenues. In addition, Concessionaire shall be reimbursed from Net System Revenues for costs and expenses associated with carrying out the Concession, including operating and maintenance expenses. The rates charged to T&D Customers shall be periodically adjusted in accordance with Applicable Law to account for, among other things, such variations in costs and expenses.

For the first ten (10) years of the Term, Federal Funding is anticipated to comprise the majority of the Capital Investments for the T&D System. Over time, Concessionaire shall be expected make Capital Investments in the T&D System in accordance with Prudent Utility Practice. As a result, Concessionaire Compensation shall shift from the Fixed Fee and Incentive Fee to a return on Capital Investments by Concessionaire over time. RFP submissions shall be required to include a proposed timing for transitioning from a compensation model based on the Fixed Fee, the Incentive Fee and a return on Capital Investments to a compensation model based solely on a return on Capital Investments.

4.3. Fixed Fee: The Fixed Fee, expressed in nominal U.S. dollars, shall be such amount as will have been proposed by Parent Co. in its RFP submission, prorated as appropriate for any partial period. The annual Fixed Fee for a given year shall be paid from Net System Revenues over the course of that year. As described in Section 4.7 below, the Fixed Fee shall be reduced by any Return on Capital Invested (as defined below) in such year.

4.4. Incentive Fee: Concessionaire shall have the opportunity to earn a variable Incentive Fee based on its ability to timely exceed certain customer service, technical and operational, and financial performance metrics to be set forth in the Partnership Contract (“**Performance Metrics**”).

The Incentive Fee, expressed in nominal U.S. dollars, shall not in any year be greater than a maximum amount to be set forth in the Partnership Contract. The Earned Incentive Fee (as defined below) for a given year shall be determined at the end of such year and shall be paid from Net System Revenues over the course of the following year. Accordingly, no Earned Incentive Fee shall be payable in the first year of the Term, but the Earned Incentive Fee corresponding to achieving the Performance Metrics in the first year shall be fully paid over the course of the second year of the Term and so on.

4.5. Performance Metrics: The Partnership Contract shall set forth Performance Metrics, which may be updated periodically as agreed among Concessionaire, Administrator and the PREB in accordance with Applicable Law. Full compliance with the Performance Metrics shall result in Concessionaire receiving the Incentive Fee in full and partial compliance with the Performance Metrics shall result in Concessionaire receiving only a portion of the Incentive Fee (any full amount or portion of the Incentive Fee, the “**Earned Incentive Fee**”).

Customer service Performance Metrics shall account for a portion of the Incentive Fee and are expected to consist of the following criteria (among others):

- customer complaint rate;
- average speed of answer;
- abandonment rate; and
- time required to resolve or otherwise address customer inquiries or requests.

Technical and operations Performance Metrics shall account for a portion of the Incentive Fee and are expected to consist of criteria based on electric reliability, employee safety, and timely responsiveness to customer interconnections, including the following (among others):

- System Average Interruption Duration Index (SAIDI);
- System Average Interruption Frequency Index (SAIFI);
- Customer Average Interruption Index (CAIDI);
- Occupational Safety and Health Administration (“OSHA”) recordable employee injury incidence rate;
- OSHA days away from work after injury rate (severity);
- interconnection cycle time;
- energy efficiency annualized energy savings;
- renewable energy generated; and
- compliance with environmental and other regulations.

Financial Performance Metrics shall account for a portion of the Incentive Fee and are expected to consist of criteria that focus on cost management, billing and collections, including the following (among others):

- days sales outstanding;
- net write-offs per \$100 billed revenue;
- purchased power invoicing; and
- annualized cost savings.

The Performance Metrics described herein are not intended to be comprehensive. RFP submissions shall include proposed Performance Metrics that demonstrate improvements to the T&D System and the applicable Incentive Fee.

4.6. Inflation Adjustment:

Each year, the Fixed Fee and the Incentive Fee (if still applicable) shall be adjusted for inflation based on a price index to be specified in the Partnership Contract as of the end of the prior year.

4.7. Return on Capital Invested:

Concessionaire shall have the ability to earn a return on Capital Investments in accordance with a formula to be approved by the PREB (“**Return on Capital Invested**”). This formula is expected to include an authorized return on equity, return on debt and capital structure. The Return on Capital Invested shall be earned over the depreciable life of the Capital Investments, in accordance with Industry Standards. During any period that Concessionaire Compensation includes the Fixed Fee, the Return on Capital Invested for such period shall reduce the amount of the Fixed Fee for such period.

The Return on Capital Invested for Capital Investments whose depreciable lives (as measured in accordance with Industry Standards) extend beyond the stated initial Term of the Concession shall be addressed in the Partnership Contract.

4.8. Rate Structure: The Fixed Fee, the Incentive Fee and the Return on Capital Invested shall be incorporated into the rates charged to T&D Customers.

4.9. Residual Concession Value: Upon early termination of the Partnership Contract, Concessionaire shall recover an amount based on the net present value of: (i) an amount equal to an agreed upon return on Capital Investments made by Concessionaire but not yet recovered; and (ii) in the event the termination occurs during the first [ten (10)] years of the Term, the remaining balance of the Fixed Fee payable through year [ten (10)] *minus* any amount paid in respect of the return on Capital Investments pursuant to clause (i) above (the “**Residual Concession Value**”). The Residual Concession Value shall be adjusted in the manner to be provided in the Partnership Contract in the event the Partnership Contract is terminated due to a Concessionaire Event of Default.

5. PARENT GUARANTY AND PERFORMANCE SECURITY FUND

5.1. Parent Guaranty: Concessionaire shall provide an irrevocable, unconditional guaranty from Parent Co. of Concessionaire's payment (including indemnification and any other payments to be specified in the Partnership Contract) and performance obligations under the Partnership Contract in the form to be set forth in the Partnership Contract (the "**Parent Guaranty**").

During the Term, Parent Co. shall maintain a credit rating equal to or higher than a rating to be specified in the Partnership Contract from at least two of Standard & Poor's Rating Services, Fitch Investors Service, Inc. and Moody's Investor Services (or their respective successors). In the event Parent Co.'s credit rating fails to comply with this requirement, Concessionaire and Parent Co. shall be required to take the actions to be specified in the Partnership Contract.

5.2. Performance Security Fund: Concessionaire shall establish a performance security fund in an amount to be specified in the Partnership Contract as security for the prompt and complete performance of Concessionaire's payment (including indemnification and any other payments to be specified in the Partnership Contract) and performance obligations under the Partnership Contract (the "**Performance Security Fund**").

The Performance Security Fund shall be comprised of one or any combination of the following:

- an irrevocable standby letter of credit, in form and substance acceptable to Administrator, issued by an Acceptable Bank (as defined below); or
- United States currency, deposited in an account with an Acceptable Bank under which Administrator is designated as beneficiary with sole authority to draw from the account.

"**Acceptable Bank**" shall mean either (i) a commercial bank or financial institution (that is not an affiliate of Concessionaire) organized under the laws of the United States or a political subdivision thereof or (ii) a U.S. branch office of a foreign bank, and, with respect to an entity identified in clause (i) or (ii), that meets credit rating, shareholder equity and other minimum criteria to be specified in the Partnership Contract.

6. EVENTS OF DEFAULT AND TERMINATION

6.1. Owner Events of Default: Owner events of default (each, an “**Owner Event of Default**”) shall include the following:

- any representation or warranty of Owner under the Partnership Contract shall prove to be false, inaccurate or misleading, and either the ability of Owner to carry out its obligations under the Partnership Contract in any material respect or the legality of the Partnership Contract shall be thereby adversely affected;
- an Expropriation Event (as defined below) shall occur and be continuing;
- Owner shall fail to pay any undisputed amount due to Concessionaire when due under the Partnership Contract (including indemnification and any other payments to be specified in the Partnership Contract) after notice and opportunity to cure such failure; and
- Owner shall fail or refuse to perform any material obligation, covenant, agreement, term or condition under the Partnership Contract, which failure or refusal has had or is reasonably likely to have a material adverse effect on Concessionaire’s ability to carry out its obligations under the Partnership Contract and, after Concessionaire’s written notice to Owner, such failure or refusal shall continue for a period to be specified in the Partnership Contract.

Subject to any applicable notice and cure periods or other remedies provided for in the Partnership Contract, the occurrence of an Owner Event of Default shall trigger a right of Concessionaire to terminate the Partnership Contract (a “**Concessionaire Termination**”).

“**Expropriation Event**” shall be defined in the Partnership Contract, but shall include any expropriation, compulsory acquisition or seizure of the whole or any substantial part of Concessionaire’s property by a governmental authority without just compensation as required by Applicable Law.

6.2. Concessionaire Events of Default: Concessionaire events of default (each, a “**Concessionaire Event of Default**”) shall include, without limitation, the following:

- any representation or warranty of Concessionaire under the Partnership Contract or any other document delivered in connection therewith shall prove to be false, inaccurate or misleading in any material respect;

- Concessionaire shall withdraw from, or surrender or abandon, a material portion of the T&D System or clearly indicate in writing an intent to do any of the foregoing (for this purpose, but without limitation, Concessionaire shall be deemed to have withdrawn from, surrendered or abandoned a material portion of the T&D System if, after written notice from Owner or Administrator indicating that it believes Concessionaire has withdrawn from, surrendered or abandoned the T&D System, Concessionaire shall fail to indicate in writing its continued commitment to operate the T&D System and take measurable steps to demonstrate such commitment and/or fail to carry out the Concession);
- Concessionaire shall enter into an agreement to, or shall assign, transfer, convey, lease, encumber or otherwise dispose of all or any portion of its rights or obligations under the Partnership Contract other than in accordance with the express terms of the Partnership Contract;
- Concessionaire shall terminate, or deliver notice of termination of, any related agreement for the Concession;
- Concessionaire shall voluntarily or involuntarily file for bankruptcy or insolvency;
- Concessionaire shall fail to maintain in full force the Parent Guaranty or the Performance Security Fund;
- Concessionaire shall fail to obtain or maintain the required insurance;
- a Concessionaire change of control shall occur;
- Concessionaire shall fail to pay any undisputed amount due to Owner or Administrator when due under the Partnership Contract (including indemnification and any other payments to be specified in the Partnership Contract) after notice and opportunity to cure such failure; and
- Concessionaire shall fail or refuse to perform any material obligation, covenant, agreement, term or condition under the Partnership Contract or the Servicing Contract and, after Administrator's written notice to Concessionaire, such failure or refusal shall continue for a period to be specified in the Partnership Contract or the Servicing Contract, respectively.

Subject to any applicable notice and cure periods or other remedies provided for in the Partnership Contract (and, to the extent required by Applicable Law, the prior approval of the FOMB (if then in existence)), the occurrence of a Concessionaire Event of Default shall trigger a right of Administrator to terminate the Partnership Contract (an "**Owner Termination**").

6.3. Concessionaire's Obligations upon Termination or Expiration:

Upon termination of the Partnership Contract or nine (9) months prior to the expiration of the Partnership Contract in accordance with its terms, Concessionaire shall, at Administrator's request and direction, provide for an effective continuity of service and a smooth and orderly transition to any successor concessionaire in accordance with the Exit Transition Plan and shall negotiate in good faith, together with the successor concessionaire, a transition services agreement; provided that, in the event of an Owner Termination, Concessionaire shall be obligated to pay the costs and expenses associated with such continuity of service and transition.

Concessionaire's obligations in connection with the transition of the Concession shall include, without limitation:

- promptly taking all action as necessary to protect and preserve all materials, equipment, tools, facilities and other property of the T&D System;
- as Administrator shall direct, promptly removing from the T&D System all equipment, implements, machinery, tools, temporary facilities of any kind and other property owned or leased by Concessionaire, and repair any damage caused by such removal;
- delivering to Administrator a copy of all books, records, customer lists, account information, personnel information, drawings, reports, plans and other data in its possession or control relating to the Concession;
- leaving the T&D System in a clean, safe, orderly and fully operational condition;
- as Administrator shall direct, terminating or assigning to Administrator all subcontracts and not entering into additional agreements with subcontractors without the prior written approval of Administrator;
- notifying Administrator promptly in writing of any legal proceedings against Concessionaire by any third parties relating to the termination of the Concession;
- conveying to Administrator the title to any assets owned by Concessionaire necessary for the operation, management, maintenance, repair and replacement of the T&D System; and
- turning over all Charges and funds collected or received under the Servicing Contract or pursuant to the Title III Plan and otherwise providing for the assignment of all servicing obligations under and pursuant to the Servicing Contract.

7. INDEMNIFICATION AND FORCE MAJEURE

- 7.1. Indemnification by Concessionaire:** Concessionaire shall indemnify and hold harmless Owner, Administrator, the Authority, the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”), the FOMB and the trustee for the securitization transactions, and their respective elected officials, officers, directors, employees, representatives, agents and subcontractors (each, an “**Owner Indemnitee**”), from and against (and pay the full amount of) any losses and damages by an Owner Indemnitee to third parties arising from or in connection with (or alleged to arise from or in connection with) Concessionaire’s use of the T&D System or failure to comply with the Partnership Contract or the Servicing Contract. Concessionaire’s indemnification obligations under the Partnership Contract shall not be limited by any coverage exclusions or other provisions in any insurance policy maintained by Concessionaire that is intended to respond to such events. Notwithstanding the foregoing, Concessionaire shall not be required to reimburse or indemnify any Owner Indemnitee for any losses or damages to the extent caused by (i) Owner’s or Administrator’s breach of any of its obligations under the Partnership Contract or (ii) the negligence or willful misconduct of such Owner Indemnitee.
- 7.2. Indemnification by Owner:** Owner shall indemnify and hold harmless Concessionaire and its officers, directors, employees, representatives, agents and subcontractors (each, an “**Concessionaire Indemnitee**”), from and against (and pay the full amount of) any losses and damages by a Concessionaire Indemnitee to third parties arising from or in connection with (or alleged to arise from or in connection with) any events or circumstances that arose prior to the Commencement Date (except to the extent that Concessionaire has an obligation to mitigate or manage any such event or circumstance pursuant to the terms of the Partnership Contract). Owner’s indemnification obligations under the Partnership Contract shall not be limited by any coverage exclusions or other provisions in any insurance policy maintained by Owner that is intended to respond to such events. Notwithstanding the foregoing, Owner shall not be required to reimburse or indemnify any Concessionaire Indemnitee for any losses or damages to the extent caused by (i) Concessionaire’s breach of any of its obligations under the Partnership Contract or (ii) the negligence or willful misconduct of such Concessionaire Indemnitee.

7.3. No Consequential or Punitive Damages:

In no event shall any Party be liable to the other Party or obligated in any manner to pay to the other Party any special, incidental, consequential, punitive or similar damages based upon claims arising out of or in connection with the performance or non-performance of its obligations under the Partnership Contract, or the material falseness or inaccuracy of any representation made in the Partnership Contract, whether such claims are based upon contract, tort, negligence, warranty or other legal theory. The waiver of the foregoing damages is intended to apply to only disputes and claims as among Owner, Administrator and Concessionaire, and specifically is not intended to limit the scope of the indemnity provisions in Section 7.1 and Section 7.2 above, which indemnification includes all claims by third-parties irrespective of the nature thereof or the relief sought thereby.

7.4. Force Majeure Event:

Except as otherwise specifically provided in the Partnership Contract, neither Party shall be liable to the other for any failure or delay in performance of any obligation under the Partnership Contract to the extent due to the occurrence of a Force Majeure Event.

“**Force Majeure Event**” shall be defined in the Partnership Contract, but shall include events that (i) are beyond the reasonable control of the Parties, (ii) are not reasonably anticipated as of the Effective Date, (iii) are not the result of the fault or negligence of the Party claiming a Force Majeure Event and (iv) which, by exercise of due diligence and foresight, could not reasonably have been avoided.

8. MISCELLANEOUS

8.1. Owner Representations and Warranties:

Owner shall provide representations and warranties covering the following matters (among others), as shall be further specified in the Partnership Contract, and subject to entry of the Title III Order, as applicable:

- organization, power and authority;
- enforceability of the Partnership Contract;
- no conflicts;
- requisite consents;
- compliance with law; and
- no adverse legal proceedings.

8.2. Concessionaire Representations and Warranties:

Concessionaire shall provide representations and warranties covering the following matters (among others), as shall be further specified in the Partnership Contract:

- organization, power and authority;
- enforceability of the Partnership Contract;
- no conflicts;
- requisite consents;
- compliance with law;
- no adverse legal proceedings;
- accuracy of information provided in response to RFP;
- requisite skill and experience to carry out Concession; and
- no adverse claim against Owner, Administrator, the Authority, AAFAF, the FOMB and/or their affiliates.

8.3. Intellectual Property:

All intellectual property and technology (i) owned, created, developed, licensed or acquired by or on behalf of Concessionaire or its affiliates and (ii) used in, necessary for or related to the Concession (including any intellectual property transferred to Concessionaire in accordance with Section 2.4 (such transferred intellectual property, "**Transferred IP**")) (collectively, (i) and (ii), "**Concession IP**") shall during the Term be owned by Concessionaire or its affiliates, as applicable, subject to the terms and conditions of the Partnership Contract.

Concessionaire shall grant Owner and Administrator a perpetual, irrevocable, worldwide, royalty-free, non-exclusive, sublicensable and transferable license to use, modify or otherwise exploit Concession IP owned or sublicensable by Concessionaire for any purpose and in connection with any products or services; provided that Owner's and Administrator's right to grant sublicenses to any successor concessionaire shall be limited solely to the use, modification or other exploitation of Concession IP in

connection with the operation of the T&D System. For the avoidance of doubt, upon expiration or early termination of the Partnership Contract, any Transferred IP shall be assigned to Administrator in accordance with Section 6.3 and the scope of the foregoing license shall automatically be limited to non-Transferred IP. In connection with the foregoing, the Concessionaire shall deliver to Administrator a copy of all Concession IP used in or necessary for the operation of the T&D System and any documentation related thereto.

Concessionaire shall not take any steps to transfer or dispose of any Concession IP owned by Concessionaire.

8.4. Assignment:

Concessionaire shall not assign, transfer, convey, lease, encumber or otherwise dispose of its rights or obligations under the Partnership Contract or the Concession without the prior written consent of Administrator.

Owner shall not assign, transfer, convey, lease, encumber or otherwise dispose of its rights or obligations under the Partnership Contract or the Concession without the prior written consent of Concessionaire, other than (i) to Administrator and (ii) with the prior approval of the FOMB (to the extent such approval is required by Applicable Law), to another government entity if such assignee assumes, and is legally capable of discharging, such rights and obligations.

8.5. Governing Law:

The Partnership Contract shall be governed by the laws of Puerto Rico.

8.6. Dispute Resolution:

Any dispute between the Parties regarding technical issues related to the Concession shall be subject to an expedited dispute resolution mechanism (the “**Expedited Dispute Process**”) to be set forth in the Partnership Contract.

All disputes between the Parties that are not settled pursuant to the Expedited Dispute Process shall be subject to the exclusive jurisdiction of the Commonwealth Court of First Instance, San Juan Part, and each Party hereto shall be deemed to consent to the jurisdiction thereof.

Concessionaire shall acknowledge and agree that Administrator shall be authorized to participate in or act for and on behalf of Owner in any dispute resolution proceeding contemplated under the Partnership Contract. Concessionaire shall continue to carry out the Concession in accordance with the terms of the Partnership Contract during the pendency of any dispute between the Parties.

- 8.7. Waiver of Certain Defenses:** Concessionaire shall acknowledge that it is responsible for the Concession and shall agree that, unless otherwise permitted pursuant to the provisions of the Partnership Contract with respect to the occurrence of Force Majeure Events, and without limiting such provisions, it shall not assert (i) impossibility or impracticability of performance, (ii) lack of fitness for use or operation of the T&D System, (iii) the existence, non-existence, occurrence or non-occurrence of any foreseen or unforeseen fact, event or contingency that may be a basic assumption of Concessionaire or (iv) commercial frustration of purposes, in each case as a defense against any claim by Owner and/or Administrator against Concessionaire.
- 8.8. Relationship of the Parties:** Nothing contained in the Partnership Contract shall be intended to create, or shall be deemed or construed as creating, any partnership, joint venture or other legal entity, or give rise to any fiduciary duty, between the Parties. No Party shall have the authority or right, or hold itself out as having the authority or right, to assume, create or undertake any obligation of any kind whatsoever, express or implied, on behalf of or in the name of any other Party, except as expressly provided in the Partnership Contract. No provision in the Partnership Contract shall result in Concessionaire or any of its employees, subcontractors, agents or representatives being considered an employee, subcontractor, agent or representative of Owner or Administrator. Concessionaire shall be an independent contractor and shall be responsible for and have control over the Concession, subject to the standards to be set forth in the Partnership Contract.
- 8.9. Expenses:** Each Party shall be responsible for its own costs and expenses related to the review, diligence, negotiation and consummation of the transactions contemplated in this Term Sheet.