

FITCH RATES PUERTO RICO ELECTRIC POWER AUTHORITY'S \$800MM BONDS 'A-'; OUTLOOK STABLE

Fitch Ratings-New York-10 June 2008: Fitch Ratings assigns an underlying rating of 'A-' to the Puerto Rico Electric Power Authority's (PREPA) \$700,000,000 fixed-rate power revenue bonds series, WW and \$100,000,000 fixed-rate revenue refunding bonds series XX. Fitch also affirms the 'A-' rating on PREPA's outstanding power revenue bonds. The bonds are expected to price June 17, 2008. Proceeds for the new bond issue will be used to fund capital improvements and refund certain power revenue bonds to provide debt service savings. The Rating Outlook is Stable.

Key underpinnings of the credit rating are the system's sound management and governance structure that has historically operated independently from the Commonwealth. Recently, legislation was enacted that provides economic incentives to retain and attract businesses. The legislation requires PREPA to fund a portion of a tax credit (through 2018) and allow businesses to wheel energy. The tax credit provision has little financial impact to PREPA (accounts for less than 3% of 2007 revenues) and the impact of the wheeling provision is unclear at this time (implementation begins in 2010). While management is working with the Commonwealth on these efforts, Fitch will continue to monitor legislative developments noting that the preservation of PREPA's managerial autonomy is a key factor supporting the 'A-' rating.

The 'A-' rating and Stable Outlook also includes the following key credit factors:

Strengths

- The utility is the sole electricity provider.
- An automatic fuel adjustment allows PREPA to pass through volatile fuel costs for stable cash flow.
- Access to bank lines of credit help to offset PREPA's low self-liquidity levels.
- Debt service coverage is consistently above 1.46 times.

Risks

- A high dependence on oil-fired generation exposes PREPA to volatile costs.
- The utility has a customer base with below average income and wealth indicators.
- Even though the economy has weakened, Puerto Rico has a diverse economy of manufacturing and pharmaceuticals that is not dependent on tourism.

Key Rating Drivers

- Continued progress restoring Palo Seco generating facility to full load, attaining reserve margins at or above the historical level of 46%, prior to the December 2006 fires.
 - Implementation of a large, \$2.1 billion capital plan that meets cost, schedule, and performance goals.
- Achievement of projected financial targets and implementation of timely base rate increases as needed to maintain solid operating margins.
- Continued progress increasing collections from delinquent government and other customers.
- Autonomy from the Commonwealth especially in light of recent legislation.
- Impact of rising fuel costs and Puerto Rico's economy on PREPA's operations.

PREPA is one of the largest public power systems in the United States, serving approximately 1.4 million electric customers and a population of about 4.5 million. PREPA is a vertically integrated utility and the sole provider of power to Puerto Rico. The utility system is comprised of over 5,388 megawatts of owned and purchased capacity with a vast transmission and distribution system. PREPA serves a diverse mix of customers: residential (35%), commercial (45%), industrial (17%), and other (3%). A detailed report will follow.

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