

DISCLAIMER

This document is a proposed draft of the final form required under Chapter II “Act for the Revitalization of the Puerto Rico Aqueduct and Sewer Authority” approved in Act No. 68 of July 12, 2016 (“Act 68-2016”). This document was prepared with the objective of complying with the publication requirements of Act 68-2016 and is subject to changes resulting from the public hearing process to be undertaken pursuant to Article 7(b) of Act 68-2016. All references to specific articles and defined terms used herein are subject to conforming changes to be made following the publication of the official English translation of Act 68-2016 to be prepared and provided by the Office of Legislative Services of the Legislature of the Commonwealth of Puerto Rico.

PROPOSED

CALCULATION METHODOLOGY AND ADJUSTMENT MECHANISM TO ESTABLISH AND ADJUST THE REVITALIZATION CHARGE

The Corporation will, or will cause the Servicer on behalf of the Corporation to, calculate the initial Revitalization Charge and to adjust the Revitalization Charges in accordance with the following procedure. PRASA, as the initial Servicer pursuant to the Servicing Agreement, or any Successor Servicer will make adjustments to the Revitalization Charges (a) semi-annually, beginning no more than six (6) months from issuance of the Bonds and continuing until the Bonds and all Ongoing Financing Costs are paid or deemed paid in full, and (b) at any other time if the Servicer, the Calculation Agent or the Trustee (as and to the extent provided in the Trust Agreement) determines that such adjustment is required to assure the timely payment of the principal of and interest on the Bonds and all other Ongoing Financing Costs due by the next Bond Payment Date. Such adjustments are referred to herein as Semi-Annual and Optional True-Up Adjustments, respectively, and, collectively, as “True-Up Adjustments.” Capitalized terms used, but not otherwise defined, herein shall have the meanings ascribed to them in the Trust Agreement.

To initiate any True-Up Adjustment, the Servicer will make a preliminary calculation of the proposed True-Up Adjustment and will prepare and submit to the Calculation Agent a draft request for adjustment (a “True-Up Letter”). The Calculation Agent will review the draft True-Up Letter, including the mathematical calculations related to the proposed True-Up Adjustment, and forward any corrections or modifications to the Servicer. The Servicer will then submit the True-Up Letter, reflecting any such corrections or modifications, with the Corporation and the Trustee, not later than 30 days prior to the proposed effective date of the adjustment set forth in the True-Up Letter (such effective date being referred to as the “True-Up Adjustment Date”).

Each True-Up Adjustment will be designed (i) to correct for any over-collections or under-collections of Revitalization Charges through the proposed True-Up Adjustment Date and (ii) to ensure that expected Revitalization Charge Revenues remitted or to be remitted to the Trustee, after taking into account assumed charge-offs and payment delays, are adequate (A) to pay timely principal of (in accordance with the scheduled maturity date or dates, including scheduled mandatory sinking fund redemption dates) and interest on the Bonds on each of the Payment Dates that occurs during the related Annual Calculation Period (defined

below), (B) to fund or replenish any debt service reserve fund or account or any other restricted accounts or subaccounts required to be established by the Trust Agreement or any Ancillary Agreement, as an additional reserve fund, to its required level, as provided in the Trust Agreement or the Ancillary Agreement (as the case may be), and (C) to make timely payment of all other Ongoing Financing Costs during the related Annual Calculation Period.

The Servicer will recommend a collection curve for all Customers (the “Composite Collection Curve”) which shall reflect a reasonable expectancy of the timing of payments of the billed amounts during a 12-month period. The Composite Collection Curve will also consider the assumption for delinquencies based on historical data of billed amounts not collected, established initially at six percent (6%). The Composite Collection Curve shall be recalculated as part of the Adjustment Mechanism, considering historical and actual results going forward.

As used herein, unless otherwise defined, capitalized terms shall have the following meanings:

“Actual Cubic Meters Billed” means, for any period and for any Customer type, the gross cubic meters of water and sewer consumption, measured, as and to the extent provided in the Financing Resolution. Consumption for unmetered Fixed Charge Customers, will be calculated based on the number of accounts billed during the period times the higher of: (a) ten (10) cubic meters of estimated consumption (equal to the consumption allocation included in the Residential Customers base charge rate in PRASA’s rate structure), or (b) the then-current estimated amount of consumption (in cubic meters) established by PRASA for Fixed Charge Customers in any given period. An eighty percent (80%) sewer consumption scale-up factor shall be applied to the actual water metered consumption billed for Residential Customers with both water and sewer services in order to account for unmetered sewer discharges. Whereas, a sixty percent (60%) sewer consumption scale-up factor shall be applied to the actual water metered consumption billed for Non-Residential Customers with both water and sewer services in order to account for unmetered sewer discharges.

“Aggregated Actual Cubic Meters Billed” means, for any period, the sum of the Actual Cubic Meters Billed for all Customers during such period.

“Annual Calculation Period” means the 12-month period beginning on (but not including) a True-Up Adjustment Date and ending on (and including) a date which is 12-months later.

“Assumed Cubic Meters Billed” means, for any period, the ten (10) cubic meters of monthly water consumption assigned to Fixed Charge Customers.

“Bond Payment Date” means each consecutive Bond payment date (whether for principal or interest) following a True-Up Adjustment Date. As an illustration, the “First Bond Payment Date” means the first Bond Payment Date following a True-Up Adjustment Date; the “Second Bond Payment Date” means the second Bond Payment Date following the True-Up Adjustment Date; etc.

“Collection Period” means, for the purposes of any True-Up Adjustment, the period which commences on a True-Up Adjustment Date and which ends five (5) Business Days prior

to a designated Bond Payment Date. As an illustration, the “First Collection Period” means the period which commences on a True-Up Adjustment Date and which ends five (5) Business Days prior to the First Bond Payment Date following such True-Up Adjustment Date; the “Second Collection Period” means the period which commences on the same True-Up Adjustment Date and which ends five (5) Business Days prior to the Second Bond Payment Date following such True-Up Adjustment Date; etc.

“Fixed Charge Customers” means Residential and Non-Residential customers that are billed based on a fixed charge or not based on actual, measured consumption.

“Fixed Charge Customer Allocation” shall have the meaning set forth in clause (5) below.

“Government Customers” means any Customer, except for PRASA, that is an agency, public corporation, office, municipality, or instrumentality of the Commonwealth of Puerto Rico, or an agency, public corporation, office, department or instrumentality of the United States.

“Gross Billing Requirement” shall have the meaning set forth in clause (9) below.

“Net Revenue Requirement” shall have the meaning set forth in clause (8) below.

“Non-Residential and Government Customer Water and Sewer Allocation” shall have the meaning set forth in clause (3) below.

“Non-Residential and Government Customer Water or Sewer Allocation” shall have the meaning set forth in clause (4) below.

“Non-Residential Customers” means the Commercial, Industrial, and Government Customers as classified in PRASA’s billing system.

“Residential Customer Water and Sewer Allocation” shall have the meaning set forth in clause (1) below. “Residential Customers Water and Sewer” means all customers classified as residential in PRASA’s billing system with water and sewer services.

“Residential Customer Water or Sewer Allocation” shall have the meaning set forth in clause (2) below. “Residential Customers Water or Sewer” means all customers classified as residential in PRASA’s billing system with either water or sewer service.

“Residential Service Water and Sewer Agreement Count” means, as of the date of any calculation, the total number of Residential Service Agreements (accounts) with both water and sewer services billed during the last month of the most recently completed semester of the Calculation Period for which data are available.

“Residential Service Water or Sewer Agreement Count” means, as of the date of any calculation, the total number of Residential Service Agreements (accounts) with either water or sewer services billed during the last month of the most recently completed calendar semester for which data are available.

The calculation methodology and adjustment mechanism to establish and adjust the Revitalization Charge shall be as follows:

(1) Divide the Actual Cubic Meters Billed to Residential Customers with both water and sewer services for the previous 12-month period ending with the end of the most recently completed semester for which data are available by the Aggregated Actual Cubic Meters Billed during that same 12-month period. The resulting percentage is the “Residential Customer Water and Sewer Allocation.”

(2) Divide the Actual Cubic Meters Billed to Residential Customers with either water or sewer service for the previous 12-month period ending with the end of the most recently completed semester for which data are available by the Aggregated Actual Cubic Meters Billed during that same 12-month period. The resulting percentage is the “Residential Customer Water or Sewer Allocation.”

(3) Divide the Actual Cubic Meters Billed for all Non-Residential Customers and Government Customers with both water and sewer services for the previous 12-month period ending with the end of the most recently completed semester for which data are available by the Aggregated Actual Cubic Meters Billed during the same 12-month period. The resulting percentage is the “Non-Residential and Government Customer Water and Sewer Allocation.”

(4) Divide the Actual Cubic Meters Billed for all Non-Residential Customers and Government Customers with either water or sewer service for the previous 12-month period ending with the end of the most recently completed semester for which data are available by the Aggregated Actual Cubic Meters Billed during the same 12-month period. The resulting percentage is the “Non-Residential and Government Customer Water or Sewer Allocation.”

(5) Divide the Assumed Cubic Meters Billed for all Fixed Charge Customers for the previous 12-month period ending with the end of the most recently completed semester for which data are available by the Aggregated Actual Cubic Meters Billed during the same 12-month period. The resulting percentage is the “Fixed Charge Customer Allocation.”

(6) Project the Revitalization Charge Revenues expected to be held by the Trustee on the proposed True-Up Adjustment Date after payment of Ongoing Financing Costs due on or prior to such date (but excluding amounts held or to be held on such date by the Trustee in any debt service reserve fund or account, or in any other restricted accounts or subaccounts required to be established by the Trust Agreement or any Ancillary Agreement as an additional reserve fund), and add to that amount the Revitalization Charge Revenues expected to be received by the Trustee after the True-Up Adjustment Date from bills rendered prior to the True-Up Adjustment Date based on the Revitalization Charges then or previously in effect.

(7) Calculate the sum of (a) principal of (in accordance with the scheduled maturity date or dates, including scheduled mandatory sinking fund redemption dates) and interest on the Bonds when due and as accruing through and including the First Bond Payment Date, (b) any amount necessary or expected to be necessary to fund or replenish any debt service reserve fund or account, or any other restricted accounts or subaccounts required to be established

by the Trust Agreement or any Ancillary Agreement as an additional reserve fund, to their required levels, as and to the extent such funding or replenishment is required by the Trust Agreement or any Ancillary Agreement (as the case may be) on or prior to the First Bond Payment Date, and

(c) all other Ongoing Financing Costs required to be paid or deposited on or prior to the First Bond Payment Date.

(8) Subtract the amount in clause (6) from the amount in clause (7) to determine the “Net Revenue Requirement” for the First Collection Period.

(9) Adjust (or gross up) the Net Revenue Requirement to give effect to the Composite Collection Curve, the collection lag as a result of the implementation of the Revitalization Charge and the write-off assumption used for this calculation, to ensure that the Revitalization Charge Revenues expected to be remitted to the Trustee during the First Collection Period will satisfy the Net Revenue Requirement for the First Collection Period on a timely basis and will result in the Excess Funds Account held under the Trust Agreement to be zero by the First Bond Payment Date. The result will be the “Gross Billing Requirement” for the First Collection Period.

(10) Multiply the Gross Billing Requirement for the First Collection Period by the Residential Customer Water and Sewer Allocation. The result will be the “Residential Water and Sewer Gross Billing Requirement” for the First Collection Period.

(11) Multiply the Gross Billing Requirement for the First Collection Period by the Residential Customer Water or Sewer Allocation. The result will be the “Residential Water or Sewer Gross Billing Requirement” for the First Collection Period.

(12) Multiply the Gross Billing Requirement for the First Collection Period by the Non-Residential and Government Customer Water and Sewer Allocation. The result will be the “Non-Residential and Government Water and Sewer Gross Billing Requirement” for the First Collection Period.

(13) Multiply the Gross Billing Requirement for the First Collection Period by the Non-Residential and Government Customer Water or Sewer Allocation. The result will be the “Non-Residential and Government Water or Sewer Gross Billing Requirement” for the First Collection Period.

(14) Multiply the Gross Billing Requirement by the Fixed Charge Customer Allocation. The result will be the “Fixed Charge Customer Gross Billing Requirement” for the First Collection Period.

(15) Reduce the Residential Water and Sewer Services Agreement Count, the Residential Water or Sewer Services Agreement Count, and the Fixed Charge Service Agreement Count to account for the five (5) Business Days prior to a designated Bond Payment Date, calculated using the average number of billed accounts during the Collection Period for each Customer category divided by thirty (30) and multiplied by five (5).

(16) Reduce the Non-Residential Water and Sewer Services Agreement Count and the Non-Residential Water or Sewer Services Agreement Count to account for the five (5) Business

Days prior to a designated Bond Payment Date, calculated using the average monthly billed consumption during the Collection Period for each Customer category divided by thirty (30) and multiplied by five (5).

(17) Divide the Residential Water and Sewer Gross Billing Requirement and the Residential Water or Sewer Gross Billing Requirement for the calculation period for the First Collection Period by the Residential Water and Sewer Service Agreement Count and the Residential Water or Sewer Service Agreement Count, respectively, for the First Collection Period to produce a \$/per service agreement Revitalization Charge. Subject to clause (20) below, the result will be the first proposed Revitalization Charge for each Residential Customer to be effective on the True-Up Adjustment Date.

(18) Divide the Fixed Charge Gross Billing Requirement for the calculation period by the Fixed Charge Service Agreement Count for First Collection Period to produce a \$/per service agreement Revitalization Charge. Subject to clause (20) below, the result will be the first proposed Revitalization Charge for each Fixed Charge Customer to be effective on the True-Up Adjustment Date.

(19) Divide the Non-Residential and Government Water and Sewer Gross Billing Requirement and the Non-Residential and Government Water or Sewer Gross Billing Requirement for the First Collection Period by the Actual Cubic Meters Billed for Non-Residential Customers and Government Water and Sewer Customers and the Actual Cubic Meters Billed for Non-Residential and Government Water or Sewer Customers, respectively, during the comparable period to the First Collection Period in the prior 12-month period for which data are available (i.e., the calendar dates one year prior to the calendar dates in the First Collection Period), to produce estimated volumetric (per cubic meter) Revitalization Charge. Subject to clause (18) below, the result will be the first proposed Revitalization Charge (per cubic meter) for all Non-Residential and Government Water and Sewer Customers and all Non-Residential and Government Water or Sewer Customers, respectively, to be effective on the True-Up Adjustment Date.

(20) Repeat the calculations described in clauses (6) through (19), inclusive, to determine the Revitalization Charges necessary to satisfy the revenue requirement for each consecutive Collection Period which ends during the Annual Calculation Period, replacing “First Bond Payment Date” with “Second Bond Payment Date” and “First Collection Period” with “Second Collection Period,” etc., until the last Bond Payment Date respectively.

The Corporation will adjust the Revitalization Charges for each Customer category as requested in each True-Up Letter, and such adjusted Revitalization Charges will be effective on the date specified in the True-Up Letter.