

FORBEARANCE AGREEMENT

THIS FORBEARANCE AGREEMENT, dated as of August 14, 2014 (this “Agreement”), is entered into by and between PUERTO RICO ELECTRIC POWER AUTHORITY (the “Company”) and GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO (together with any transferee under Section 7 herein, the “GDB”). Each of the foregoing, together with persons who execute a joinder to this Agreement in the form of Annex B, shall be referred to herein as a “Party” and collectively as the “Parties.”

WITNESSETH:

WHEREAS, the Company and the GDB have entered into that certain Collateral Swap Loan Agreement, dated as of June 21, 2013 (as amended, restated, extended, supplemented or otherwise modified from time to time and currently in effect, together with any related documents, the “Collateral Swap Loan Agreement”);

WHEREAS, the Company and the GDB have entered into that certain Isabela Dam Loan Agreement, dated as of March 26, 2004 (as amended, restated, extended, supplemented or otherwise modified from time to time and currently in effect, together with any related documents, the “Isabela Dam Loan Agreement” and together with the Collateral Swap Loan Agreement, the “GDB Loan Agreements”);

WHEREAS, the GDB is the fiscal agent under that certain Loan Agreement, dated as of September 6, 2012, by and between Puerto Rico Infrastructure Financing Authority, acting on behalf of the Commonwealth of Puerto Rico (“PRIFA”), and the Company (as amended, restated, extended, supplemented or otherwise modified from time to time and currently in effect, together with any related documents, the “Aguirre Loan Agreement”);

WHEREAS, the GDB is the fiscal agent under that certain Financial Agreement, dated as of September 27, 2013, by and between PRIFA and the Company (as amended, restated, extended, supplemented or otherwise modified from time to time and currently in effect, together with any related documents, the “San Juan Water Financial Agreement”);

WHEREAS, the Company and the GDB have entered into certain depository and custodial agreements (as amended, restated, extended, supplemented or otherwise modified from time to time and currently in effect, together with any related documents, the “Custodial Agreements” and, together with the Collateral Swap Loan Agreement, the Isabela Dam Loan Agreement, the Aguirre Loan Agreement, and the San Juan Water Financial Agreement, the “GDB Agreements”);

WHEREAS, the Company and Citibank, N.A. (“Citibank”) have entered into that certain Forbearance Agreement, dated as of August 14, 2014 (as amended, supplemented or extended from time to time, the “Citibank Forbearance”);

WHEREAS, the Company, Scotiabank de Puerto Rico (“Scotiabank”) and the lenders signatory thereto (the “Scotiabank Lenders,” and together with Citibank, the “Other Bank Lenders”) have entered into that certain Forbearance Agreement, dated as of August 14, 2014 (as

amended, supplemented or extended from time to time, the “Scotiabank Forbearance” and together with the Citibank Forbearance, the “Bank Forbearances”);

WHEREAS, the Company and certain insurers and beneficial holders insuring or beneficially holding greater than 60% of the Company’s outstanding power revenue bonds and power revenue refunding bonds (together, the “Bonds”) issued pursuant to that certain Trust Agreement, dated as of January 1, 1974, as amended and supplemented through August 1, 2011, between the Company and U.S. Bank National Association, as successor trustee (the “Trust Agreement”) (such insurers and beneficial holders, the “Forbearing Creditors”) have entered into that certain Forbearance Agreement, dated as of August 14, 2014, attached hereto as Annex A (as amended, supplemented or extended from time to time, the “Trust Agreement Forbearance,” and together with the Bank Forbearances, the “Company Forbearances”);

WHEREAS, in connection with the Company Forbearances, the Company has requested that the GDB (a) temporarily forbear, in accordance with the terms and subject to the conditions hereof, from commencing any legal proceedings against the Company and (b) permanently waive any exercise of a set-off or recoup right to collect payment pursuant to the terms of the GDB Agreements;

WHEREAS, the GDB agrees to accommodate such requests of the Company, in each case on the terms and subject to the conditions herein set forth;

NOW, THEREFORE, in consideration of the foregoing, the conditions contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Incorporation of Recitals; Defined Terms.

The Company and the GDB each acknowledges that the Recitals set forth above are true and correct in all material respects. The defined terms in the Recitals set forth above are hereby incorporated into this Agreement by reference.

Section 2. Forbearance Period; Forbearance.

(a) The “Forbearance Period” under this Agreement shall be coterminous with the “Forbearance Period,” as such term is defined in the Trust Agreement Forbearance. The termination of the Trust Agreement Forbearance shall automatically and without further action by any Party also cause this Agreement to terminate (the “Forbearance Termination Event,” and the date of such Forbearance Termination Event, the “Forbearance Termination Date”).

(b) The GDB agrees that, upon the terms and subject to the conditions set forth herein, (i) during the Forbearance Period, the GDB shall not enforce any rights or remedies (including, without limitation, the commencement of any legal proceedings) against the Company or its assets in respect of the GDB’s rights or claims under the GDB Agreements or the GDB’s pecuniary rights or claims under any other contract or agreement between the GDB and the Company, and (ii) as of the date of the effectiveness of the amendment of the Trust Agreement contemplated by section 1 of the Trust Agreement Forbearance, the GDB hereby irrevocably waives any exercise of a set-off or recoup right to collect payment pursuant to the

terms of the GDB Agreements or any other contract or agreement between the GDB and the Company (the “Forbearance”).

(c) Nothing contained in this Agreement is intended, or shall be deemed or construed to (i) constitute a waiver of any term or provision of the GDB Agreements (other than any exercise of a setoff or recoup right) and any other agreements between the GDB and the Company or applicable law or (ii) establish a custom or course of dealing between the Company, on the one hand, and the GDB, on the other hand.

(d) On the Forbearance Termination Date, without the requirement of any notice to the Company or any other person or Party: (i) all agreements set forth in Section 2(b) of this Agreement shall terminate automatically and be of no further force or effect, except with respect to Section 2(b)(ii), which shall survive the Forbearance Termination Date, and (ii) subject to the terms of the GDB Agreements and applicable law, except as otherwise required by this Agreement (including with respect to Section 2(b)(ii)), the GDB shall be free in its sole and absolute discretion without limitation to proceed to enforce any or all of its rights and remedies set forth in this Agreement, the GDB Agreements and applicable law including, without limitation, commencing legal proceedings. In furtherance of the foregoing, and notwithstanding the occurrence of the Forbearance Effective Date, the Company acknowledges and confirms that, subject to the Forbearance, all rights and remedies of the GDB under the GDB Agreements and applicable law with respect to the Company shall continue to be available to the GDB other than with respect to the exercise of any rights of setoff or recoup described in Section 2(b)(ii).

(e) The Company hereby agrees that, during the Forbearance Period, subject to the Forbearance and the other terms and provisions of this Agreement, the GDB Agreements shall remain in full force and effect.

Section 3. Covenants.

(a) The Company hereby agrees that, during the Forbearance Period:

(i) the GDB shall be entitled to the benefit of all covenants of the Company to the Other Bank Lenders and the Forbearing Creditors under the Company Forbearances (other than sections 4(f) and 4(l) of the Trust Agreement Forbearance and section 4(f) of each of the Bank Forbearances); and

(b) The GDB hereby agrees that during the Forbearance Period:

(i) Upon the request of the Company, the Forbearing Creditors, or the Other Bank Lenders, the GDB agrees to provide reasonable access to its management in connection with the potential restructuring and/or reorganization of the Company in the form of regular meetings between and/or among such management, advisors to the Company, the Forbearing Creditors and/or their advisors, and the Other Bank Lenders and/or their advisors; and

(ii) The Company shall have no obligation to pay any principal or interest under the GDB Loan Agreements, provided that interest shall continue to accrue but shall not be payable unless and until all interest due and payable to the Forbearing Creditors and the Other Bank Lenders shall have been paid;

notwithstanding the foregoing, such principal or interest payments may be made on a current basis to the extent paid out of funds disbursed by a federal or local governmental entity for the purpose of paying such amounts pursuant to a federal or local program or appropriation.

Section 4. Representations and Warranties.

(a) The GDB hereby represents and warrants to the Company that as of the date hereof:

(i) it has all requisite power and authority to enter into this Agreement and perform its respective obligations under this Agreement;

(ii) the execution, delivery and performance of this Agreement and its obligations hereunder have been duly authorized by all necessary corporate action on its part; and

(iii) the execution, delivery and performance of this Agreement by it do not and shall not: (A) violate any provision of law, rule or regulation applicable to it; or (B) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any material contractual obligation to which it is a party.

Section 5. Conditions to Effectiveness.

This Agreement shall become effective (the date of such effectiveness being referred to herein as the “Forbearance Effective Date”) upon the later of (i) execution and delivery of this Agreement by each of the GDB and the Company and (ii) the effectiveness of the Company Forbearances.

Section 6. No Waiver, Etc.

Except as expressly set forth herein, nothing in this Agreement is intended or shall be deemed or construed to in any way waive, alter or impair the obligations or any of the rights or remedies of the GDB under the GDB Agreements or applicable law. Without limiting the generality of the foregoing, nothing in this Agreement extends the maturity of or otherwise affects the enforceability of any obligation under the GDB Agreements. All terms and provisions of the GDB Agreements remain in full force and effect, except to the extent expressly modified by this Agreement. The Company acknowledges that the GDB has made no representations as to what actions, if any, the GDB will take after the Forbearance Period, and the GDB must and does hereby specifically reserve any and all rights, remedies, and claims it has (after giving effect hereto) arising from the GDB Agreements and applicable law.

Section 7. Assignments.

(a) For the period commencing as of the date hereof until the earliest to occur of (i) the fifteenth (15th) business day following such date if the Effective Date has not occurred and (ii) termination of this Agreement pursuant to the terms hereof (the “**Assignment Limitation Period**”), GDB shall not

sell, assign, transfer, grant a participation in, or otherwise pledge or dispose of (“*Transfer*”) all or a portion of any of its rights and obligations under the GDB Loan Agreements, except such Transfer may be made (A) if the transferee is a Forbearing Creditor or Other Bank Lender at the time of the Transfer or (B) if the transferee is not a Forbearing Creditor or Other Bank Lender, such transferee (a “*Qualified Transferee*”) delivers to each of the Forbearing Creditors, the Company and the Other Bank Lenders, at or prior to the time of the Transfer, the joinder attached hereto as Annex B, pursuant to which such transferee shall assume all obligations of GDB as transferor hereunder in respect of the rights and obligations transferred under the GDB Loan Agreement (such transferee, if any, shall also be a “Forbearing Creditor” hereunder). To the extent that a Transfer violates the provisions of this section, the Transfer shall be void ab initio and the applicable rights and obligations under the GDB Loan Agreement and GDB shall continue to remain subject to the terms of this Agreement.

- (b) Notwithstanding anything contained in this Agreement to the contrary, GDB may transfer (by purchase, sale, assignment, participation or otherwise) any right, title or interest in the GDB Loan Agreement to a Qualified Marketmaker, acting in its capacity as a Qualified Marketmaker, without the requirement that such Qualified Marketmaker be or become a Forbearing Creditor, provided that such Qualified Marketmaker transfers (by purchase, sale, assignment, participation or otherwise) such right, title and or interest within ten (10) business days after receipt thereof to a Forbearing Creditor or a Qualified Transferee; provided further that GDB shall notify such Qualified Marketmaker that it is a party to this Agreement prior to transferring any right, title or interest in the GDB Loan Agreement to such Qualified Marketmaker and such Qualified Marketmaker shall have no duty to make any investigation or inquiry as to whether any transferred right, title or interest in the GDB Loan Agreement is subject to this Agreement.

“*Qualified Marketmaker*” means an entity that (i) holds itself out to the market as standing ready in the ordinary course of its business to purchase from customers and sell to customers debt securities such as the rights and obligations under the GDB Loan Agreements or enter with customers into long and short positions in debt securities such as the rights and obligations under the GDB Loan Agreements, in its capacity as a dealer or market maker in such rights and obligations under the GDB Loan Agreements; (ii) is in fact regularly in the business of making a market in debt securities; and (iii) is registered with the Securities and Exchange Commission and Financial Institutions Regulatory Authority.

Section 8. Amendment.

Except as expressly provided herein, once effective, this Agreement may not be modified, amended, supplemented or otherwise altered, and no term or condition may be waived, except in a writing signed by the Company and GDB. In addition, absent the consent of

Citibank, Scotiabank, acting as agent on behalf of the Scotiabank Lenders, and 85% of the Forbearing Creditors, this Agreement shall not be amended, modified or supplemented in any way that would (i) prejudice or impair Citibank's, the Scotiabank Lenders's, or the Forbearing Creditors' rights under the Bank Forbearances or the Trust Agreement Forbearance, (ii) enhance the existing rights of GDB, or (iii) without limiting the preceding clauses (i) or (ii), modify the provisions of this Agreement in any way that is adverse to Citibank, the Scotiabank Lenders, or the Bonds. Prior to entering into any amendment, modification or supplement this Agreement, the Company shall provide written notice of any such proposed amendment (each, a "***Proposed Forbearance Amendment***") to the Forbearing Creditors, Citibank and Scotiabank, acting as agent on behalf of the Scotiabank Lenders. If the Company does not receive any written objection to a Proposed Forbearance Amendment from the Forbearing Creditors, Citibank or Scotiabank, acting as agent on behalf of the Scotiabank Lenders, within five (5) business days of providing such notice, no consent of the Forbearing Creditors, Citibank or Scotiabank, acting as agent on behalf of the Scotiabank Lenders, shall be required pursuant to this paragraph prior to the Company's entry into the applicable Proposed Forbearance Amendment.

Section 9. Successors and Assigns; Third-Party Beneficiaries.

This Agreement shall be binding upon and inure to the benefit of each Party hereto and their respective successors and assigns. No rights or obligations of any Party under this Agreement may be assigned or transferred to any other person without the express written consent of the other Party. Other than the Forbearing Creditors and the Other Bank Lenders, which shall be third-party beneficiaries of the GDB's agreement to enforce Section 2 and 8 hereof, no person other than the Parties hereto, and their respective successors and assigns, shall have rights hereunder or be entitled to rely on this Agreement, and all other third-party beneficiary rights are hereby expressly disclaimed.

Section 10. Severability.

The invalidity, illegality or unenforceability of any provision in or obligation under this Agreement in any jurisdiction shall not affect or impair the validity, legality or enforceability of the remaining provisions or obligations under this Agreement or of such provision or obligation in any other jurisdiction.

Section 11. Governing Law; Jurisdiction.

This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Puerto Rico. Each of the Parties hereby irrevocably and unconditionally agrees that any dispute arising under or in connection with this Agreement shall be brought in the exclusive jurisdiction and venue of the courts of the Commonwealth of Puerto Rico.

Section 12. Good Faith Cooperation; Further Assurances.

The Parties agree to execute and deliver from time to time such other documents and take such other actions as may be reasonably necessary, without payment of further consideration, in order to effectuate the Forbearance. The Parties shall cooperate with each other in good faith in connection with any steps required to be taken as part of their respective obligations under this Agreement.

Section 13. Prior Negotiations; Entire Agreement.

This Agreement constitutes the entire agreement of the Parties, and supersedes all other prior negotiations, with respect to the subject matter hereof, and no Party shall be liable or bound to any other Party in any manner by any representations, warranties and agreements except as specifically set forth herein.

Section 14. Survival.

The respective agreements of the Parties set forth in this Agreement shall be considered to have been relied upon by the GDB and the Company, as applicable, and each Party shall remain liable for any breach thereof notwithstanding the prior termination of this Agreement.

Section 15. Counterparts.

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile transmission or by electronic mail in portable document format (.pdf) shall be effective as delivery of an original executed counterpart of this Agreement.

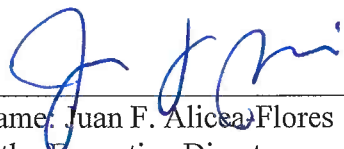
Section 16. Section Titles.

The section and subsection titles contained in this Agreement are included for convenience only, shall be without substantive meaning or content of any kind whatsoever, and are not a part of this Agreement. Any reference in this Agreement to any "Section" refers, unless the context otherwise indicates, to a section of this Agreement.

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the day and year first above written.

PUERTO RICO ELECTRIC POWER AUTHORITY

By: 
Name: Juan F. Alicea Flores
Title: Executive Director

**GOVERNMENT DEVELOPMENT BANK FOR
PUERTO RICO**


By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the day and year first above written.

PUERTO RICO ELECTRIC POWER AUTHORITY

By: _____
Name: Juan F. Alicea-Flores
Title: Executive Director

**GOVERNMENT DEVELOPMENT BANK FOR
PUERTO RICO**

By:  _____
Name: *Jorge A. Chiville's*
Title: *EVP + Fiscal Agent*

Annex A – Trust Agreement Forbearance

[Copy of Bond Forbearance Agreement]

Annex B – Forbearing Creditor Joinder

FORM OF JOINDER

This Joinder to the Forbearance Agreement (as amended, supplemented or otherwise modified from time to time, the “Forbearance Agreement”), dated as of August [●], 2014 by and among: [INITIAL PARTIES] and the Forbearing Creditors from time to time party thereto, is executed and delivered by [_____] (the “Joining Forbearing Creditor”). Each capitalized term used herein but not defined herein shall have the meaning set forth in the Forbearance Agreement.

1. Agreement to be Bound. The Joining Forbearing Creditor hereby agrees to be bound by all of the terms of the Forbearance Agreement. The Joining Forbearing Creditor shall hereafter be deemed to have the rights and obligations of “GDB” and shall be a Party for all purposes under the Forbearance Agreement.

2. Representations and Warranties. With respect to the Loans held by the Joining Forbearing Creditor upon consummation of the Transfer to the Joining Forbearing Creditor, the Joining Creditor Party hereby makes, as of the date hereof, the representations and warranties of the Forbearing Creditor[s] set forth in Sections [3(a) and 3(d)] of the Forbearance Agreement to each of the other Parties to the Forbearance Agreement.

3. Governing Law. Section 15 of the Forbearance Agreement is incorporated by reference as if set forth fully herein, except that any references to “Agreement” shall be replaced with references to “Joinder”.

* * * *

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IN WITNESS WHEREOF, the Joining Forbearing Creditor has caused this Joinder to be executed as of the date first written above.

Entity Name of Joining Forbearing Creditor

Authorized Signatory:

By: _____

Name:

Title:

Address: