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Puerto Rico Power Utility Seeks to Extend Debt-Cutting Deal.

- Bond-purchase agreement with creditors expires on Dec. 15
- Company was sued for breaching federal racketeering laws

Puerto Rico's main electricity provider won't meet its deadline to issue the new securities needed to restructure its \$9 billion of debt. Instead it is seeking to extend a long-sought resolution with creditors that is viewed as a potential guide for how other Puerto Rico agencies could cut their debt as the government runs out of cash.

Under the agreement struck a year ago, the Puerto Rico Electric Power Authority, the largest U.S. public-power provider, has to issue the new debt by mid-December as part of its bond-purchase agreement with creditors, who agreed to take a 15 percent loss by exchanging their bonds for the new securities. The utility, also known as Prepa, would use a 3.10-cent-per-kilowatt-hour surcharge to back new debt issued as a result of the deal.

The \$7 to \$8 billion transaction now requires approval from the federal oversight board, appointed under a U.S. rescue law known as Promesa. Javier Quintana Mendez, the utility's executive director, said to a local newspaper El Nuevo Dia that the new issuance will not proceed this year.

"Several of the RSA milestones will not likely be met by December 15," Quintana Mendez said in an e-mailed statement to Bloomberg News, using an acronym for Restructuring Support Agreement, which expires in about two weeks. "As a result, we do not anticipate that Prepa's legacy bonds will be exchanged into new securitization bonds by such date and we are beginning the process of negotiating RSA extensions with Prepa's creditors."

Jose Luis Cedenio, a spokesman for the control board, said members were not immediately available for comment.

Richard Donner, Moody's Investors Service lead analyst for Prepa, said he expects the oversight board to approve the agreement, without amendments.

"We expected it to be moved into next year because this is a very complicated restructuring," Donner said. "The deadline for the end of this year will very likely be extended as all deadlines have been."

Bond insurance companies like MBIA Inc. and Assured Guaranty Ltd. would provide the surety policies that will guarantee repayment in the event of a default. MBIA said the delay doesn't change its views on the agreement. On a Nov. 9 conference call, Chief Operating Officer William Fallon said the restructuring will likely move forward in the first half of 2017.

Robert Tucker, a spokesman for Assured Guaranty Ltd. couldn't immediately be reached for comment. Chief Executive Officer Dominic Frederico said that he expects the board to support the agreement "as currently constituted," according to a Nov. 4 conference call transcript.

The accord is the largest-ever restructuring in the \$3.8 trillion municipal-bond market. Puerto Rico has been defaulting on a growing share of its \$70 billion debt. Prepa's obligations would be cut by more than \$600 million if the bond sale goes through. The utility's next major payment is Jan. 1, when \$200 million is due, according to Mendez.

Prepa bonds maturing in 2026 traded Monday at an average price of about 64.75 cents on the dollar for a yield to worst of 10.95 percent, data compiled by Bloomberg show. That price is below the 85-cent recovery rate that investors would receive when they exchange their bonds for the new securities.

Adding to its woes, the electric utility has been sued for violating federal racketeering laws by allegedly accepting fuel oil that didn't comply with U.S. environmental regulations and selling it at a pricier, compliant fuel rate, resulting in \$1 billion in overcharges.

The suit concerns suppliers such as Petrobras America, a subsidiary of Brazil's state oil company embroiled in a massive corruption scandal, that allegedly paid kickbacks to Prepa executives. Other defendants such as Shell Trading is appealing a court's decision to reject a motion to dismiss the lawsuit.

Prepa is unlikely to settle the claims in the near term, Brandon Barnes, senior litigation analyst for Bloomberg Intelligence, wrote in a note. "The defendants will likely wait on the outcome of Shell Trading's efforts to secure early dismissal of the entire lawsuit at an appeals court, as well as the next round of motions, before turning to talks."

Brunilda Torres Torres, a spokesperson for Prepa, declined to comment on the lawsuit.

Bloomberg

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November 28, 2016 — 2:30 PM EST November 28, 2016 — 4:55 PM EST