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For Sale: One Bankrupt, Hated, Hurricane-Ravaged Power Utility.

- **Puerto Rico governor's plan to sell Prepa faces many hurdles**
- **'We just have no idea what kind of price we're talking about'**

Bondholders are wondering what their payouts would be. Residents are wondering when the lights will come on.

And Puerto Rico Governor Ricardo Rossello is wondering whether his plan to privatize the U.S. territory's bankrupt and storm-ravaged Electric Power Authority can navigate the legislature, the courts and a federal control board.

Prepa, as the utility is known, is so short of cash it shut down production Tuesday because it couldn't afford fuel, and more than four months after Hurricane Maria it's still trying to repair the damage. Reviving the moribund agency is key to rejuvenating bankrupt Puerto Rico, which has lost tens of thousands of residents since the storm.

On the one hand the governor's push to privatize the utility, which has more customers than any other U.S. public power utility, could attract buyers looking to profit by serving a massive customer base with little competition. But its ancient generation plants are falling apart, the storm destroyed the electrical grid and it owes \$9 billion to creditors who are already facing off in court over who has rightful claim to the utility's cash.

"Prepa needs to make an enormous amount of capital investments and Prepa doesn't have the money for it," said Sergio Marxuach, policy director at the Center for a New Economy, which researches the island's finances. "And the government of Puerto Rico doesn't have it, so it has to come from the private sector."

Bond Optimism

Prices on most Puerto Rico bonds increased Tuesday after Rossello announced the plan late the previous day, with some trading at the highest price in more than two months. Still, the optimism was tempered by concerns that even the cash from a sale wouldn't provide a significant recovery on securities now trading at about a third of face value, even if Rossello successfully runs the legal gantlet needed to complete it.

"It would be good to get a capital infusion, but we just have no idea what kind of price we're talking about for bondholders, and what the courts will say about this and what the board will say," said Daniel Solender, head of municipals at Lord Abbett & Co., which manages \$20 billion of state and local government securities, including commonwealth bonds.

Last Ditch

Prepa will run out of cash at the beginning of February without loans, Rossello said in a Tuesday

evening statement announcing it would mothball two units. He said lawmakers and the oversight board have committed to prevent “operational collapse.”

In the long term, residents would be better served by a privately run utility with a proven record, an investor group holding Prepa debt said. The bondholder group warned that any plan must acknowledge creditors who have a lien on Prepa’s revenue.

“The only path for any proposal to deliver low cost and reliable power will be if it respects property rights, since failure to do so will result in years of litigation,” the group said in a statement.

Essential Need

Angel Figueroa, a Prepa union leader, spoke out Tuesday against privatizing the utility, saying it would increase rates for impoverished residents. Senate President Thomas Rivera Schatz, who is from Rossello’s New Progressive Party, said he would try to protect the jobs of employees, presumably obligating bidders to make a commitment to them.

Repairing Puerto Rico’s grid — and providing jobs for residents — are vital to restoring its economy, which has been in decline for more than a decade. The commonwealth is negotiating a bankruptcy process to reduce \$74 billion of debt and a pension liability of almost \$50 billion. The population drain means fewer people are left to repay the island’s obligations.

Prepa on Wednesday announced it had restored power to more than 1 million customers, or two-thirds of its clients. The system was generating about 83 percent of its capacity. Years of mismanagement, lack of infrastructure investment, theft and a high dependence on fuel to generate electricity pushed Prepa into insolvency.

Eileen Cruz, a retired teacher, has been without power in her home in Palmas Altas for four months and three days. Though she has a generator, she turns it on only a few hours at night for sake of her mother, 87, and father, 93.

“I have already gone through the period of being depressed and having courage. I am resigned to having to live in darkness, and that the lack of energy dictates the routine of all my days,” Cruz said.

Prepa’s privatization would end “a monopoly of incompetence,” she said.

‘Continual Bleed’

A buyer would need to weigh Prepa’s obligations against its size and role as a essential-service provider. It has more than \$10 billion in liabilities that it must restructure “to operate as a viable business entity,” according to its bankruptcy petition. Along with its bonded debt, Prepa has an unfunded pension liability of as much as \$2.2 billion, \$384 million in retirement health-care costs and another \$465 million in unpaid bills to vendors and suppliers.

Reworking those obligations would be a central part of discussions between Puerto Rico and prospective buyers, said John Donahue, a privatization expert at the Harvard Kennedy School.

“I would be very surprised if you’d find a private company that’s willing to take on all the burdens of the existing public utility,” Donahue said.

Most Puerto Rico bonds traded up following Rossello’s announcement. Prepa bonds maturing in 2042 changed hands Tuesday at an average 33.3 cents on the dollar, the highest since Nov. 10, according to data compiled by Bloomberg. General obligations with an 8 percent coupon and

maturing in 2035 traded at an average of 26.2 cents on the dollar, the highest since Nov. 14, Bloomberg data show.

While it's unclear how a privatization would affect bondholder recoveries, the better Prepa's financial health, the better suited it is to repay what it owes, said Rick Donner, an analyst at Moody's Investors Service.

"If Prepa's able to survive and stabilize its financial situation with a buyer coming in, that's got to be better for bondholders than the current situation, which is a continual bleed," Donner said.

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By Michelle Kaske

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— *With assistance by Yalixa Rivera*

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