Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico Utility Directors Resign, Alleging Political Interference.

Most of the Puerto Rican power monopoly's board resigns after the governor demands a CEO salary cut

The independent directors of Puerto Rico's bankrupt public power monopoly resigned Thursday, alleging political interference after top lawmakers and the U.S. territory's governor demanded cuts to a chief executive compensation package.

Five board members at the public power monopoly known as Prepa said in a resignation letter that "political forces in Puerto Rico" had been meddling in their decisions and "want to continue to control Prepa." The incoming CEO was among the board resignations, leaving Prepa leaderless a day after the current CEO, Walter Higgins, said he was departing.

The seven-member board came under fire after offering Mr. Higgins's successor a $750,000 salary, which top Puerto Rican politicians criticized as excessive for a bankrupt utility. Gov. Ricardo Rosselló said the compensation was "not proportional" to Prepa's financial condition and called on the utility's board members to cut the CEO salary or resign.

"When the petty political interests of politicians are put ahead of the needs of the people, the process of transforming the Puerto Rican electricity sector is put at risk," the resignation letter said.

The departures threw Prepa's leadership into disarray as the utility vies with bondholders in court to drive down a $9 billion debt load and solicits new investments for a dilapidated power system.

The resignations also marked an unusual rebuke to political meddling for a public authority often accused of being politicized. Prepa has long been plagued by frequent turnover at the top, with politically connected officials cycling in and out depending on the party in power. Board Chairman Ernesto Sgroi, one of the directors who resigned Thursday, was Mr. Rosselló's 2016 campaign treasurer.

"I strongly reject the allegations of political interference by outgoing members of the governing board," the governor said in a statement.

Wall Street creditors supported the installation of independent board members under a 2016 governance overhaul. The turmoil in Prepa's leadership further clouds the strategy for repairing the damage from last year's hurricane season and improving service for consumers.

"There is a total meltdown of the Puerto Rico Electric Power Authority right now," said Puerto Rico Senate Minority Leader Eduardo Bhatia. He said the resignations could prompt a takeover by the U.S. territory's federal financial supervisors or by Congress.

A spokesman for the House Natural Resources Committee, which has jurisdiction over U.S. territories, said the political influence on Prepa proved it wasn't truly independent.

Since last year's devastating hurricane season, U.S. lawmakers and the Energy Department have discussed a temporary federal takeover of Prepa, but the idea didn't gain broad traction, according to people familiar with the matter. Puerto Rico's federal oversight board tried to take over Prepa last year but was blocked in the courts.

Prepa tapped board member Rafael Díaz-Granados as its new CEO on Wednesday after Mr. Higgins abruptly resigned from the position, saying he believed he wouldn't be paid what he was owed by Prepa. Mr. Higgins, a high-profile hire with decades of industry experience, was on the job less than four months.

Lawmakers maneuvered in recent weeks to cut nearly half a million dollars in bonuses from his compensation and likewise criticized the pay package offered to Mr. Díaz-Granados, a former General Electric Co. executive who led that company's operations in Spain, Portugal and Mexico. Prepa said the compensation was comparable to CEO pay at other utilities of Prepa's size and complexity.

Prepa, one of the largest U.S. utilities, entered a court-supervised bankruptcy last year after a long financial decline. Mr. Rosselló and the oversight board want an end to the utility's monopoly structure with its various assets privatized.

Union employees worry the strategy will cost them their jobs, while bondholders argue they must be compensated as assets are spun off. The oversight board wants electrical rates slashed to effectively boost family incomes and spur economic growth.

The power grid was destroyed when Hurricane Irma and Hurricane Maria hit Puerto Rico back-t--back last September, and hundreds of customers in central mountainous regions still haven't had service restored with another hurricane season under way. With Prepa's system severely damaged, bonds backed by electricity revenue have tumbled in value. A frequently traded bond due in 2040 sold for less than 45 cents on the dollar Thursday, according to Electronic Municipal Market Access.

Prepa has spent hundreds of millions of dollars repairing transmission and distribution lines, unnerving creditors who worried the money wasn't being well spent. Prepa also has been dogged by allegations of corruption and mismanagement that remain under investigation in Congress.

Costly and unreliable power service is a drain on family incomes and the quality of life in Puerto Rico, which owes roughly $70 billion in debt and another $50 billion in unfunded pension liabilities.

Prepa's problems have been decades in the making. It earned praise for powering Puerto Rico's industrialization efforts in the 1940s and 1950s but became more inefficient over time as generating plants, which largely rely on fossil fuels, required major upgrades that were never made or left uncompleted.

When the island sank into recession, Prepa's finances worsened as business and residential demand for power declined. The exodus of Puerto Ricans to the continental U.S. in the wake of Hurricane Maria is shrinking the island's population, depleting Prepa's customer base and leaving creditors fewer avenues to get repaid.

The Wall Street Journal

By Andrew Scurria

July 12, 2018

Write to Andrew Scurria at Andrew.Scurria@wsj.com

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com