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Puerto Rico Power Utility Reaches Deal With Bondholders.

BlueMountain Capital, Franklin Advisers and other bondholders agree to restructuring part of utility's $9 billion debt

Investors in Puerto Rico's bankrupt electricity monopoly have struck a debt-restructuring deal, inching the largest public U.S. power utility closer to privatization.

The bondholder settlement announced on Monday would pare down the $9 billion debt owed by the public power utility known as Prepa and mark the most significant restructuring deal negotiated under Puerto Rico Gov. Ricardo Rosselló.

The federal board overseeing Puerto Rico's finances also supports the agreement, which requires court approval to become effective. The deal gives a bondholder group including Franklin Advisers Inc., BlueMountain Capital Management LLC and Knighthead Capital Management LLC a chance to exit from a roughly $3 billion combined investment that has tumbled in value since the oversight board's 2016 arrival. A frequently traded Prepa bond maturing in 2040 was trading at 44.25 cents on the dollar on Monday, according to Electronic Municipal Market Access.

Bond insurers and top-ranking lenders owed billions of dollars more by Prepa aren't on board with the proposed terms, a person familiar with the matter said. Discussions are expected to continue on the rest of the utility's debt. The partial settlement is a step toward the oversight board's goal of breaking up Prepa's monopoly structure and coaxing new investors to take over its power generation and distribution businesses.

Bondholders would surrender their claims at a discount under the deal and receive two classes of new long-dated bonds in exchange, representing 67.5 cents on the dollar and 10 cents on the dollar. Cutting legacy debt obligations helps Mr. Rosselló ameliorate politically unpopular rate hikes without further imperiling Prepa's finances.

"The restructuring of Prepa's debt and obligations is critical to completing our vision for a consumer-centric energy sector with financially viable rates that promote economic development," the governor said in a statement.

Prepa's financial problems, decades in the making, are at the center of the U.S. territory's financial crisis. High electricity bills, driven by Prepa's legacy obligations and inefficient power plants, have depressed family incomes and economic growth.

Blackouts were frequent while residents went to extreme lengths to curtail their power use. Puerto Rico's decadelong recession worsened the utility's finances as business and residential power demand declined.

The oversight board placed Puerto Rico's central government into bankruptcy last year and later voted to move Prepa under court protection as well. Ending its monopoly structure is a priority for many Republicans in Congress who have urged the oversight board and the governor to negotiate with bondholders to avoid lengthy lawsuits over debt repayment.

But creditors had struggled to come up with acceptable terms to tame Prepa's $9 billion debt load as Gov. Rosselló adopted an increasingly populist tone since taking office. The oversight board vetoed a restructuring settlement last year that would have cut bond obligations by 15%, opting instead for a bankruptcy process aimed at wringing more concessions from creditors.

The exodus of Puerto Ricans in the wake of last year's devastating hurricane season further depleted Prepa's customer base while the power grid is being repaired.

The revised agreement saves Prepa 30% more in debt payments compared with the previous version while tying bondholder payments to electricity demand, heightening creditor recoveries if Puerto Rico residents stay on the grid rather than migrate to the mainland U.S.

The deal comes weeks after a purge of Prepa's independent directors and incoming chief executive that left it leaderless at a critical moment. A majority of Prepa's board of directors resigned en masse after Gov. Rosselló demanded they scale back a $750,000 CEO compensation package.

The outgoing directors accused the governor of interfering in their decisions, fanning longstanding concerns in Congress about political meddling in Prepa. An Energy Department official last week urged Congress to depoliticize Prepa by taking board appointments out of the governor's hands.

House Republicans have discussed potential legislation installing federal oversight at Prepa, according to people familiar with the matter, though no such bill has been filed.

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By Andrew Scurria

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