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Puerto Rico Power Bonds Rally as Creditors Seek to Repair System.

Bonds of Puerto Rico's struggling power utility rallied to the highest in more than year as the agency and its creditors hammer out proposals to repair its finances.

Some debt of the junk-rated authority, called Prepa, gained after creditors last week submitted a \$2 billion plan that would help diversify fuel sources to stabilize energy costs. Prepa expects to release its own proposal in the next two months, Lisa Donahue, the agency's chief restructuring officer, told Reorg Research in an April 8 article.

Prepa bonds maturing in July 2040 traded Friday at an average price of 66.19 cents on the dollar, the highest since March 2014, data compiled by Bloomberg show.

"It's a good sign that bondholders are giving legitimate proposals that, at the surface, look reasonable," said Dan Toboja, senior vice president of municipal-bond trading in Chicago at Ziegler, a broker-dealer. "That starts to look better for the underlying value of the bonds."

Prepa, banks, investors and insurance companies are negotiating contracts to extend loans and give the agency time to create a turnaround plan. Those agreements end April 15.

The utility faces a \$415.6 million principal and interest payment to bondholders July 1, according to New York-based NewOak Capital LLC. Prepa has \$236.4 million in reserve, according to a filing by its bond trustee on the Electronic Municipal Market Access website.

Environmental Hiccup

Donahue expects the utility and creditors will agree to a plan enabling the agency to repay its obligations. She has said the fuel diversification offer wouldn't meet environmental standards.

"I am optimistic that Prepa and the forbearing creditors will ultimately reach an agreement," she said via e-mail Friday. "Any such plan will need to provide for a capital structure that allows Prepa to pay all such debts and honor other obligations as they come due in accordance with the plan."

Investors are committed to providing capital to upgrade Prepa, Stephen Spencer, a managing director at Los Angeles-based Houlihan Lokey, adviser to bondholders, said in an e-mail Friday.

"We continue to believe the situation can be resolved consensually and productively with continued payment of Prepa's debt and interest obligations as they come due and will do everything in our power to reach that outcome — for the benefit of Prepa, its many stakeholders and the island," he said.

Bloomberg

by Michelle Kaske

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