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Puerto Rico's Power Utility, Creditors in Testy Public Battle.

(Reuters) – Negotiations between Puerto Rico's troubled electric power authority and a group of its creditors turned into a testy public exchange on Tuesday as an agreement to prevent a possible messy default by Wednesday's deadline proved illusive.

The public dispute, highly unusual in restructuring negotiations that are normally conducted behind closed doors, shows how difficult talks have become as the sides attempt to resolve the fate of over $9 billion in debt.

Lisa Donahue, the utility's chief restructuring officer, told a Puerto Rico Senate hearing on Tuesday that a $2 billion bondholder plan to restructure the utility, PREPA, contained overly "aggressive" elements that are unlikely to work.

Donahue's testimony came shortly after PREPA's forbearing bondholders, a group led by Franklin Advisers and OppenheimerFunds, offered to extend a forbearance agreement for another 30 days after a previous 15-day extension was reached on March 31.

The forbearance agreement, which stops creditors from calling defaults during restructuring talks, expires on Wednesday.

PREPA's board said late on Tuesday it had still not agreed to the extension and that creditors had sent the extension proposal at 10 p.m. on Monday and released it publicly on Tuesday morning without notice.

"The bondholders' public description of the proposal is incomplete, leaving out material details," the president of PREPA's board, Harry Rodriguez, said in a statement. "No agreement has been reached, and it is unclear whether the proposal has the support of all of the forbearing creditors."

Donahue said demands that creditors be paid in full and on time were unlikely to work as a starting point for negotiations, although that may be a possible outcome. She also said certain cost estimates were too low and that the plan forecasts an unlikely increase in demand.

"There are elements of the plan that can't work," Donahue told the Senate hearing. "I am disappointed the plan was made public before we had a chance to vet it."

Negotiations became public after creditors released their restructuring plan earlier this month in a step that appeared to be aimed and putting pressure on PREPA to reach an agreement.

Donahue's position is becoming increasingly difficult. In addition to having to contend with rebellious bondholders, she faced criticism during her Senate hearing from politicians who questioned the cost of restructuring, a lack of disclosure, and her experience of restructuring public utilities.

Creditors said their offer to extend the agreement included a commitment to continue working on a capital investment and rate plan, a timeline for further action, and third party review with an opportunity for public review.

A source close to the forbearing creditors acknowledged relations with PREPA are frosty but said extending the agreement was the best option. The person said Donahue's apparent rejection of the notion that bondholders be paid in full and on time as a starting point for any plan had come as a surprise given her previous statements.

Failing an extension, bondholders could seek remedies, including eventually seeking a court-appointed receiver. While most bondholders might not find that option appealing given the destabilizing effect it could have on municipal bond markets, the chances of a "renegade" group of bondholders doing that would increase, the person said.

Still, Donahue said she is "optimistic" an agreement can be reached with the creditors. She said that PREPA has committed to responding formally to the restructuring plan by April 24 and would deliver a more comprehensive plan by June 1.

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Tue Apr 14, 2015 6:24pm EDT