

# **Bond Case Briefs**

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## **PREPA Calls Bondholders' Plan Overly Optimistic.**

The Puerto Rico Electric Power Authority said that the forbearing bondholders' plan to revamp its business and avoid default on more than \$8 billion of debt was overly optimistic on costs.

Over the course of nine years the forbearing bondholder plan is at least \$3.1 billion or 7.75% overly optimistic on costs, PREPA said in a public statement late Thursday.

"PREPA continues to work on a business plan that will provide a roadmap for a complete operational and financial transformation over the next several years," chief restructuring officer Lisa Donahue said in the written statement. "We will continue to work with [the forbearing bondholders] and all of PREPA's stakeholders to create a consensual plan that provides the best outcome."

PREPA has openly been in financial distress since the summer of 2014, when a group of bondholders agreed to forbear as the authority worked to transform itself. PREPA has about \$8.3 billion in bond debt outstanding.

On Thursday PREPA responded to a plan presented at the end of March by the Ad Hoc Group of PREPA Bondholders (the forbearing bondholders). The plan included \$2 billion in capital investments to modernize PREPA's plants, comply with environmental regulations and help the authority to meet debt obligations.

Donahue had expressed doubts about some of the plan's assumptions on April 1. The authority's formal response came Thursday.

PREPA's said the Ad Hoc Group's assumptions were incorrect or unrealistic in the following ways:

- Accounts payable terms. The proposal assumes unrealistic credit terms that artificially increase the authority's cash flow;
- Aguirre Offshore Gasport Project. The plan's assumptions for this capital project are not possible under existing permits. Its assumptions about timing of completion and flexibility of permits are not achievable and thus allow the bondholders' plan to produce higher and more immediate savings than possible;
- Environmental compliance. The plan relies on fuel blending, which will not work in the authority's plants, to achieve this compliance. This leads to artificially lower authority costs;
- Securitization financing. The proposal has financing assumptions that do not reflect what should be expected and artificially decreases PREPA's costs;
- Renewables. The plan relies on a rapid increase in the use of renewable energy sources that is neither technically nor commercially realistic;
- Fuel costs. The plan assumes that future fuel prices will be lower than leading forecasts, thereby lowering the authority's projected costs;
- Electrical use forecast. The plan predicts higher use, which is inconsistent with recent trends. This assumption allows the plan to include higher than realistic revenue levels.

PREPA said it doesn't yet have exact projections of fuel costs or electrical use but is sure that if

these were also factored in, the actual costs will add to the \$3.1 billion extra that will need to be covered.

“We appreciate PREPA and its advisors providing detailed feedback in response to the Ad Hoc Group’s revitalization plan,” said Stephen Spencer of Houlihan Lokey, the Ad Hoc Group’s financial advisor. “The Ad Hoc Group looks forward to working with PREPA and its professionals to refine a long-term plan for PREPA that is in the best interest of all stakeholders. However, while we have had limited time to review PREPA’s critiques, we believe that a number of the criticisms are based on fundamentally flawed analysis or a misunderstanding of our proposal.”

PREPA said in its presentation to the bondholders that it did not expect the Aguirre Offshore Gas Port to start operating until July 1, 2017. In December 2013 PREPA chief executive officer Juan Alicea Flores told The Bond Buyer he expected this port to be operating in the summer of 2015.

The forbearing bondholders as well as other forbearing creditors have agreed to continue their forbearance until at least the end of April 30. Donahue has said she hopes this forbearance agreement will be extended into the summer.

THE BOND BUYER

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