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## **Puerto Rico Appeals for Options to Restructure \$9 Billion in Muni Debt.**

Puerto Rico's troubled electric utility on Wednesday asked a U.S. appeals court for an alternative to restructure some \$9 billion in debt, saying it would otherwise be at the mercy of U.S. bond funds.

The Puerto Rico Electric Power Authority (PREPA) is seeking to reverse a federal judge's decision in February that blocked the utility's bid to restructure its debt under court supervision, much like in a bankruptcy case. The legal battle moved on Wednesday to Boston where lawyers for both sides argued for more than an hour before the U.S. Court of Appeals for the First Circuit.

The Puerto Rico Public Corporation Debt Enforcement and Recovery Act, passed last year, was supposed to give PREPA some breathing room as it slipped into financial crisis. But OppenheimerFunds, a unit of insurer MassMutual Financial Group and Franklin Templeton, immediately sued the utility and argued that the recovery act violates the U.S. Constitution.

The value of PREPA's long-dated bonds dropped about 15 percent as investors feared the Recovery Act would prevent them from getting full payment of principal and interest. Municipal bond funds run by OppenheimerFunds and Franklin Templeton were hit particularly hard, as they were among the largest investors in the PREPA debt.

But as PREPA lawyer Lewis Liman, of Cleary Gottlieb Steen & Hamilton LLP in New York, put it to the appeals court, the absence of restructuring alternatives is "a euphemism for a stick up, a euphemism for pay me or else."

PREPA is largely the only source of electricity for Puerto Rico, which is battling a dwindling population and the exodus of its businesses. PREPA's electric rates, meanwhile, are about two times higher than what mainland U.S. utilities charge, leaving PREPA no room to boost revenue.

"There's just not a pot of money there to raise rates," Liman said.

Lawyers representing the interests of the U.S. funds and the insurance companies that back municipal bonds argued that Puerto Rico's recovery act would undercut the rights of bondholders. Matthew McGill, a lawyer for BlueMountain Capital Management, said Congress passed Section 903(1) of the Bankruptcy Code to prevent states and territories such as Puerto Rico from passing their own bankruptcy laws.

"Congress' intention was not to give them carte blanche," McGill told the court. Uniformity, lawyers for investors argue, is essential for the smooth operation of the \$3.7 trillion municipal bond market.

Martin Bienenstock, a lawyer for the Government Development Bank for Puerto Rico, said that Congress has affirmed Puerto Rico's constitution, which allows it to use police powers in a time of crisis.

Bienenstock said those police powers can be used to deal with an economic crisis, too.

The appeals court did not make a ruling in the case, giving no indication of when a decision might be made.

“It’s a very important case and we will work very hard on it,” Chief Judge Sandra Lynch said.

The First Circuit includes the Districts of Maine, Massachusetts, New Hampshire, Puerto Rico and Rhode Island

BOSTON | BY TIM MCLAUGHLIN

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