
[In Puerto Rico Debt Talks, Things Are Heating Up.](#)

It is shaping up as a hectic summer for investors in Puerto Rico's more than $70 billion in outstanding debt.

On Monday, the U.S. commonwealth's publicly owned electric monopoly presented creditors with a restructuring plan, a month before a roughly $400 million payment comes due that analysts say the utility doesn't have.

The plan includes efforts to modernize the authority and increase efficiencies, with a goal of stabilizing power rates, according to Chief Restructuring Officer Lisa Donahue, who declined to talk about a possible debt restructuring, citing continuing confidential talks with creditors.

The power authority, known as Prepa, is negotiating with creditors ahead of a June 4 deadline to extend talks or face a possible default. Prepa has been drawing on reserves to make debt payments and doesn't have enough in those accounts to make the July payment, its trustee said in an April bond disclosure.

The episode highlights the volatility of Puerto Rico's fiscal situation as the commonwealth and its indebted public agencies face a series of deadlines in coming weeks, each of which has the potential to change investor attitudes toward the island's debt.

The average price of Puerto Rico bonds sold last year rose above 84 cents on the dollar last week, their highest level since March, after lawmakers approved a sales-tax increase and moved toward a value-added tax, according to Municipal Market Data. That bolstered confidence that Puerto Rico can balance its budget and borrow enough to avoid running out of cash.

But Guy Davidson, director of municipal investments at AllianceBernstein, which manages about $33 billion in tax-exempt debt, said the island still must deliver spending cuts and a plan for economic growth, which remains elusive amid a decade of stagnation.

"Our view is that all these things they have to do—raise taxes, lower expenses, take on debt—all of these things are short-term solutions," he said. His firm is avoiding Puerto Rico bonds.

Investors are waiting on lawmakers to wrap up a budget by July and sell an additional $3 billion in bonds. The government says it may have to shut down by September if it can't raise fresh funds.

Puerto Rico lobbyists, meanwhile, are fighting on Capitol Hill to clear a potential path to bankruptcy. As a commonwealth, the island is currently excluded from chapter 9 of the U.S. bankruptcy code, the statute that covers municipalities like Detroit. Puerto Rico is working to change that.

Daniel Hanson, an analyst at Washington-based investment researcher Height Securities LLC, prepared a calendar last week packed with more than two dozen important dates and deadlines for Puerto Rico stretching through June 2016.

"They're now up against a real serious material liquidity constraint, and they have yet to deliver on reform, despite two years of grandstanding about it," he said.

Puerto Rico's bonds also have benefited from low interest rates in the $3.7 trillion market for debt sold by U.S. state and local governments, which have left investors pushing into riskier securities in pursuit of higher yields. Hedge funds bought more than half of the debt offered in the island's $3.5 billion bond sale in 2014, and investors including Jeffrey Gundlach's DoubleLine Capital have been purchasing the island's debt.

Ms. Donahue said Prepa's plan calls for about $2.3 billion in capital investment, which will involve a competitive bidding process for third parties to build and operate new generating plants. Creditors, which include funds managed by Franklin Templeton Investments and OppenheimerFunds Inc., have proposed a $2 billion plan to revamp Prepa, saying it would provide the agency with liquidity while replacing its antiquated, oil-burning generators with natural-gas facilities.

A consortium of NRG Energy Inc., ITC Holdings Corp. and York Capital Management also is proposing a $3.5 billion plan to modernize Prepa. That would include building new natural-gas facilities and transmission lines and selling power to Prepa, saving the authority money. The plan doesn't include job cuts at Prepa and doesn't spell out what Prepa would do with money saved, said Jeff Rosenbaum, managing director at York, which oversees about $26 billion.

Stephen Spencer, a managing director at investment bank Houlihan Lokey who is financial adviser to Prepa's bondholders, said that, while some elements of Prepa's proposal will require further negotiation, "Overall, we feel the plan provided a basis for this further collaboration, and we remain committed to finding a fair solution for all parties."

The authority is still talking with creditors about extending the June 4 deadline, Ms. Donahue said.

Whatever the immediate outcome at Prepa, which has extended numerous deadlines with creditors, there is still much work ahead. John Miller, co-head of fixed income at Nuveen Asset Management LLC, which manages about $100 billion in municipal bonds, ticked off a summer to-do list for Puerto Rico that included passing a budget, issuing the new bonds, paying short-term notes and implementing the tax changes.

"I think there's a lot left to be accomplished," he said.

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