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Puerto Rico Utility Gets More Time in Forbearance Debt Talks.

Puerto Rico's junk-rated power authority won a two-week extension to an agreement with creditors that will give it more time to sort out its finances as it teeters under \$9 billion of debt.

The accord will end June 18, the agency said in an e-mailed statement Friday. It allows the Puerto Rico Electric Power Authority, known as Prepa, to negotiate with bondholders, banks and debt insurers outside of court on ways to revamp its operations and finances. Talks have been going on since August.

It's the fourth time creditors have consented to prolong the agreement, which was set to expire Thursday night. Prepa has breached bond contracts by draining its reserves and may default on an interest and principal payment due next month.

"While progress has certainly been made towards a negotiated solution, the timeline is not on the side of a peaceable, agreed-to outcome," Daniel Hanson, an analyst at Height Securities LLC, a Washington-based broker dealer, wrote in a report Friday. "The utility is likely to pursue a plan that impairs bondholders over their objections, which could result in a protracted legal battle."

Without a forbearance agreement, the creditors could sue Prepa. Some bond insurers earlier this week weighed blocking an extension because the restructuring talks were taking too long, according to three people with knowledge of the discussions who requested anonymity because the talks are private.

Insurers' Role

"We continue to work with creditors towards a consensual resolution and the transformation of Prepa for the benefit of all stakeholders," Lisa Donahue, Prepa's chief restructuring officer, said in the statement.

Units of Assured Guaranty Ltd., MBIA Inc. and Syncora Guarantee Inc. insure about \$2.6 billion of Prepa's debt, according to their websites.

Prepa owes investors \$416 million of principal and interest July 1. Most of the bonds maturing that day carry bond insurance, data compiled by Bloomberg show.

It's premature to predict whether Prepa will pay what it owes on time, U.S. Bank National Association, the bond trustee, said in a May 7 filing. Moody's Investors Service warned in March that Prepa may default on next month's bill.

"No decision has been made about the July 1 payment," Donahue said in an e-mail Wednesday. "There can be no assurance that the payment will be made."

A restructuring of Prepa, the main electricity supplier on the island of 3.5 million, would be the largest ever in the municipal-bond market. The utility's securities and other debt from the

commonwealth have traded at distressed levels for almost two years.

Prepa bonds maturing in July 2040 were little changed Friday, trading at an average price of 52.1 cents on the dollar, for a tax-exempt yield of about 10.8 percent, according to data compiled by Bloomberg. The bonds have recovered from as low as about 38 cents in July 2014.

Debt from the island has earned about 0.6 percent this year, while the entire municipal market has lost almost 0.1 percent, S&P Dow Jones Indices show.

Bloomberg

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