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Puerto Rico Utility Averts Default After Deal With Creditors.

Puerto Rico's junk-rated power utility said it made a full \$415 million bond payment due Wednesday and reached an agreement to continue negotiations with creditors to restructure its \$9 billion of debt. Its bonds rallied.

The Puerto Rico Electric Power Authority, called Prepa, made the principal and interest payment by selling \$128 million of short-term debt to the companies that insure its bonds, including Assured Guaranty Ltd. It also tapped reserves and used \$153 million from its general fund, the agency said in a statement.

The utility's ability to avoid a default marks a break in Puerto Rico's escalating fiscal crisis as the commonwealth and its agencies teeter under \$72 billion of debt. The talks with creditors may advance the utility's effort to pare its debt load, which would free up money to modernize a company whose high electricity costs have left it saddled with unpaid bills.

"They seem to be making progress toward a more comprehensive type of agreement," said Joseph Rosenblum, director of municipal credit in New York at AllianceBernstein Holding LP, which manages \$32 billion of municipal bonds. He said the agreement may help resolve Prepa's debt issues and "probably moves them further along" toward overhauling its power plants.

Talks Continue

The utility extended a forbearance pact with creditors until Sept. 15, which will keep discussions out of court. It must negotiate a plan to overhaul its debts by Sept. 1 to keep the deal in place, according to Stephen Spencer, a managing director at Houlihan Lokey Inc., the financial adviser to Prepa bondholders.

The utility's bonds rallied Wednesday. The price of uninsured securities maturing in 2042 jumped to an average of 43 cents on the dollar, up 11 percent from Tuesday, data compiled by Bloomberg show.

The payment also eased the immediate risk to companies that insure Puerto Rico bonds against default, whose shares slid this week after Governor Alejandro Garcia Padilla said the commonwealth can't make good on all its debts.

Assured Guaranty bought \$72.6 million of Prepa's new bonds, reinsuring some against the risk of default, the company said in a statement. MBIA Inc.'s National Public Finance Guarantee Corp. said it bought \$45 million. Together the two companies insure about \$2.4 billion of Prepa debt, according to disclosures on their websites.

Buying Time

Assured Guaranty Chief Executive Officer Dominic Frederico said the arrangement will give "all parties time to negotiate a permanent, consensual restructuring."

Prepa said it will repay the short-term securities in December.

The power company's deal follows Garcia Padilla's announcement this week that his administration will seek to persuade investors to delay payments on some of the commonwealth's \$72 billion of debt. That rattled financial markets by raising the risk of losses on Puerto Rico's direct debt, instead of just securities from agencies such as Prepa.

The island's crisis has resulted from years of borrowing to pay its bills as the economy struggled to grow. Its power company relies mainly on petroleum to produce electricity, instead of lower-cost fuel such as natural gas. That's left many residents unable to pay electricity bills because rates are twice as high as those on the U.S. mainland.

"We are pleased we were able to reach an agreement that allowed us to make the payment to our bondholders today and avoid a default," Lisa Donahue, Prepa's chief restructuring officer, said in a statement. "Today's outcome would not have been possible without the support of the insurers and other creditors."

While investors believe there's opportunity to reach a plan for paring Prepa's debt burden by Sept. 1, the agreement may be scuttled if Puerto Rico treats bondholders "unnecessarily unfairly during this process," Spencer, the adviser to bondholders, said in a statement.

Bloomberg

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