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Puerto Rico Utility Fails to Extend Contract With Insurers.

Puerto Rico's main electricity provider failed to extend a contract with its bond insurers that has given the power company time to negotiate a way to restructure its \$8.3 billion of debt.

The Electric Power Authority's failure to extend the forbearance agreement with the insurers marks a setback for the utility, which earlier this month struck a tentative deal with some of its bondholders to reduce its debt load. Insurers that guarantee \$2.5 billion of the utility's debt balked at extending the talks. The forbearance keeps negotiations outside of court.

The bond insurers "are trying to apply more pressure on Prepa," Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics, said in a telephone interview Saturday. "Now they have the ability to exercise remedies. They could look now to forming a bondholder committee to try and impose a receiver and raise rates."

Bondholders agreed to extend the forbearance contract to Oct. 1, while fuel-line lenders pushed the expiration deadline to Sept. 25. The agreement was set to expire late Friday night. The power provider will continue negotiations with its bond insurers even without a forbearance agreement, Lisa Donahue, Prepa's chief restructuring officer, said in a statement Saturday.

Making Progress

"We are making progress and will continue working towards a consensual resolution that benefits Prepa and all of its stakeholders," Donahue said in the statement.

A Prepa restructuring would be the largest ever in the \$3.5 trillion municipal-bond market, surpassing Detroit's record bankruptcy in July 2013. Puerto Rico and its agencies owe \$72 billion. Commonwealth officials plan to offer investors a debt-restructuring proposal in the next few weeks that's separate from Prepa's negotiations and would reduce the government's obligations and delay payments to bondholders.

The utility, bondholders, banks and insurers have repeatedly extended the forbearance agreement, which was first signed in August 2014.

Assured Guaranty Ltd. and Syncora Guarantee Inc. declined to extend that accord beyond Friday. MBIA Inc. dropped out of the forbearance earlier this month. National Public Finance Guarantee Corp., an MBIA unit that insures Prepa debt, filed a petition Thursday to the island's energy commission, asking it to temporarily add at least 4.2 cents per kilowatt hour to the agency's base electricity rate so Prepa can repay its bonds, according to a copy of the request provided by the commission.

Exercise Authority

"While National is continuing its discussions with Prepa in good faith to accomplish a consensual restructuring of Prepa, National has petitioned the Puerto Rico Energy Commission to exercise its statutory authority to impose a modest and temporary rate increase and to impose deadlines for the

completion of Prepa's rate case," Greg Diamond, a spokesman for MBIA, said in a statement.

The expiration with the insurers may imperil the tentative agreement that Prepa and some of its bondholders reached on Sept. 1 that would require investors to take losses of about 15 percent in a debt exchange.

Ashweeta Durani, a spokeswoman for Assured, and Michael Corbally, a spokesman at Syncora Guarantee Inc., didn't immediately respond to e-mails. Dan Zacchei, a representative in New York at Sloane & Co. for the forbearing bondholders, declined to comment.

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by Michelle Kaske

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