
Puerto Rico Agency Reaches Tentative Pact With Fuel Lenders.

Puerto Rico's main power utility reached a tentative agreement with lenders on fuel purchases that would reduce interest rates on $700 million of debt that has already matured and extend repayment for at least six years.

The Puerto Rico Electric Power Authority and lenders including a unit of Bank of Nova Scotia and Solus Alternative Asset Management agreed to convert the debt, which matured in 2014, into six-year term loans with a 5.75 percent interest rate or exchange all or part of the principal due under existing credit agreements for new bonds. The securitized debt would include a 15 percent principal reduction and a five-year moratorium on payments.

The principal reduction is equal to the amount accepted by holders of about 35 percent of its $8.3 billion in bonds earlier this month. The utility, known as Prepa, is still in talks with tax-exempt bond insurers in what would be the largest-ever restructuring in the $3.6 trillion municipal-bond market.

The utility restructuring is the first step toward Puerto Rico's goal to lower its debt burden.

"The terms for those lenders are very attractive in this agreement, but the total amount is small and Prepa needs access to fresh fuel financing," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics.

The tentative pact comes a year after the fuel lenders entered a forbearance agreement, where they pledged to not file suit against Prepa while the debt talks were ongoing. That accord was set to expire Sept. 25.

Bond Insurers

"The best path forward for Prepa, as well as the creditors, involves sharing the burden among all stakeholders. We continue to negotiate with our monoline bond insurers in an effort to reach agreement that will allow Prepa to continue to implement its transformation," said Lisa Donahue, Prepa's chief restructuring officer, said in a statement Tuesday.

Prepa owed Scotiabank de Puerto Rico about $550 million as of August 2014, according to the forbearance agreement. The utility owed another $146 million to Citigroup Inc. as of that period. Solus bought that loan from Citigroup earlier this year. The agreement would lower interest rates to 5.75 percent from 7.25 percent, according to Prepa's statement.

"We are pleased that the syndicate of fuel-line lenders and Prepa have reached a mutually beneficial agreement in principle to support Prepa's ongoing operational transformation," Marcelo Gomez-Wiuckstern, a spokesman for Scotiabank, said in an e-mail.

Solus declined to comment through Julia Kosygina, a representative at Abernathy MacGregor Group Inc.

Bond insurers including Assured Guarantee Ltd. and Syncora Guarantee Inc. declined to extend their forbearance contract beyond Sept. 18. MBIA Inc. dropped out of the forbearance earlier this month. An accord with bondholders will expire Oct. 1 unless the parties extend it.

Bloomberg News

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September 22, 2015 — 1:27 PM PDT Updated on September 22, 2015 — 2:43 PM PDT