[Bond Case Briefs]

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[Puerto Rico's First Debt Deal Is Running Up Against a Deadline.]

The Puerto Rico Electric Power Authority, the island's government-run utility, needs lawmakers to approve legislation by Jan. 22 that would allow it to close an agreement struck with banks, bondholders and insurers to reduce its $9 billion of debt. It would be the largest ever restructuring in the municipal-bond market and could provide a template for how the U.S. territory can escape from burdensome bond payments that have already pushed the government to default.

The creditors have the option to walk away if a needed bill isn't passed by the deadline. Puerto Rico business and consumer advocates have lobbied against the deal, saying it would give the utility too much power to raise the island's already costly electric rates. Senator Ramon Luis Nieves, who chairs the Senate's energy committee and is working on the bill, said he expects lawmakers to pass it in the next few weeks.

"This bill is very complex and there are a few items we need to discuss further," Nieves said Friday in a telephone interview. "We are working together with the House so when the time comes to vote, we will be voting basically on the same bill."

Many others have much at stake in the deal going through. Insurers would dodge the full brunt of a default. The utility would secure investments needed to upgrade its antiquated electricity system, which may eventually allow it reduce power prices. And investors could get 85 cents on the dollar, well above current trading prices: bonds maturing in July 2037 traded Friday at an average 61.4 cents on the dollar, up from about 50 cents a year ago, data compiled by Bloomberg show.

The creditors have agreed repeatedly to extend deadlines during months of negotiations and may do so again if lawmakers delay. Here's a breakdown of who's involved in the deal and what they stand to receive. The utility is known by the acronym Prepa.

The Utility

Unless the agreement is enacted, the utility — which owes $8.1 billion to bondholders and $700 million to banks who finance its fuel purchases — won't be able to pay $1.13 billion to creditors that's due on July 1, Lisa Donahue, Prepa's chief restructuring officer, told a panel of the House Natural Resources Committee last week.

The deal would reduce Prepa's debt by more than $600 million and, by postponing principal payments, provide more than $700 million of relief over five years. Those savings will be used to help modernize a system in which the median plant is 44 years old, more than twice the average age in the U.S., Donahue said. Prepa relies on fuel oil and coal to generate about half of its electricity, which is more costly than using natural gas or renewable sources.

Bondholders Who Signed On

Angelo, Gordon & Co., BlueMountain Capital Management LLC, D.E. Shaw & Co., Knighthead

Capital Management LLC, Marathon Asset Management LP, Franklin Advisers Inc., Goldman Sachs Group Inc. and OppenheimerFunds Inc. signed the accord last month. They hold $3 billion of the authority's bonds.

Called the Ad Hoc Group, they've agreed to exchange all of their bonds at 85 cents on the dollar for debt sold by a new authority, the Puerto Rico Electric Power Authority Revitalization Corp. To protect investors from further losses, the new securities will be repaid from a surcharge to Prepa customers that will flow directly to the bond trustee.

Bondholders will have the option of selecting from two different types of securities: bonds with interest of about 4 percent to 4.75 percent, or convertible capital appreciation bonds, which accumulate — but don't pay — interest for the first five years. After that, those bonds would begin paying annual interest of 4.5 percent to 5.5 percent.

To protect against default, MBIA Inc.'s National Public Finance Guarantee Corp. and Assured Guaranty Ltd. will provide a surety bond of as much as $462 million that will guarantee repayment. National will contribute as much as $344 million of that.

The Outside Bondholders

Mutual funds, individuals and others who weren't part of the negotiations hold $2.7 billion of the bonds. For the agreement to be completed, they must agree to exchange at least $2 billion of them for new bonds or a cash payment, the size of which hasn't been determined. Among the holders are UBS Asset Managers of Puerto Rico, Lord Abbett & Co., Waddell & Reed Financial Inc., MassMutual Financial Group, Dreyfus Group and T. Rowe Price Associates Inc., according to data compiled by Bloomberg using the firms' most recent financial filings.

They're a group with divergent interests. Some, who bought the bonds at par, may bristle at selling for a loss. Others who bought after prices tumbled stand to gain. Persuading the group to exchange the needed $2 billion "will be a challenge," Donahue said.

The Bond Insurers

Bond-insurance companies have guaranteed to pay investors if the utility defaults, so it's in their interest to keep that from coming to pass. National Public Finance, which insurers $1.3 billion of its bonds, and Assured Guaranty Ltd., which backs $831 million, have agreed to the plan. Puerto Rico is still negotiating with Syncora Guarantee Inc., which backs $197 million. By avoided an outright default, the deal would reduce the losses they face from Puerto Rico's fiscal crisis.

Prepa's outstanding insured bonds will be paid off as they mature with the proceeds of new securitized debt.

The Energy Bankers

Because of the need to borrow to keep fuel shipments coming into the island, the utility owes $550 million to Scotiabank de Puerto Rico and $146 million to Solus Alternative Asset Management LP. The loans carry an interest rate of 7.25 percent.

The lenders, which signed on to the deal, will have one of two options: convert the current lines of credit into six-year loans with 5.75 percent interest or take the new bonds on offer to investors.

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