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[Puerto Rico Electric Says Bondholders Need to Pay Up This Time.]

In an unusual twist of events, one of Puerto Rico's main municipal-debt issuers is saying that bondholders must make good on a pledge to help fund a restructuring agreement or the accord risks falling apart.

A bond-purchase agreement between the Puerto Rico Electric Power Authority, a group of bondholders and bond-insurance companies will expire Thursday unless the creditors give Prepa, as the utility's known, $111 million or the pact is extended. The agreement is part of Prepa's larger debt restructuring deal. Without a bond-purchase agreement, the overall $9 billion restructuring plan would expire.

An ad-hoc group of investors holding about 35 percent of the power utility's securities and bond-insurance companies agreed in December to buy $111 million of three-year Prepa bonds if the utility paid in full $196 million of principal and interest due Jan. 1, which it did. Puerto Rico lawmakers passed a debt moratorium in April that allows Governor Alejandro Garcia Padilla to skip debt-service payments on all island debt. Prepa's creditors are reluctant to lend the utility more money unless Puerto Rico lawmakers amend the moratorium law to exempt Prepa.

A Prepa restructuring would be the largest ever in the $3.7 trillion municipal-bond market. The proposal would help lower the utility's debt and modernize a system that relies on oil to produce electricity. Hedge funds, bond insurers and mutual funds have been working with Prepa on a way to restructure its obligations since August 2014. That's when the parties first entered into a forbearance agreement to keep negotiations out of court after the utility raided reserve funds to pay for fuel.

The parties have extended the bond-purchase agreement before. Puerto Rico has satisfied two key milestones for the bond sale to proceed, Prepa said in a statement Tuesday. First, lawmakers passed legislation in February to give Prepa the authority to execute the restructuring deal and second, the utility on April 7 filed a proposed customer surcharge to the island's energy commission.

"Conditions required for creditors to fund the $111 million bond purchase under Prepa's restructuring support agreement and related documents have been satisfied, and as a result such creditors are required to fund the $111 million bond purchase on May 12, 2016," the utility said in the statement. "Prepa paid $111 million in interest to these creditors in January 2016 in reliance on the creditors' agreement to re-lend the same amount if two important milestones in Prepa's restructuring occurred."

The obligation of creditors to buy the three-year bonds is subject to several conditions being fully satisfied, according to a Jan. 28 update to Prepa's restructuring deal. One condition is that no Puerto Rico statue enacted after the agreement shall have an adverse affect on the rights and remedies of the 2016 bonds or their validity or enforceability, according to the document.

Dan Zacchei, a representative in New York at Sloane & Co. for the ad-hock bondholder group, declined to comment on Prepa's statement. Greg Diamond, a spokesman for MBIA, and Ashweeta Durani, spokeswoman for Assured Guaranty, didn't have a comment on the statement.

The $111 million of bonds will carry a 10 percent coupon and mature July 2019. An ad-hock group of bondholders would buy $65 million of the bonds and MBIA Inc. and Assured Guaranty Ltd. would purchase $50 million, according to the debt-restructuring accord.

Puerto Rico's Senate declined to vote Monday on a House bill that would remove Prepa from the debt moratorium law. The governor used that law when the Government Development Bank on May 2 defaulted on $370 million, the largest such payment failure to date for the island.

The ad-hock group late Monday offered to deposit $61 million in an escrow account to fund the bond-purchase agreement and extend the termination deadline to May 31 or until island lawmakers amend the commonwealth's debt-moratorium law.

Prepa's restructuring plan would reduce what it owes by $600 million and offer debt-service relief for five years of more than $700 million. Bondholders would take a 15 percent loss on their securities by exchanging them for bonds repaid with a new customer fee, called a securitization charge. The island's energy commission is reviewing that proposed fee.

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