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Puerto Rico Electric Bonds Fall as Restructuring Pact Dashed.

- **Bonds had been sliding as board delayed approval of deal**
- **Agreement would have given investors 85 cents on the dollar**

Puerto Rico's government electric company bonds tumbled after the island's federal oversight board rejected an agreement with creditors to restructure $9 billion of debt, pushing the agency toward bankruptcy.

The price of Puerto Rico Electric Power Authority bonds due in 2040, one most actively traded Wednesday, changed hands for an average of 52.7 cents on the dollar, down 15 percent from when they last traded on June 14, according to data compiled by Bloomberg.

A rout followed the board's announcement late Tuesday that it shot down the agency's deal with insurers and investors that would have allowed bondholders to receive 85 cents on the dollar. Prepa, as the utility's known, first struck the agreement in 2015, before Congress enacted emergency rescue legislation that placed Puerto Rico under federal oversight and gave the island the option to file for bankruptcy.

"It's pretty negative from the perspective that you have an agreement and it's been out there for a long time," said Daniel Solender, head of municipals at Lord Abbett & Co., which manages $19 billion of state and local debt, including Puerto Rico bonds. "It makes it hard to proceed going forward with them if agreements don't hold up."

The restructuring of Prepa, the largest U.S. public power utility by customers and revenue, will likely happen using a form of bankruptcy called Title III, the board said. Puerto Rico's central government took that step on May 3 after negotiations with creditors failed.

Investors had been speculating that the Prepa deal could unravel, given that the board had failed to approve revisions that Governor Ricardo Rossello made nearly three months ago. Without it in place, Prepa may default on a $423 million principal and interest payment due July 1. It would be the first missed payment for the agency after it negotiated for nearly four years with hedge funds, mutual funds and bond-insurance companies to find an out-of-court solution.

Board members have questioned the deal's ability to lower electricity rates and sufficiently modernize the system.

"Affordable and reliable electricity is central to Puerto Rico's economic turnaround, without which customers will seek alternative measures to satisfy their needs resulting in increased pressure to increase the rates to the remaining customer base, thereby inhibiting growth and long-term viability," the board said in a statement Tuesday.

The board voted four to three against the deal, according to a person familiar with the vote who asked not to be named because the meeting wasn't public.

The vote comes after MBIA Inc.'s National Public Finance Guarantee Corp. and units of Assured Guaranty Ltd. sued the board Monday in U.S. court in Puerto Rico, seeking to prevent the panel from blocking Prepa's restructuring agreement.

Congress last year passed legislation, known as Promesa, that allows Puerto Rico and its agencies to file Title III to force creditors to take losses on their investments. The legislation included language that directed the board to approve any already-crafted creditor agreement. U.S. Representative Rob Bishop, chairman of the Natural Resources Committee, which drafted Promesa, earlier this month urged the board in a letter to approve Prepa's restructuring deal.

The board's decision was criticized by a group of Prepa bondholders, including OppenheimerFunds Inc. and Franklin Advisers, that were involved in the negotiations.

"We do not understand the board's decision to block this deal after more than three years of cooperative, good faith negotiation by all stakeholders, exhaustive third-party review and explicit statements from the chair of the Congressional committee that drafted PROMESA that the law wasn't intended to give the board the power to take this action," the group said in a statement. "At this stage we remain open to working with the oversight board but are considering all options."

Bloomberg

By Michelle Kaske

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