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Puerto Rico's Power Authority Effectively Files for Bankruptcy.

Puerto Rico's troubled power company defaulted on a deal to restructure roughly $9 billion in bond debt and sought court protection from its creditors, the government said on Sunday.

The government said the move to, in effect, file for bankruptcy was the only way to reduce the existing debt of the Puerto Rico Electric Power Authority "to a sustainable level." The utility, known as Prepa, had previously negotiated an out-of-court deal to reduce its bond payments by about 15 percent. The bondholders now seem likely to sustain larger losses under court supervision.

Puerto Rico's Fiscal Agency and Financial Advisory Authority, which announced the move, said it did not expect any disruption of service to Prepa's residential or commercial customers on the island.

Bondholders had hoped that Prepa's debt could be reduced consensually, as planned. Some questioned the legality of moving into federal court to redo the deal.

Bill Fallon, the chief executive of National Public Finance Guarantee Corporation, a bond insurer, called the move "improper" and warned that it "would leave Prepa years away from attracting the private investment necessary to modernize."

Electrical power has long been a drag on the island's economy. Prepa's antiquated generating plants burn imported oil to produce electricity. Efforts to modernize the plants and shift to clean and renewable fuels have been delayed repeatedly. Customers pay rates that follow oil prices up and down, and while the rates are relatively low at the moment, they are vulnerable to rising again.

In addition, there are longstanding accusations that Prepa's fuel-purchasing office for many years bought dirty oil sludge as fuel, charged consumers the much higher price of cleaner distillates, and then created a slush fund with the difference. The Puerto Rican senate held a series of hearings on Prepa's fuel-purchasing irregularities, and has referred its findings to the Federal Bureau of Investigation.

Prepa got into severe financial trouble before the rest of the Puerto Rican government, when it was unable to pay for fuel in 2014. Its creditors extended fuel-purchasing credit that year, and subsequently negotiated a deal to restructure about $5.7 billion of Prepa's $9 billion in total debt.

The deal was held up as a model at the time, because it was achieved without the sort of leverage that can be exerted in bankruptcy. In addition to taking a 15 percent loss, the bondholders had agreed that Prepa could put a portion of the savings toward its long-promised modernization and conversion to cleaner sources of power.

But the agreement also called for Prepa to continue paying down its remaining debt by adding an unpopular increase in power customers' monthly bills. It also required the restructured debt to be secured to an investment-grade rating, an insurmountable challenge with the island's central government itself effectively bankrupt, and its economy in a painful decline.

Last week, the federal oversight board that is guiding Puerto Rico's finances voted to authorize Prepa to seek debt relief under Title III of Promesa, which is similar to Chapter 9 municipal bankruptcy. Natalie Jaresko, the board's executive director, said then that talks could continue, and the utility's bondholders said they still hoped to pursue the consensual deal. They also offered to cover a $170 million interest payment that Prepa was required to make to bondholders on Saturday.

But Prepa declined that offer, defaulting on the payment and paving the way for the move on Sunday for court protection.

THE NEW YORK TIMES

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JULY 2, 2017