

Bond Case Briefs

Municipal Finance Law Since 1971

Creditors of Puerto Rico Utility Demand a Receiver.

Bondholders seek installation of a receiver following utility default

Wall Street investors asked a court to place Puerto Rico's indebted public electric monopoly under receivership, escalating a standoff over reforming the U.S. territory's dilapidated power infrastructure.

Financial creditors filed court papers on Tuesday demanding the appointment of a receiver at the power utility known as Prepa following the collapse of a proposed debt restructuring agreement last month.

Hedge fund bondholders Angelo Gordon & Co., BlueMountain Capital Management and Marathon Asset Management LLC joined in Tuesday's request alongside mutual funds Franklin Resources Inc. and OppenheimerFunds Inc., as well as bond insurers Assured Guaranty Ltd. and MBIA Inc.

Prepa, one of the largest U.S. utilities, is a flashpoint in Puerto Rico's financial crisis. The federal board installed to revive Puerto Rico's economy placed the public corporation under bankruptcy protection this month to write down \$9 billion in utility debt.

The seven-member oversight board had vetoed a proposed restructuring designed to avert bankruptcy, saying the financial settlement would have left too much debt outstanding and thwarted Prepa's transition from a public monopoly to a modern, regulated utility model.

Creditors have argued that restructuring Prepa's debts voluntarily would bolster its creditworthiness and attract private partners. A federal rescue package empowered the oversight board to write down Puerto Rico's \$73 billion in municipal bond debt either through negotiated settlements or through binding, court-supervised proceedings.

Board members and local officials are searching for private investment capital to upgrade outdated power plants and lower electricity costs with the goal of jump-starting the Puerto Rican economy after nearly a decade of recession.

Meanwhile Puerto Rico's governor, Ricardo Rossellò, has consolidated control over Prepa, recently firing an independent board of directors installed under his predecessor. Creditors on Tuesday criticized the governor for "re-politicizing" the utility board to avoid what they called necessary rate increases on Prepa customers.

"The politicization of Prepa has only grown worse under the current administration," the court motion said. "This has resulted in a giant step backwards for Prepa."

The collapse of the proposed settlement was an unwelcome development for creditors, since a judge could impose larger losses than those they had agreed to accept. Prepa's bankruptcy also roiled some Republican members of Congress who wanted the deal quickly blessed as a model for consensual settlements of Puerto Rico's other debts.

Yet planned increases in electricity rates to repay creditors made the deal politically toxic in Puerto Rico, even after the governor obtained additional debt concessions in March to mitigate the hit to consumers. Costly, unreliable utility service remains a drag on family incomes and quality of life in Puerto Rico, where last year a massive blackout left Prepa customers without power for three days.

The Wall Street Journal

By Andrew Scurria

July 18, 2017 3:31 p.m. ET

Write to Andrew Scurria at Andrew.Scurria@wsj.com

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com