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Puerto Rico Puts Private Firms in Charge of Public Power.

The territory's bankrupt power monopoly signed a 15-year deal with operators including Quanta Services, hoping they can reverse years of mismanagement

Puerto Rico's bankrupt public power utility signed a long-term deal to outsource the business of delivering electricity, making an expensive bet that private operators can curb the high costs and service problems that have long plagued consumers.

The U.S. territory's government-owned power monopoly is putting a consortium of operators including infrastructure contractor Quanta Services Inc. in charge of running the electricity grid for 15 years, hoping they can reverse years of mismanagement.

The operators are inheriting steep challenges as they take over an energy system crippled by years of under-investment, a legacy of political interference and lasting damage stemming from the 2017 hurricane season.

The deal marks a seminal moment for the Puerto Rico Electric Power Authority, which emerged as a crown-jewel public asset during and after World War II, powering the island's industrialization efforts and helping turn it into a manufacturing hub for pharmaceuticals and medical devices.

The utility, known as Prepa, became less efficient over time, skimping on capital investments while piling up debt. When Puerto Rico sank into recession more than a decade ago, demand for power from industrial and residential customers declined, stretching the utility's finances to the breaking point by 2014.

Putting the consortium—Quanta and its partners ATCO Ltd. and IEM—in charge of the grid will come at a cost, including a roughly \$60 million mobilization fee during a yearlong transition period, people familiar with the matter said. In subsequent years, the operators will also receive fixed annual service fees adding up to hundreds of millions of dollars over time, with the potential for additional payments based on performance metrics, one of the people said.

"We understand that electricity is not only about poles and wires and megawatts, it is the enabler of societies and economies," Wayne Stensby, president and chief executive of the consortium, said during a press conference announcing the agreement, which was first reported by The Wall Street Journal.

"We are truly humbled by the trust you are placing in us and the responsibility you have bestowed to us," he said.

The deal would maintain Prepa's ownership of the grid assets, easing its efforts to collect federal disaster relief money.

Proponents of the agreement have said that installing private management at Prepa would help address reliability problems, stabilize the executive ranks and put an end to political interference in the utility's affairs. Prepa has long been plagued by frequent turnover at the top, with high-level

officials cycling in and out depending on the party in power, making long-term capital planning difficult.

The utility has been under bankruptcy protection for nearly three years, weighed down by roughly \$13 billion in bond and pension debt and facing a shrinking customer base. Power customers from manufacturers to households have been exploring ways to decouple from the utility, fed up with the cost and quality of service.

Prepa needs to end its bankruptcy to realize the full benefits of the deal, which provides the operators with more favorable terms if the utility can't exit court protection for an extended period. But the bankruptcy is far from over. Gov. Wanda Vázquez and other leaders have said they won't raise electricity rates to cover a proposed settlement with bondholders, leaving Prepa with no clear path back to solvency.

"It is now all the more critical to advance the Prepa restructuring agreement to exit bankruptcy expeditiously, or this privatization could become a bridge to nowhere," a bondholder spokesman said.

The oversight board supervising Puerto Rico's finances has long favored dismantling the utility's public-monopoly structure, saying that politically appointed bureaucrats should be replaced with professional outsiders capable of reforming its operations.

"The people of Puerto Rico deserve a power system that can withstand hurricanes to ensure they are safe in their homes, and Puerto Rico's businesses deserve to open every day without relying on backup generators to ensure they can serve their customers," board chairman José Carrión said.

Former Gov. Ricardo Rosselló endorsed the privatization push in January 2018, allowing officials to solicit private-sector bidders to run the grid. The move came in response to the aftermath of Hurricane Maria, which left some customers without power for as long as 11 months and made Prepa the target of intense criticism by customers, elected leaders and federal officials.

The grid remains brittle and in need of billions of dollars of federal relief to toughen poles, power lines and generating stations against future natural disasters.

Since filing the largest-ever municipal bankruptcy in 2017, Puerto Rico has explored privatizing a variety of public functions, including seaports, water meters, student housing and traffic-fine collections. But Puerto Rico's record in past privatization initiatives is mixed, with some residents and politicians wary of turning public corporations over to profit-seeking investors.

Deals to privatize the San Juan airport in 2013 and toll roads in the island's north in 2011 have been well-received, while a sewer-service privatization in the early 2000s failed to produce the expected savings and was terminated early.

Quanta, ATCO and IEM were selected as the preferred bidder over a competing offer from PSEG Services Corp., people familiar with the matter said. The hope is that the consortium can drive cost savings that will outweigh the fees they collect, lowering electricity rates over time.

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