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Puerto Rico Power Authority's Planned 'Turbo' Bonds Seen as Blueprint for Utilities.

- **Debt has early-redemption feature to ensure repayment**
- **Structure may serve as useful tool for other utilities**

The debt-restructuring plan put forward by Puerto Rico's bankrupt power authority includes a type of financing common among tobacco-settlement debt that may serve as a blueprint for other utilities seeking to raise money to meet capital needs.

Known as "turbo bonds," the debt — backed by a dedicated charge and a fee on customers' monthly bills — has the potential to be repaid in full before maturity because any excess revenue must be used to pay back investors early.

Many bonds repaid from tobacco settlement receipts use this early redemption structure as a way to ensure repayment at a time when the broader trend is for cigarette sales to drop over time. Similarly, demand for energy supplied by the Puerto Rico Electric Power Authority is on course to slump as the island's population declines and more residents and businesses turn to solar power.

The securities may serve as a useful financing tool for electric utilities across the US that are experiencing a decline in usage as customers install solar panels to their homes and rely less on the power grid, David Brownstein, the former head of Citigroup Inc's soon-to-close public finance department and now a principal at BGC Partners Advisory, said while testifying in court Friday during a confirmation hearing on the utility's debt-cutting proposal.

"Everybody is dealing with the same solar issue now. That's why I believe this is going to become the market norm for utilities," Brownstein said about the turbo-bond structure, according to a transcript of the court hearing.

BGC Partners Advisory is the restructuring adviser to the island's financial oversight board, which is managing Puerto Rico's bankruptcy and the workouts of its governmental agencies. Prepa, as the power authority is known, is seeking to slash its $10 billion of debt and financial obligations by as much as 75%.

Most power utilities pledge to raise electricity rates to cover principal and interest payments. Prepa's debt plan doesn't include such a promise, but its new bonds will be repaid from revenue collected through a fixed "legacy charge" and also a volumetric fee on customers' monthly bill. If revenue from those charges comes in stronger than anticipated, then investors will be repaid sooner as the turbo bonds allow for accelerated payments.

"The structure of the Prepa bonds we have created, I believe, will be impactful to our entire market going forward," Brownstein said.

Prepa's debt plan also includes contingent value instruments. Called CVIs, those securities will repay Prepa investors from legacy-charge collections, but only after the restructured fixed-rate bonds are paid off in full within 35 years.

CVIs were also used in Puerto Rico’s own bankruptcy, but they’re structured differently.

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