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WSJ: Puerto Rico Bondholders Win Back Rights to Electricity Revenues

An appellate court restored bondholders' lien on electric-utility revenues

A federal appeals court said Puerto Rico bondholders have collateral rights over revenue generated by its bankrupt public power utility, a ruling that could delay and possibly upend a planned $10 billion debt restructuring.

The U.S. Court of Appeals for the First Circuit in Boston restored bondholders' lien over past and future electricity revenues in Puerto Rico and reversed a lower-court ruling that had sharply limited their rights to repayment.

Wednesday's decision marks a win for GoldenTree Asset Management and other bondholders seeking repayment from the Puerto Rico Electric Power Authority, the government-owned power utility. Prepa has been in bankruptcy since 2017, when the U.S. territory stopped paying its debts and triggered the largest-ever default by a U.S. municipality.

Officials have reached settlement deals in recent years with holders of most of Puerto Rico's municipal bonds, leaving Prepa as the last public agency still under court protection. It proposed a restructuring plan last year to slash nearly $8.5 billion owed to its municipal bondholders—its largest single debt—by nearly $7 billion.

Prepa's plan will be re-evaluated in response to Wednesday's ruling, which found bondholders have a lien over the utility's future net revenues—its surplus income left over after its operating costs.

The appeals court left it up to Judge Laura Taylor Swain, the lower-court judge who has overseen Puerto Rico's bankruptcy process, to determine the "economic value" of the bondholders' security interest.

The oversight board that supervises Puerto Rico's finances said Wednesday that it was evaluating the ruling and that "Prepa does not generate any net revenues unless and until electricity rates are increased." Under bankruptcy law, bondholders' collateral must be valued when a restructuring plan is confirmed, "prior to any rate increase," the oversight board said.

Bondholders have argued that Prepa is required to raise rates enough to pay their claims in full. Wednesday's decision also said bondholders have a claim for the full face amount of their holdings, nearly $8.5 billion, rather than the reduced $2.4 billion that Judge Swain had estimated.

The restructuring plan, which would also cover Prepa's bank loans and vendor debts, would pay GoldenTree as little as 3.5 cents on the dollar, court records show. Some other bondholders, including BlackRock Financial Management, had supported the restructuring in return for an exclusive right to buy new, discounted bonds from Prepa.

Prepa has tested the municipal bond market's expectation of how its electric revenue bonds—a

common type of tax-exempt debt secured by a pledge of special revenues—would fare in a bankruptcy.

GoldenTree and bond guarantor Assured Guaranty said in a joint statement Thursday that the ruling "restores the municipal market's understanding of the proper functioning of special revenue bonds." They said they hoped to reach a consensual resolution with the oversight board and elected officials in Puerto Rico.

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