STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Puerto Rico Electric Power Authority; Retail Electric

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Summary:

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Credit Profile		
Puerto Rico Elec Pwr Auth pwr rev bnds ser 2012 A due 07/01/2041		
Long Term Rating	B-/Watch Neg	Downgraded
Puerto Rico Elec Pwr Auth pwr rev ser N&O dtd 08/01/1989 due 07/01/2000 2004 2007 2010 2012 2014 2017		
Unenhanced Rating	B-(SPUR)/Watch Neg	Downgraded
Puerto Rico Elec Pwr Auth pwr		
Unenhanced Rating	B-(SPUR)/Watch Neg	Downgraded
Long Term Rating	B-/Watch Neg	Downgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has lowered its rating on Puerto Rico Electric Power Authority's (PREPA) power revenue bonds four notches to 'B-' from 'BB'. The rating remains on CreditWatch with negative implications, where we originally placed it June 18, 2014.

PREPA has $8.6 billion of power revenue bonds outstanding. A pledge of the electric system's net revenues secures the bonds.

The downgrade reflects our view of PREPA's inability to successfully negotiate renewal of a liquidity facility it used to purchase oil. We believe this increases the risk that the authority will attempt to restructure long-term debt, as a law passed in June allows. The negotiating deadline for the revolving credit that matured in January has been extended to July 31. If the facility is not renewed, PREPA will have to repay the $146 million outstanding. If a second revolving credit facility, which matures Aug. 14, 2014, is similarly not renewed, the authority will have to repay the $525 million outstanding. Normally, it repays the lines with revenue associated with fuel costs recovered from customers. Because PREPA does not have surplus liquidity to repay the amounts, the utility might consider using an option under the new law, which "allows public corporations, among other things, to adjust their debts in the interest of all creditors affected thereby; provides procedures for the orderly enforcement and, if necessary, the restructuring of debt in a manner consistent with the Commonwealth Constitution and the U.S. Constitution; and maximizes returns to all stakeholders by providing them going concern value based on each obligor's capacity to pay."

We lowered the rating and placed it on CreditWatch negative in response to PREPA's representation that the Government Development Bank would not provide interim liquidity if the authority does not renew its two liquidity facilities. We lowered the rating again when the legislation passed.

Although not making credit facility payments is not a default under the revenue bond indenture, PREPA's inability to repay the amounts outstanding could lead to debt restructuring and eliminate its normal source of funding for fuel purchases.

We will continue to monitor the authority's progress in negotiating its bank lines. We could lower the rating further if it is not successful, if other sources of liquidity are not available, or if it chooses to restructure its debt.

CreditWatch

The CreditWatch placement is pending the outcome of PREPA's negotiations with the banks. We expect to resolve the CreditWatch within the next three months.

Related Criteria And Research

Related Criteria

USPF Criteria: Electric Utility Ratings, June 15, 2007

Related Research

Under Pressure: Puerto Rican Bank Ratings Face Several Major Hurdles, May 19, 2014

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