Puerto Rico Electric Power Authority Ratings Lowered To 'CC', Remain On Watch Neg

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NEW YORK (Standard & Poor's) July 2, 2015--Standard & Poor's Ratings Services has lowered its long-term and underlying ratings (SPURs) on Puerto Rico Electric Power Authority, (PREPA) P.R.'s electric revenue bonds to 'CC' from 'CCC-'. The rating remains on CreditWatch with negative implications.

PREPA has announced that it has made a $415 million payment to bondholders, due July 1, 2015. While we believe that this full and timely payment has enabled PREPA to forestall an imminent default, we note that the authority also announced that it had reached agreement with creditors to execute a "Restructuring Support Agreement (RSA)" by Sept. 1, 2015.

Per our criteria, we assign a 'CC' rating if "an entity that has announced its intention to undertake an exchange offer or similar restructuring that we classify as distressed, but has not yet completed the transaction" (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-' and 'CC' Ratings". See also "Rating Implications Of Exchange Offers And Similar Restructurings").

It is our understanding that PREPA was able to make its $415 million payment by utilizing $153 million of cash in its general funds which supplemented remaining debt service reserve monies that are on deposit with its trustee, U.S. National Bank, N.A. Further, we understand that as part of the agreement, insurers of some of PREPA's outstanding debt have agreed to purchase $128 million of new short-term bridge loan bonds, with repayment due Dec. 15, 2015. We believe that PREPA will use the proceeds of the loan to provide working capital. PREPA also announced that its creditors had agreed to extend the forbearance agreements that have been in place since 2014, through Sept. 15, 2015.

CREDITWATCH

We expect to resolve the CreditWatch placement in the next three months after we have evaluated the RSA, due September 1. Should the RSA result in a distressed exchange where, in our view, bondholders receive less value than the promise of the original securities (e.g., other than full and timely payment under the original securities), the bonds will, in our judgment be in default. We continue to believe that there is at least a 50 percent likelihood of this occurring.

RELATED CRITERIA AND RESEARCH

Related Criteria

- USPF Criteria: Electric And Gas Utility Ratings, Dec. 16, 2014
- Criteria: Understanding Standard & Poor’s Rating Definitions, June 3, 2009
- USPF Criteria: Idaho School Bond Standing Appropriation Credit Enhancement: Methodology And Assumptions, April 5, 2012
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Methodology For Assessing The Impact Of Securitized Debt On The Ratings Of U.S. Public Finance Waterworks, Sanitary Sewer, Electric And Gas Enterprise Issuers And Their Unsecuritized Debt, March 17, 2015
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, May 12, 2009

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.