Puerto Rico Electric Power Authority Revenue Bonds Downgraded To 'BBB-', Placed On CreditWatch Negative

Primary Credit Analyst:
Judith G Waite, New York (1) 212-438-7677; judith.waite@standardandpoors.com

Secondary Contact:
Jeffrey M Panger, New York (1) 212-438-2076; jeff.panger@standardandpoors.com

NEW YORK (Standard & Poor's) June 18, 2014--Standard & Poor's Ratings Services has lowered its rating on Puerto Rico Electric Power Authority's (PREPA) power revenue bonds to 'BBB-' from 'BBB' and placed the rating on CreditWatch with negative implications.

"The rating action reflects our view of the risk that the Government Development Bank will not provide interim liquidity if PREPA does not renew its lines of credit, which it uses to purchase oil for the utility's generating plants," said Standard & Poor's credit analyst Judith Waite.

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

A $250 million line of credit from Citibank N.A. matured Jan. 10, 2014, but PREPA and Citibank continue to negotiate terms for an extension. According to the authority, the bank intends to reduce the line to $150 million and, before extending the maturity, expects to see PREPA's long-term plan. The foundation for that long-term plan is the authority's proposal for a balanced budget, which must be completed by June 30. A base-rate increase, in combination with operating cost reductions, is one alternative. PREPA, the Government Development Bank (GDB), and the government are reviewing these alternatives.

Under the terms of Citibank's line of credit, PREPA will begin repaying the $146 million outstanding with $10 million July 3, $10 million in mid-August,

1334149 | 302008878

and the rest in between those dates. The authority does not currently have the cash to pay the full amount.

PREPA also has $525 million outstanding under the $550 million line of credit from ScotiaBank de Puerto Rico, which matures Aug. 14, 2014, unless renewed. The authority has said that ScotiaBank is also expects to see PREPA's long-term plan before agreeing to renew the line.

Nonpayment of borrowings under the lines of credit is not a default under the revenue bond indenture. However, if PREPA can't purchase oil, it can't run its plants. If the authority cannot renew the lines and cannot procure supplemental liquidity -- either from other banks or from the GDB -- we will lower the rating to reflect the lack of necessary liquidity. Our rating has always taken into account the fact that PREPA's high rates, due to the high cost of oil, preclude their ability to build up a strong level of liquidity, obliging them to rely on either the GDB or outside lenders to fund oil purchases.

The rating also incorporates our view of the support provided by a $100 million line of credit from GDB, which is sufficient to cover potential liquidity requirements associated with PREPA's swaps.

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

RELATED CRITERIA AND RESEARCH

Related Criteria
USPF Criteria: Electric Utility Ratings, June 15, 2007

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.