RESEARCH

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Puerto Rico Electric Power Authority; Retail Electric

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Credit Profile		
US$2,175. mil pwr rev rfdg bnds due 07/01/2037		
Long Term Rating	BBB+/Stable	New
Puerto Rico Elec Pwr Auth		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'BBB+' rating, and stable outlook, to Puerto Rico Electric Power Authority's (PREPA) power revenue refunding bonds.

At the same time, Standard & Poor's affirmed its 'BBB+' underlying rating (SPUR) on the authority's existing bonds. Roughly $650 million of the amount issued will be used to fund capital investment; the remainder will refund existing debt, including debt existing under bank lines of credit. PREPA currently has $5 billion of power revenue bonds.

The ratings reflect:

- An isolated electric system,
- Large capital requirements,
- Dependence on oil and gas,
- A weak economy,
- High rates, and
- Limited liquidity.

These weaknesses are somewhat mitigated by steady growth, adequate capacity, and the ability to pass through fuel costs, which has allowed PREPA to maintain a stable, though not strong, financial profile.

PREPA's management is pursuing a strategic plan intended to reduce fuel oil dependence to 50% of electricity production by 2011, increase system reliability and fuel efficiency, and limit the need for base rate increases. This strategy was implemented to address the system's weaknesses.

The dependence on oil-fired generating plants increased the average residential monthly electric bill to $81 at fiscal year-end 2006 (June 30) from $58 at fiscal year-end 2004, which is high considering the low wealth levels of Puerto Rico. Base rates, which have not been raised since 1989, are just 5.7 cents per kilowatt-hour (kWh) of the total 17.72 cents per kWh paid by residential customers in 2006.

Over the next five years, PREPA will invest about $2.2 billion in the system. Roughly half that amount will be invested in new plant and plant conversion, such as 464 MW combined cycle generating capacity at the