

# RatingsDirect®

---

## Summary:

# Puerto Rico Electric Power Authority; Retail Electric

### **Primary Credit Analyst:**

Judith G Waite, New York (1) 212-438-7677; [judith.waite@standardandpoors.com](mailto:judith.waite@standardandpoors.com)

### **Secondary Contact:**

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

## Table Of Contents

---

Rationale

CreditWatch

Related Criteria And Research

## Summary:

# Puerto Rico Electric Power Authority; Retail Electric

### Credit Profile

Puerto Rico Elec Pwr Auth pwr rev bnds ser 2012 A due 07/01/2041

<i>Long Term Rating</i>	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

<i>Unenhanced Rating</i>	B-(SPUR)/Watch Neg	Downgraded
--------------------------	--------------------	------------

#### **Puerto Rico Elec Pwr Auth pwr**

<i>Unenhanced Rating</i>	B-(SPUR)/Watch Neg	Downgraded
--------------------------	--------------------	------------

<i>Long Term Rating</i>	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

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

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).