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## Puerto Rico Electric Power Authority Revenue Bonds Downgraded To 'CCC-' Following Repeated Draws On Reserve Fund

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NEW YORK (Standard & Poor's) April 24, 2015--Standard & Poor's Ratings Services has lowered its rating on Puerto Rico Electric Power Authority's (PREPA) power revenue bonds to 'CCC-' from 'CCC'. The rating remains on CreditWatch with negative implications.

The downgrade reflects our view of the following:

- Repeated draws on the debt service reserve fund and uncertainty regarding any future draws that could result in its depletion;
- A structural imbalance between revenues and expenses without a pathway to meeting debt service obligations if and when the debt service reserve is depleted;
- Our concern about the authority's access to capital markets; and
- The uncertainty whether money on deposit with the Government Development Bank (GDB) could be diverted from PREPA.

"As a result, we believe a default, distressed exchange, or redemption appears to be inevitable within six months, absent unexpected significantly favorable changes in the authority's circumstances," said Standard & Poor's credit analyst Jeffrey Panger.

On April 1, 2015, PREPA used \$8.8 million from its debt service reserve to help make a quarterly bond payment, the third such draw. In July and October 2014, the authority withdrew \$41.6 million and \$8.8 million, respectively,

from the reserve. In our opinion, the draws suggest that despite falling oil prices, the authority has a continuing structural imbalance between revenues and expenses. We also believe Puerto Rico has very limited access to either the public or private debt markets. PREPA's next scheduled debt service payment totals \$400 million and is due July 1. Legislation enacted in 2014 requires PREPA to deposit with the GDB certain non-operating funds, including construction funds and the debt service reserve, which currently has \$236 million on deposit. It is unclear whether the government could divert this money.

We expect to resolve the CreditWatch placement in the next three months after we have evaluated PREPA's plans and the actions it will take to resolve the imbalance between revenues, expenses, and debt service. We will lower the rating if the authority restructures the debt by extending maturity dates.

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- USPF Criteria: Electric And Gas Utility Ratings, Dec. 16, 2014
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012

##### Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015

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