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Puerto Rico announces deal to restructure power authority debt

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SAN JUAN (Reuters) - Puerto Rico's power utility struck a deal with a group of creditors that seeks to allow the bankrupt U.S. commonwealth to restructure more than \$8 billion of bonds, according to an announcement by government authorities on Friday.

A group of Puerto Rico Electric Power Authority (PREPA) bondholders, bond insurer Assured Guaranty Corp, along with the island's government and federally created financial oversight board, reached a restructuring support agreement that would reduce the utility's debt by up to 32.5 percent.

The move paves the way for a plan of adjustment for PREPA, which filed for a form of bankruptcy in July 2017 after a previous restructuring deal fell apart. The latest agreement, which requires support from at least 67 percent of voting bondholders to materialize, would shed about \$3 billion in debt service payments over the next decade.

The deal also requires the approval of a U.S. judge hearing Puerto Rico's bankruptcy cases, as well as legislative action.

Under the agreement, investors will exchange their PREPA bonds at 67.5 cents on the dollar for new Tranche A bonds and 10 cents on the dollar for new Tranche B bonds. The latter would be contingent on full payment of Tranche A bonds and future electricity demand on the island.

PREPA will pay off the new bonds through a special charge levied on its customers. The new charge starts at approximately 1 cent per kilowatt hour prior to the deal's closing, increasing to some 2.768 cents per kilowatt hour upon closing and gradually increasing to approximately 4.552 cents per kilowatt hour during the expected 40-year lifespan of the bonds.

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The deal still lacks the support of other PREPA creditors, most notably bond insurer National Public Finance Guarantee Corp. A spokesman for National declined to comment.

National Public Finance filed an objection last month when a deal in principle was announced, saying that “until very recently” it was excluded from negotiations even though it is PREPA’s largest creditor. National has also asked the court to appoint a receiver for PREPA, support among other creditor remains unclear following Friday’s announcement.

According to government and board officials, the privatization of PREPA is under way, with transmission and distribution contracts with private companies expected to be in place by the second quarter of 2020.

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“Now with this agreement we take a monumental step to provide for the restructuring of the debts and obligations of PREPA and finally conclude the bankruptcy process,” Governor Ricardo Rossello said in a statement.

If approved in federal court, PREPA’s restructuring would mark the third major deal in Puerto Rico’s efforts to restructure about \$120 billion of debt and pension obligations. Deals involving the island’s sales tax-backed bonds and Government Development Bank have been approved by U.S. Judge Laura Taylor Swain.

PREPA’s financial and operational problems were compounded by Hurricane Maria, which slammed into the island in September 2017, decimating an electric grid already struggling due to poor rate collection, heavy management turnover and lack of maintenance.

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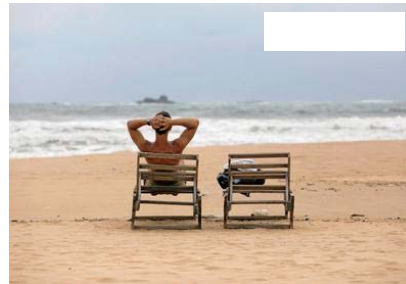


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