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## Puerto Rico Electric Power Authority Revenue Bonds Downgraded To 'B-' From 'BB' On Inability To Renew Liquidity Facility

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NEW YORK (Standard & Poor's) July 9, 2014--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.

"The downgrade reflects our view of PREPA's inability to successfully negotiate renewal of a liquidity facility it used to purchase oil," said Standard & Poor's credit analyst Judith Waite.

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."

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

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.

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

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