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Puerto Rico Electric Power Authority Revenue Bonds Downgraded To 'BB' On Legislative Passage Of Debt Law

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NEW YORK (Standard & Poor's) June 27, 2014--Standard & Poor's Ratings Services has lowered its rating on Puerto Rico Electric Power Authority's (PREPA) power revenue bonds to 'BB' from 'BBB-'. The rating remains on CreditWatch with negative implications.

"The rating action reflects our view of the risk to bondholders posed by the law passed by the legislature of Puerto Rico," said Standard & Poor's credit analyst Judith Waite.

If signed by the governor, the law 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."

On June 18, 2014, we lowered our bond rating on PREPA to 'BBB-' from 'BBB' and placed the rating on CreditWatch with negative implications. We took the action in response to PREPA's representation that the Government Development Bank (GDB) would not provide interim liquidity if PREPA's two liquidity facilities are not renewed. The lines, which totaled \$800 million in 2013, are used to purchase oil for the generating units that provide about 60% of the island's electricity.

"If PREPA is not able to renew the lines of credit or secure other liquidity, it may choose to restructure its debt, as allowed by the new law, which could increase bondholders' risk of not receiving full and timely payment," added Ms. Waite.

We will continue to monitor PREPA's progress in negotiating its bank lines. We could lower the rating further if the authority is not successful, if other sources of liquidity are not available, or if PREPA chooses to restructure its debt.

RELATED CRITERIA AND RESEARCH

Related Criteria

USPF Criteria: Electric Utility Ratings, June 15, 2007

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