

Prepa

Continued from page 7

"This reduction in oil prices is the best blessing Puerto Rico has ever gotten," one source said, estimating that it could save Prepa about \$600 million annually.

"With oil prices coming down, Prepa will save a lot of money. Also, the government agencies will be paying less for electricity, so they are going to be in a better position to pay their receivables. That is why you want to extend it from March to June. That is the incentive. The commonwealth will have more liquidity and the bondholders will hopefully get less of a haircut," the source added.

During her last meeting with reporters in December, Donahue said that she has yet to begin negotiating a possible restructuring of Prepa's more than \$9 billion in outstanding

debt, but CARIBBEAN BUSINESS sources indicate that those conversations have now commenced. The Prepa CRO has repeatedly stated that the utility's current financial situation was "unsustainable" and a restructuring is inevitable. Prepa's debt service this year is \$438 million in principal and interest, but that jumps to \$640 million in 2016, skyrockets to more than \$3 billion in 2016 and will remain at that level for another decade, according to an analysis by New York-based NewOak, a financial services firm.

Donahue is also pushing for a more robust investment plan than originally planned, completely rebuilding the generation units of existing plants rather than retrofitting existing ones to burn natural gas because the increased efficiency will bring greater cost savings to Prepa and its clients. This will push up the required investment to more than \$4 billion, according to the sources.

Such an investment would be undertaken by the private sector, which would continue to operate the plants as private entities once developed, just as the EcoEléctrica natural-gas plant and the AES coal plant operating in Puerto Rico, which deliver the cheapest electricity.

Last month, Donahue said the five-year business plan for Prepa called for in the agreement would be extended to 10 years because many of its benefits wouldn't be felt until then. The shuttering of plants would entail a cut in the overall size of the workforce, according to CARIBBEAN BUSINESS sources, who also said there was room to cut back in the transmission and distribution area, as well as other departments, such as customer service.

The Prepa turnaround plan is also expected to outline tough choices, including eliminating subsidies and forcing government agencies, public corporations, municipalities,

businesses and residents to pay an estimated \$1.75 billion in outstanding electricity-bill invoices.

The plan is also expected to call for an increase in the basic electricity rate, which has been unchanged for decades.

Prepa probably won't be able to deliver savings to clients until after the switch to more natural gas-fired generation units and more efficient ones come online.

Economists and financial experts have been pressing for a fast and deep restructuring of Prepa, saying that a successful turnaround could help the entire Puerto Rico economy get on the right track.

Prepa is widely expected to default on its roughly \$9 billion in outstanding debt, which would make it the largest default in municipal bond-market history. This may further limit the ability of all Puerto Rico public entities to access financing. ■



40
years
GROWING
TOGETHER

The Partners of
VALDES, GARCIA, MARIN & MARTINEZ, LLP
Certified Public Accountants and Consultants

Are pleased to announce to all our clientele, business associates
and friends that effective January 1, 2015

SOFIA BENITEZ ARRAIZA, CPA

has become Partner in our Assurance Department

Ramón Marín, Partner
Lucy Martínez, Partner
Idsa Ramos, Partner

Ernesto Valdés, Retired Partner
Arturo García, Retired Partner

AN INDEPENDENT MEMBER OF
IBDO
ALLIANCE USA

PO Box 364831
San Juan, PR 00936-4831
787-725-1600 • www.vgmmcpa.com