Center for a New Economy

PREPA Debt Restructuring 3.0:
Excecutive Summary

After a careful analysis of the information found in the Puerto Rico Electric Power Authority's (PREPA) most recent Restructuring Support Agreement (RSA) we can conclude and make the following recommendations:

BOND EXCHANGE

Exiting PREPA bonds would be exchanged for two classes of New Bonds. Tranche A Bonds will be exchanged at a ratio of 67.5% of principal amount of outstanding bonds subject to the exchange, plus other consideration. While Tranche B Bonds will be exchanged at a ratio of 10% of principal amount of outstanding bonds subject to the exchange. This implies a reduction in the nominal principal, or face value, of the existing bonds of 22.5%.

MATURITY AND COUPON

The Tranche A Bonds will have a stated maturity of 40 years, subject to early redemption under certain circumstances. They will bear interest at an annual rate of 5.25% to be paid in cash, on a tax-exempt basis. The Tranche B Bonds will have a stated maturity of 47 years. The interest on Tranche B Bonds will be paid in kind, that is, in the form of additional Tranche B Bonds, and will accrete at an annual rate of 7.00% (if tax exempt) or of 8.75% (if taxable).

TRANSITION CHARGE

The repayment of the New Bonds would be secured by a lien on the future cash flow generated by PREPA through the imposition of a Transition Charge. This is a special charge that will be added to the amount billed to PREPA's customers and used solely to pay the New Bonds. The Transition Charge is designed to increase over time, from 2.768 c/kWh during fiscal year 2021 up to a cap of 4.552 c/kWh during fiscal year 2044 and thereafter.

IMPACT ON CUSTOMERS WITH THEIR OWN GENERATION

Customers that generate their own electricity will be subject to the Transition Charge, unless they are completely and permanently disconnected from the electric system. The application of the Transition Charge, as currently proposed, would essentially constitute a regressive tax on all customers. It will also discourage the installation of behind the meter generation systems.

SETTLEMENT CHARGE

This charge will be included in customer bills commencing on July 1, 2019, and is equal to 1 c/kWh. Commencing on August 30, 2019, PREPA will pay participating bondholders an amount equal to the number of kilowatt hours billed by PREPA during the previous month, multiplied by 92%, multiplied by the Settlement Charge.

SUBSIDY CHARGE

The RSA also mandates the imposition of a subsidy charge on all customers, except those expressly excepted by legislation. This charge seeks to recover from all of PREPA's clients: (1) costs incurred by PREPA or any successor for subsidies granted to various customer classes; (2) certain uncollected amounts from private clients; and (3) uncollected amounts from government clients.

BOTTOM LINE

The proposed RSA is not a good transaction for Puerto Rico. Its terms and conditions are overly generous to creditors; it discourages the transition to distributed renewable generation; it is uncertain whether it provides the debt relief necessary to maintain PREPA as a going concern, while avoiding another restructuring in the short to medium term; and will in all likelihood result in a significant rate increase for Puerto Rican ratepayers for decades to come. For all the foregoing reasons the proposed RSA should be rejected and we respectfully recommend the parties go back to the negotiation table.

The Center for a New Economy (**CNE**) is Puerto Rico's first and foremost policy think tank, an independent, nonpartisan group that advocates for the development of a new economy for Puerto Rico. Over the last 20 years, **CNE** has championed the cause of a more productive and stable Puerto Rico through its offices in San Juan, Puerto Rico and Washington, D.C. We seek to inform current policy debates and find solutions to today's most pressing and complex economic development problems by rigorously analyzing hard data and producing robust empirical research. **CNE** is organized as a 501(c)(3) nonprofit that does not solicit or accept government funding. It relies solely on funding by individuals, private institutions and philanthropic organizations.

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