CNE20

## Analysis

# PREPA Debt Restructuring 3.0: It is Even Worse Than You Think

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# Introduction

On May 3, 2019, the Puerto Rico Electric Power Authority ("PREPA"), the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), and the Financial Oversight and Management Board for Puerto Rico (the "FOMB"), executed a "Definitive Restructuring Support Agreement" (the "RSA"), with the members of the Ad Hoc Group of PREPA Bondholders (the "Ad Hoc Group"), and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. (collectively, "Assured"), for the restructuring of a portion of certain bonds issued by PREPA.

In this post we summarize some of the principal terms and conditions of the RSA and provide some analysis of its potential effects on Puerto Rico's electricity market.

# Description of the Transaction

The proposed transaction consists of an exchange of existing PREPA bonds for new bonds (the "New Bonds" or "Securitization Bonds") to be issued by a new, "bankruptcy-remote" special purpose vehicle (the "Issuer") created specifically for that purpose.

The New Bonds, in turn, are divided into two tranches: Tranche A Bonds and Tranche B 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 we will describe below. While Tranche B Bonds will be exchanged at a ratio of 10% of principal amount of outstanding bonds subject to the exchange.

For example, a person who owns existing PREPA bonds with a face value of $100,000, and which are subject to the exchange, would receive Tranche A Bonds with a face value of $67,500 and Tranche B Bonds with a face value of $10,000, for a total nominal recovery of $ 77,500. This implies a reduction in the nominal principal, or face value, of the existing bonds of 22.5%. **This is the same reduction, or "haircut", in face value that was agreed to in the previous RSA dated July 30, 2018 (the "July 2018 RSA"), which was subsequently rejected as insufficient.**

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. Any interest not paid when due shall be added to the interest to be paid on the next payment date for Tranche A Bonds. The obligation to pay the Tranche A Bonds will extend beyond the stated final maturity if not paid in full on the stated final maturity until all principal of, and accrued and unpaid interest on, the Tranche A Bonds is paid in full.

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). In any event, Tranche B Holders will not receive any cash payments until Tranche A Bonds are paid in full.

**These are essentially the same terms agreed to ten months ago and set forth in the July 2018 RSA.**

## Assured Treatment

In contrast with the July 2018 RSA, the new RSA provides for the special treatment of certain PREPA indebtedness insured or owned by Assured (the "Assured Treatment"). These are the Assured Insured Bonds; Uninsured Bonds beneficially owned by Assured; and the Assured Insured Interest Rate Swaps.

For example, at Assured's election (the "Assured Election"), all or any portion of the Assured Insured Bonds selected by Assured shall be paid, in full, on the Effective Date, at an acceleration price (the "Acceleration Price") equal to the outstanding principal amount of such Bonds plus the accrued and unpaid interest thereon (or, in the case of any capital appreciation bonds, the compounded amount thereof) as of the Effective Date from:

(a) the proceeds of all or any portion of the Assured Securitization Bonds allocable to holders of Assured Insured Bonds that shall be:
  - (i) insured, at Assured's election, in accordance with a new insurance policy issued by Assured on terms acceptable to Assured;
  - (ii) underwritten in an "offering" within the meaning of SEC Rule 15c2-12; and
  - (iii) sold into the market such that they are issued and delivered to such underwriter(s) on the Effective Date; and

(b) to the extent such proceeds of Assured Securitization Bonds are not sufficient to pay the Acceleration Price, amounts equal to such deficiency paid by Assured in accordance with the insurance policies (the "Assured Insurance Policies") guaranteeing the Assured Insured Bonds.

The Assured Treatment appears to be designed to entice the participation of Assured in the debt restructuring by minimizing Assured's exposure, at the expense of Puerto Rican ratepayers.

# Payment of the New Bonds

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 to pay the New Bonds.**

According to the RSA, the Transition Charge shall be set at the following levels:

- FY 21-23: 2.768 c/kWh
- FY 24-28: 2.957 c/kWh
- FY 29: 3.242 c/kWh
- FY 30: 3.323 c/kWh
- FY 31: 3.406 c/kWh
- FY 32: 3.492 c/kWh
- FY 33: 3.579 c/kWh
- FY 34: 3.668 c/kWh
- FY 35: 3.760 c/kWh
- FY 36: 3.854 c/kWh
- FY 37: 3.950 c/kWh
- FY 38: 4.049 c/kWh
- FY 39: 4.150 c/kWh
- FY 40: 4.254 c/kWh
- FY 41: 4.361 c/kWh
- FY 42: 4.470 c/kWh
- FY 43: 4.552 c/kWh
- FY 44 through transition charge termination: 4.552 c/kWh

Under the July 2018 RSA, the Transition Charge would have been 2.636 c/kWh for the first five years; 2.729 c/kWh during years 6 to 10; 2.868 c/kWh during year 11; and would then have increased at an annual rate of 2.5% until it reached the amount of 4.348 c/kWh. At that time, the Transition Charge would remain fixed at that amount until the expiration of the New Bonds.

**Thus, after ten months of additional negotiations we end up with the same reduction in principal AND paying a higher Transition Charge under the new RSA than under the July 2018 RSA. Surely, that was money well spent in legal and financial advisory fees.**

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). In any event, Tranche B Holders will not receive any cash payments until Tranche A Bonds are paid in full.

**These are essentially the same terms agreed to ten months ago and set forth in the July 2018 RSA.**

According to Schedule I-A of the Securitization Term Sheet, "Transition Charges are non-by passable charges, the payment of which shall be obligatory" and "Transition Charges shall be assessed on all Customers, regardless of the date as of which they become Customers."

For purposes of the Transition Charge, Customer means: "a service location or premise that:

(a) is connected to the System,
(b) uses or leases any part of the System,
(c) is connected to a microgrid, municipal utility or electric cooperative that is connected to or uses the System, or
(d) benefits from any agreement that requires the System to provide the Customer electricity under any condition, including without limitation, an obligation to provide power on a standby, maintenance, emergency, or similar basis."

However, a "Customer shall not include any **permanently disconnected service location or premise** that does not benefit from any agreement that requires the System to provide the Customer with electricity under any condition, including without limitation, an obligation to provide power on a standby, maintenance, emergency, or similar basis."

But, "notwithstanding the foregoing, a microgrid, municipal utility or electric cooperative permanently operating solely in island-mode shall not be considered 'permanently disconnected' if it uses or leases any part of the System."

**Thus, customers that generate their own electricity will be subject to the Transition Charge, unless they are completely and permanently disconnected from the electric system.**

Customers with their own generation, called behind the meter generation customers ("BTMG Customers") in the Term Sheet, are in turn divided into two classes: (1) Grandfathered BTMG Customers and (2) Non-Grandfathered BTMG Customers.

Grandfathered BTMG Customers are those who had their generation facilities installed on or before September 30, 2020 (the "Implementation Date"). Those customers will be subject to a monthly Transition Charge in the form of a fixed charge calculated for each month by multiplying:

(x) the Transition Charge Rate applicable to such month by

(y) a monthly average of the Grandfathered BTMG Customer's Net Consumption over the prior twenty-four (24) month period, after considering a three (3) month lag time (such period, the "Twenty-Four Month Period").

The effect of using a 3 month moving average over 24 months is to smooth out consumption peaks and throughs: on months when a customer's consumption peaks it will end up paying a little bit less than otherwise, and on months when its consumption is relatively lower, it will end up paying a little bit more than otherwise.

Any Grandfathered BTMG Customer loses that status if its behind the meter **capacity**, in contrast with generation, increases by more than 20% above the capacity in place on the Implementation Date. In addition, all Grandfathered BTMG Customers shall cease to be Grandfathered BTMG Customers on the 20th anniversary of the Effective Date of the Plan of Adjustment of PREPA's debt.

Non-Grandfathered BTMG Customers are all BTMG Customers, except Grandfathered BTMG Customers. Such non-grandfathered customers shall be obligated to pay for the cost of installing a revenue grade meter to measure the amount of electricity that is generated behind the meter (a "BTMG Meter"). Each Non-Grandfathered BTMG Customer with a BTMG Meter shall be subject to a monthly Transition Charge equal **to the greater of**:

(x) a fixed charge calculated for each month by multiplying
    (i) the Transition Charge Rate applicable to such month by
    (ii) the monthly average of that Non- Grandfathered BTMG Customer's **Gross Consumption** during the then-applicable Twenty-Four Month Period, and
(y) the product of the Transition Charge Rate applicable to such month and the Non-Grandfathered BTMG Customer's Net Consumption for **such month**.

Until such time as a Non-Grandfathered BTMG Customer has an operating BTMG Meter, then, the monthly average of that Non-Grandfathered BTMG Customer's Gross Consumption during the then-applicable Twenty-Four Month Period shall be deemed to be the gross electricity inflows received from the System in the month for which the fixed charge is being calculated.

The fixed charge applicable to Grandfathered BTMG Customers and Non- Grandfathered BTMG Customers shall be recalculated by the Servicer on the Effective Date and every anniversary thereof (the "Update Date") as follows:

1. For Grandfathered BTMG Customers, at the conclusion of each Twenty-Four Month Period measured from the Effective Date, by calculating that Grandfathered BTMG Customer's average monthly Net Consumption for the most recent Twenty-Four Month Period preceding such Update Date;
2. For Non-Grandfathered BTMG Customers, at the conclusion of each Twenty- Four Month Period measured from the Effective Date, by calculating that Non-Grandfathered BTMG Customer's average monthly Gross Consumption for the most recent Twenty-Four Month Period preceding such Update Date; and
3. For all BTMG Customers, every year on the Update Date, to reflect changes in the applicable Transition Charge Rate to ensure that the fixed charge is consistent with the Transition Charge Rate for such month.

Customers without behind the meter generation will be charged a Transition Charge calculated by multiplying each customer's consumption by the then applicable per kWh Transition Charge Rate.

The Puerto Rico Energy Bureau can amend the charge applicable to BTMG customers if it determines that the fixed charge is contributing to, and is likely to continue to contribute to BTMG Customer defection from the System that is likely to result in "material changes in Transition Charge revenue" (a "Fixed Charge Amendment").
Any Fixed Charge Amendment shall be:

(a) supported by third-party expert studies quantifying the impact of implementing the Fixed Charge Amendment as compared with the status quo;
(b) put into effect only:
    (i) if the Securitization Bonds have an investment grade rating,
    (ii) if every rating agency that has rated the Securitization Bonds has confirmed that the Fixed Charge Amendment shall not result in a downgrade of the rating on the Securitization Bonds or otherwise cause an adverse action by the rating agency, and
    (iii) upon the affirmative vote of the holders of a majority of principal amount of the Securitization Bonds at that time outstanding, excluding any Securitization Bonds held by the Government, any Government Entity, and any Puerto Rico municipality; and
(c) may be implemented no more frequently than once every three (3) years.

# Subsidy Charge

Schedule I-A to the Securitization Term Sheet also mandates the imposition of a subsidy charge ("the 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.

The Subsidy Charge for any month shall include the monthly average of the sum of:

(1) an amount to cover Subsidized Entities' Non-Collections and an amount to cover General Public Non-Collections (together, the "Uncollected Amounts Charge"); and
(2) an amount to cover Government Non-Collections.

"Subsidized Entities' Non-Collections" means, in any given year, the amount of billed but unpaid kilowatt hours for the preceding year attributable to deliveries under contributions in lieu of taxes ("CILT") arrangements, for public lighting, for low-income (public) housing, or for other subsidies, exemptions or credits then in effect. **The amount to cover Subsidized Entities' Non-Collections equals the Subsidized Entities' Non-Collections multiplied by the then-applicable Transition Charge Rate.**

"General Public Non-Collections" means, in any given year, the amount of billed but unpaid kilowatt hours delivered to Customers that are not included in the Subsidized Entities' Non-Collection and that are not the Government or a Government Entity (such Customers, "General Public Customers"). The amount to cover General Public Non- Collections equals the then-applicable Transition Charge Rate multiplied by:

(i) in the event that (x) there is a private third-party acting as the System operator or (y) PREPA or any Government Entity is operating or managing the System and is following the Collection Regulations (to be issued by the Puerto Rico Energy Bureau), **any amounts over 1.5% of the total kilowatt hours consumed by General Public Customers that were billed but not collected during the previous year**; or
(ii) in the event that PREPA or any Government Entity is operating or managing the System and is not following the Collection Regulations, **all total kilowatt hours consumed by General Public Customers that were billed but not collected during the previous year.**

However, if the actual uncollected amounts for any given year **are less** than the amount that was charged to Customers through the Uncollected Amounts Charge, the Uncollected Amounts Charge shall be reduced in the next year to rebate such excess to Customers in the form of a lower Uncollected Amounts Charge. On other hand, if the actual uncollected amounts for any given year **are greater** than the amount that was charged to Customers through the Uncollected Amounts Charge, the Uncollected Amounts Charge for the next year **shall be increased** to make up for such shortfall.

Finally, "Government Non-Collections" means, in any given year, the total amount of payables owed with respect to kilowatt hours consumed by the Government and all Government Entities that were more than sixty (60) days past-due as of the end of the previous year. **The amount to cover Government Non-Collections equals the Government Non-Collections multiplied by the Transition Charge Rate applicable for such year.**

In our view, this kind of subsidy charge is unfair to customers that do not benefit from any subsidy, does not promote energy efficiency, discourages PREPA from improving its collection procedures, and should be eliminated, or limited to recovering only those costs related to subsidies whose social value has been confirmed.

# Other Charges, Fees, and Assorted Payments

The RSA includes a plethora of charges, fees, and payments for the benefit of the participating bondholders and at the expense of PREPA's clients. Among those we find the following:

First on the list is a **Settlement Charge** for agreeing to support the restructuring agreement. 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% (to account for losses and subsidies), multiplied by the Settlement Charge.

However, if a Title III plan for PREPA has not been confirmed and become effective by **March 31, 2021**, then the Settlement Charge should be increased to equal the amount of the Transition Charge that would have gone into effect on that date, assuming the Effective Date had occurred and the New Bonds were issued on that date (the "**Increased Settlement Charge**").

Second, bonds subject to the RSA prior to a certain date (depending on the class of bond) are entitled to an administrative expense claim ("**Administrative Claim**") for an amount equivalent to the Tranche A Bond interest payments accrued in respect of such bond less the amount of Settlement Payments or Increased Settlement Payments made on account of such bond.

Third, on the Effective Date and concurrently with the issuance of the New Bonds:

(a) Ad Hoc Group Members shall receive a **waiver and support fee** in the form of Tranche A Bonds equal to 1.9350% of the par amount of PREPA Bonds held by the members of such Ad Hoc Group as of July 1, 2018;

(b) Assured shall receive a **waiver and support fee** in the form of Tranche A Bonds equal to 1.8850% of the par amount of PREPA Bonds held or insured by Assured as of May 1, 2019; and

(c) Supporting Holders, including any additional signatories of the RSA, may receive **additional support (and potential waiver fee)** in the form of Tranche A Bonds initially equal to 0.8360% of par amount of total outstanding PREPA Bonds as of May 1, 2019, in a manner to be agreed upon in the future.

Fourth, **reimbursement of reasonable fees and expenses**: (a) incurred by the Ad Hoc Group members prior to July 23, 2018, up to $25 million; (b) incurred by the Ad Hoc Group members after July 23, 2018 through the Effective Date; and (c) incurred by Assured on or after August 1, 2018 through the Effective Date; shall be paid on or after the Effective Date.

## Exemption from Existing Legislation

Schedule I-B to the Securitization Term Sheet requires that the following laws or provisions not apply to the Issuer of the New Bonds, except as agreed to by the Required Parties:

1. Chapters 4 and 6 of Act 26-2017, as amended, known as the "Fiscal Plan Compliance Act";
2. Act 1-2012, as amended, known as the "Puerto Rico Government Ethics Act of 2011";
3. Act 103 of May 25, 2006, as amended, known as the "Act for the Fiscal Reform of the Government of the Commonwealth of Puerto Rico of 2006";
4. Act 8-2017, as amended, known as the "Act for the Transformation of the Government's Human Resources";

5. Act 237-2004, as amended, known as the "Act to Establish Uniform Parameters for Contracting Professional and Consulting Services by Agencies and Instrumentalities of the Government of Puerto Rico";
6. Act 197-2002, as amended, known as the "Act to Regulate the Transition Process of the Government of Puerto Rico";
7. Act 78-2011, as amended, known as the "Electoral Code of Puerto Rico for the XXI Century";
8. Act 38-2017, known as the "Uniform Administrative Procedures Act of the Government of Puerto Rico";
9. Plan 3-2011, as amended, known as "General Services Administration Reorganization Plan";
10. Act 230 of July 23, 1974, as amended, known as the "Government Accounting Act";
11. Act 3-2017, known as the "Law to Address the Economic, Fiscal and Budgetary Crisis and Ensure the Functioning of the Government of Puerto Rico";
12. Act 14 of April 17, 1972, as amended;
13. Act 2-2017;
14. Act 5-2017;
15. Act 17-2019, known as the "Puerto Rico Energy Public Policy Act"; and
16. Section 6.25A of Act 57-2014.

# Analysis

In the general, the basic structure of the new RSA is quite similar to the one set forth in the eventually discarded July 2018 RSA, with some additional incentives to induce the participation of Assured. It is not clear to us why this RSA is preferable to the rejected July 2018 RSA, given they are substantially similar and, in some aspects, the terms and conditions of the new RSA are significantly more onerous.

## *Debt Relief*

Much of the public discussion has focused on the amount of the "haircut," or reduction, to the outstanding bonds' principal, an amount equal to 22.5%. It is difficult, relying solely on information contained in public documents, to determine whether that amount is (1) reasonable and/or (2) sufficient to allow PREPA to continue operating in a sustainable way.

On the one hand, we should remember that the outstanding PREPA bonds are "special revenue bonds," which usually enjoy a high degree of protection in municipal bankruptcy cases under Chapter 9 of the U.S. Bankruptcy Code. These are bonds commonly issued by governmental agencies that provide such basic services as transportation, water, sewers, electricity, gas for heating, and so on. The repayment guarantee for these bonds, as is the case with the existing PREPA bonds, is a lien against the net revenues (after paying the operating costs of the issuer) generated by the issuer.

According to James E. Spiotto, an expert in municipal bankruptcies and author of ***Municipalities in Distress?: How States and Investors Deal with Local Government Financial Emergencies***, Congress amended the Bankruptcy Code in 1988 specifically to make it clear that revenues encumbered on behalf of this type of bondholders could not be diverted for other purposes, and that those bondholders had the right to continue receiving their payments—again, we stress, net of the issuer's operating costs—even after the debtor had filed for bankruptcy. Therefore, these bonds are not as a general rule substantially modified, if at all, in a case under Chapter 9. Thus, we might say that in comparison with other bankruptcies by similar entities in the United States, the 22.5% reduction in the principal set forth in the RSA is reasonable.

However, PREPA is not undergoing a process pursuant to Chapter 9, even though Title III of PROMESA incorporates many of the provisions of that Chapter through its Section 301 (a). Therefore, the FOMB may have more leeway to negotiate a restructuring of PREPA's debt. In addition, in the case of PREPA, we must take the following factors into account: (1) it operates in an economy that has shown no growth in 13 years; (2) its administrators have negligently postponed maintenance on its generation plants and its transmission and distribution lines for decades; (3) the demand for electricity is projected to decrease over the next few years; (4) PREPA needs a massive injection of capital in order to modernize and optimize its operations; and (5) Hurricane Maria wreaked havoc with PREPA's transmission and distribution system, and while the grid is currently functional, it is still quite fragile and will need substantial repairs in the near future.

Given those factors, a haircut of 22.5% to the principal of the existing debt may not be sufficient to allow PREPA to continue operating in a sustainable manner. That may be the explanation for the bondholders' having agreed to waive the right to declare the Issuer of the New Bonds in default in case of a non-payment. It appears that the parties to the agreement are assuming from the outset that there is a high probability that the Issuer will not be able to honor the negotiated terms and conditions, and so have agreed on a mechanism beforehand to assign and mitigate that risk.

The RSA documents do not explain how the haircut amount was determined or whether that amount of debt relief is sufficient to allow PREPA to continue operating without incurring another default in the near future. The August 1, 2018 certified Fiscal Plan, also does not explain or take into consideration debt service beyond stipulating that the amount of the existing debt is not sustainable (see page 27 of the Fiscal Plan of August 1, 2018). Nor do any of the projections laid out in the Fiscal Plan include an analysis of how electricity rates would be affected in a post-debt-restructuring scenario. In our opinion, it appears there is a disconnect between the certified Fiscal Plan's scenarios and what is set forth in the new RSA.

Finally, we have to analyze the proposed RSA in the context of the restructuring of Puerto Rico's other indebtedness. Puerto Rico accumulated through the decades a total indebtedness in the amount of approximately $70 billion. And while it is true that there are several issuers and types of bonds outstanding, each with different legal protections and repayment sources, the fact remains that financial resources from the depressed Puerto Rican economy are the ultimate source for the repayment of all such indebtedness, regardless of whether it is through taxes, as in the case of COFINA, or monthly bills, as in the case of PREPA.

That is why experts such as Martin Guzman, among others, have suggested analyzing and restructuring Puerto Rico's debt in a holistic, comprehensive manner. An economy that has been in a depression for more than a decade can only dedicate a relatively small amount of resources to repay debt, if it wants to avoid imposing counterproductive austerity policies and undertake the necessary investment to jumpstart and sustain growth. Given that state of affairs, Guzman has suggested that Puerto Rico's overall debt stock needs to be reduced by more than 80%. So far the two consummated restructurings (GDB and COFINA) have generated debt relief significantly below that threshold. If Puerto Rico continues to be overly generous with its creditors, then the probabilities of another debt crisis in the short to medium term increase significantly.

Therefore, while we cannot determine with certainty, given the information publicly available at this time, whether the proposed debt relief represents the amount needed to maintain PREPA as a going concern, it would not be unreasonable to affirm at this time that the proposed transaction is overly generous to bondholders.

### *Rate Increase in the Horizon?*

Another issue that has captured the public's attention is the Transition Charge. That debate has centered on trying to determine whether the charge is or is not a rate increase. In theory, as some government representatives argue, the imposition of the Transition Charge would not necessarily entail a rate increase for customers, so long as PREPA reduces its system-wide operating costs by an amount equal to or greater than the Transition Charge. In practice, achieving that reduction would be very difficult—although not impossible.

For example, on the most recent electric bill I received from PREPA, I was charged approximately 22 cents per kWh. The Transition Charge for the first year would be 2.768 cents per kWh, equivalent to 12.6% of the amount per kWh that PREPA billed me in that statement.

## Conclusion

Under normal conditions, it might be feasible to achieve a reduction in operating costs in that amount. But we are not operating under normal conditions. As we argued before, the economy is in a deep depression and the demand for electricity is decreasing and is projected to continue decreasing. Furthermore, according to the Fiscal Plan, PREPA needs to make a series of capital investments in order to reduce its dependency on oil and reduce its operating costs, and those investments will have to be financed and repaid in some way.

We also note that if the RSA enters into effect, PREPA will start billing the Transition and Subsidy Charges in the very near term, while any savings from switching to cheaper fuel sources and other cost saving measures will probably take several years to materialize. Thus, it is highly unlikely PREPA will be able to fully offset the new charges set forth the in the RSA. And Puerto Rican customers will end up paying higher rates for at least a generation.

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.