

The Virgin Islands Consortium

Federal Control Board Proposes to Slash \$10 Billion Debt of Puerto Rico Electric Power Authority

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Puerto Rico.

In a significant move to resolve Puerto Rico's ongoing financial crisis, a federal control board overseeing the U.S. territory's finances filed a new debt restructuring plan late last Friday for the Puerto Rico Electric Power Authority (PREPA).

The plan aims to significantly reduce the agency's staggering \$10 billion debt by nearly 80%, bringing it down to approximately \$2.5 billion.

Robert Mujica, the executive director of the federal control board, expressed optimism about the new plan, stating, "We hope that we will be closing not just the chapter but most of the book on the largest public sector bankruptcy in the United States," he said. The proposal aims to resolve a bankruptcy process that has been marked by contentious negotiations for years.

However, the plan, if approved by a federal bankruptcy judge, is likely to increase already high electricity bills for many Puerto Rican residents. According to the plan, residential electricity bills could rise by nearly \$9 per month, while commercial bills may see an increase of \$35. The plan does stipulate that approximately 1.4 million customers consuming less than 425 kilowatt-hours per month would be exempt from the new charge.

Board chairman David Skeel acknowledged the challenges ahead during a press meeting, stating, "Nobody wins ... if [PREPA] remains financially unstable." Skeel indicated that the plan might be confirmed as early as January, although opposition to the plan remains.

The restructuring proposal has the backing of companies holding over 40 percent of the uninsured bonds issued by PREPA. These companies have agreed to purchase new bonds, the proceeds from which would be used to pay off some creditors in cash.

This new plan is the third of its kind and follows a federal judge's prior reduction of bondholders' claims. It comes more than eight years after Puerto Rico first announced its inability to pay its more than \$70 billion in public debt, accrued over decades due to corruption, mismanagement, and excessive borrowing.

Recent increases in electric bills have been met with criticism, particularly as the island's power infrastructure has been precarious since Hurricane Maria ravaged it in 2017. Efforts to rebuild the grid have only recently begun.

The debt restructuring plan is a crucial step toward resolving one of the last significant debts owed by Puerto Rico's government agencies. However, it remains to be seen how the plan will navigate the challenges ahead, both in the courts and amongst the Puerto Rican public.