REOF CAPITAL

BOND RESEARCH

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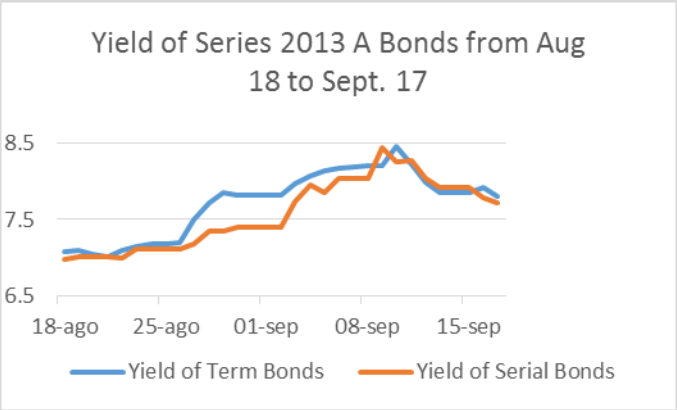

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PREPA Power Revenue Bonds, Series 2013 A,

CUSIP: 7452Q

It is clear that the current situation of PREPA is not ideal, hence the weak rating on their debt. The purpose of this report is to summarize some issues affecting the PREPA Power Revenue Bonds Series 2013A so the reader can better decide if the borderline junk rating is warranted.

CAPITAL IMPROVEMENT FUND

Historically, the Authority has made capital improvements almost exclusively through the issuance of debt. According to the consulting engineers to the Authority, it is a practice that should change as they should start funding capital projects from within. The Authority says they are committed to start doing this in the future. However, the issuance of this series of Power Revenue Bonds was made with the main intention of replenishing the Capital Improvement Program Account. Still, the Authority projects that they will reduce the amount spent on capital improvements from $1.9 billion (2009-2013) to $1.55 billion (2014-2018). Their rationale behind this reduction is the decreasing need for increases in power generating capacities due to the continued reduction of power demand.

Positive Factor	Negative Factors
Monopolistic provider of essential service	High level of leverage
Price setting capabilities	Weak economic and demographic outlook
Cost reduction strategies currently being implemented	Decreasing demand for energy due to high prices
	Extreme oil dependency

Although it is part of the authority's Fuel Diversification Strategy, in their estimates there's no inclusion of any costs associated with the development and construction of the infrastructure needed for the transportation of natural gas to the generating facilities that will make use of it. Any costs related to this will be added to Current Expenses, which under the Trust Agreement have priority over debt service of the Power Revenue Bonds. The meaning of this is that even if the authority moves to convert their existing generating facilities to the substantially cheaper natural gas, the savings would likely be mostly.....

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