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SEC is Investigating PREPA's 2012 and 2013 Bonds

By [Robert Slavin](#)
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The U.S. Securities and Exchange Commission is investigating the Puerto Rico Electric and Power Authority's 2012 and 2013 bonds.

The SEC has given a subpoena concerning the bonds to PREPA, which is cooperating in the investigation, the power utility said Thursday.

The disclosure of the SEC's probe follows the release of a report late last month by the Puerto Rico Commission for the Comprehensive Audit of the Public Credit questioning the authority's handling of its 2013 bond. The commission suggested that PREPA had been misleading about its debt service coverage and unrealistically optimistic about its sales forecast and its ability to sell an additional large bond.

The commission also raised concerns about possible illegalities, disclosures and accounting issues connected with the \$673 million bond. It specifically raised potential problems with the behavior of performance auditor URS Corp., underwriter Morgan Stanley, and auditor Ernest & Young. None of these three immediately responded to inquiries as to whether the SEC is looking into their activities with PREPA.

PREPA sold the Series 2012A and 2012B bonds for a total of \$650 million. It sold the Series 2013A bonds for \$673 million.

PREPA is more than two years into the process of a negotiated debt restructuring with a group of its debt holders. It has more than \$8 billion outstanding in bond debt.

PREPA chief restructuring officer Lisa Donahue mentioned the SEC investigation to the Puerto Rico Senate Committee on Energy Issues and Water Resources on Tuesday. Responding to the revelation, Puerto Rico Senate Pres. Eduardo Bhatia Gautier said the SEC must be investigating the authority's misuse of the bond proceeds, according to a statement on the Senate's web site.