UPDATE 1-Moody's downgrades Puerto Rico's PREPA revenue bonds

Ratings agency Moody's cut $8.8 billion of Puerto Rico Electric Power Authority's (PREPA) revenue bonds further into junk on Wednesday, saying bondholders could lose up to 35 percent of their investment if PREPA defaults.

Moody's cut its ratings on the bonds to 'Caa3' from 'Caa2' and said any restructuring at the troubled utility could be influenced by political considerations, adding that there were risks around the utility's plans to convert its fuel supply.

The ratings agency estimated the recovery rate from a PREPA restructuring at 65 percent to 80 percent. It said that it viewed a restructuring as "highly likely."

"The downgrade considers the uncertainty that persists regarding the details of the expected restructuring plan by PREPA," Moody's said. (bit.ly/1o3w4gk)

PREPA entered into a forbearance agreement with a majority of its bondholders in September. As part of that agreement it hired Lisa Donahue from Alix Partners to produce a restructuring plan by next March.

In an interview with Reuters earlier this month, Donahue said it was too early to say if bondholders would take a writedown in the event of a restructuring but said all options were on the table.

Moody's said PREPA's ratings were not expected to move upward over the near-to-medium term.

PREPA bonds that mature in 2030 and carry a 5.95 percent coupon traded on Wednesday at an average price of 53.856 cents on the dollar. That compared to an average price of 54.205 cents on Tuesday. Last week the bonds' average price was as high as 57.816 cents on the dollar. (Reporting by Abinaya Vijayaraghavan in Bangalore; Editing by Simon Jennings and Tom Brown)
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