

July 18, 2008

Research Update:

Dutch Utility ENECO Placed On CreditWatch Negative On Unbundling Of Regulated Operations

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Rationale

On July 18, 2008, Standard & Poor's Ratings Services placed on CreditWatch with negative implications all ratings on Netherlands-based integrated utilities ENECO Holding N.V. and N.V. ENECO (collectively Eneco), including the 'A' long-term corporate credit rating.

The CreditWatch placement, which also applies to fellow Dutch utilities N.V. NUON, Essent N.V., and Delta N.V., is driven by the risks linked to the forced ownership unbundling of regulated distribution operations from unregulated businesses by Dec. 31, 2010.

Given that the ratings on Eneco factor in its vertically integrated business model and its significant share of regulated earnings, the unbundling will have negative credit consequences for the company. Eneco's monopoly energy distribution businesses accounted for 71% of the group's reported operating income in 2007.

The ratings reflect the stable and substantial earnings contribution of the group's monopoly energy distribution businesses and its conservative financial policy.

These strengths are offset by Eneco's exposure to volatile wholesale power prices, given its short power position, and the risks stemming from the forced unbundling of its regulated distribution operations from the rest of its businesses.

Short-term credit factors

The short-term rating is 'A-1'. Eneco's sound liquidity is underpinned by limited debt maturities until 2010, available cash and securities of €146 million (at end-December 2007), and a fully undrawn €1.5 billion credit facility maturing in 2013. The facility is a backup for the group's €750 million global commercial paper program, and also provides collateral support for letters of credit (LOCs) issued in connection with its cross-border leases (CBLs).

Eneco's net exposure to the costs of early termination of the CBLs, amounting to \$948 million at the end of 2007, is a negative credit factor. The group's risk in this respect could heighten as a result of the upcoming unbundling. The exposure is partly covered by LOCs of about \$1.0 billion at end-December 2007. The portion of costs that must contractually be covered by LOCs depends on the corporate credit rating; a downgrade would require an increase of the drawing amounts.

CreditWatch

We aim to resolve the CreditWatch placement by the end of the year and will focus on the following main points:

- The strategy of Eneco's municipality shareholders regarding the unregulated business, as the regulated business has to remain in public hands.
- The financial policy of the regulated businesses. The regulator is considering putting in place minimum credit metrics for the regulated businesses. We will meet with the regulator to gain a better understanding of how these metrics might affect the financial risk profiles of the regulated businesses.
- The allocation of debt between the unregulated and regulated businesses.
- The consequences of unbundling for Eneco's CBL exposure.
- Any one-time costs and/or liabilities resulting from the unbundling.

Ratings List

CreditWatch/Outlook Action

	To	From
ENECO Holding N.V.		
Corporate Credit Rating	A/Watch Neg/A-1	A/Negative/A-1
Senior Unsecured		
Local Currency	A/Watch Neg	A
Commercial Paper		
Local Currency	A-1/Watch Neg	A-1
N.V. ENECO		
Corporate Credit Rating	A/Watch Neg/A-1	A/Negative/A-1

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