

### Research Update:

## Outlook On Dutch Utility Eneco Remains Negative On Uncertainties Surrounding Unbundling; 'A-/A-2' Ratings Affirmed

#### Primary Credit Analyst:

Karin Erlander, London (44) 20-7176-3584; [karin\\_erlander@standardandpoors.com](mailto:karin_erlander@standardandpoors.com)

#### Secondary Credit Analyst:

Leigh Bailey, London (44) 20-7176-3780; [leigh\\_bailey@standardandpoors.com](mailto:leigh_bailey@standardandpoors.com)

### Table Of Contents

---

- Overview
- Rating Action
- Rationale
- Outlook
- Related Criteria And Research
- Ratings List

## Research Update:

# Outlook On Dutch Utility Eneco Remains Negative On Uncertainties Surrounding Unbundling; 'A-/A-2' Ratings Affirmed

## Overview

- Dutch integrated utility Eneco Holding N.V. (Eneco) has cancelled the separation of its generation and supply activities from its distribution networks by Jan. 1, 2011, following a decision by the Dutch court that full unbundling is not compliant with EU law.
- We are affirming our 'A-' long-term and 'A-2' short-term corporate credit ratings on Eneco.
- The negative outlook reflects our view that uncertainties surrounding the unbundling process remain, especially in light of the Dutch government's intention to appeal the court decision.

## Rating Action

On Aug. 9, 2010, Standard & Poor's Ratings Services affirmed the 'A-' long-term and 'A-2' short-term ratings on Dutch utilities Eneco Holding N.V. and N.V. Eneco (collectively known as Eneco). The outlook remains negative.

## Rationale

The rating affirmation follows a court ruling in The Netherlands to the effect that the enforced unbundling of the regulated distribution networks from the generation and supply operations is not compliant with EU law. Consequently, Eneco has called off the unbundling by Jan. 1, 2011, and is considering maintaining an integrated business model. The rating affirmation is based on our assumptions that Eneco will remain an integrated utility company, which weakens the company's business risk profile, but that leverage will be more moderate than we had anticipated under the unbundling scenario.

We understand that the Dutch government intends to appeal the court ruling, and we also believe that Eneco could still opt to separate its business units without the enforced unbundling. In our view, uncertainties relating to the unbundling process still remain.

In our view, Eneco's weaker business risk profile as an integrated utility company reflects its exposure to competitive and volatile generation and supply activities. However, based on the company's 2009 results, earnings from the regulated distribution networks account for about 50% of Eneco's EBITDA, providing stable and predictable earnings in support of the company's strong business risk profile.

We believe that Eneco's financial risk profile as an integrated company would be stronger than we anticipated because in our view the consolidated company will not increase debt as we previously assumed. Further support comes from the stable cash flow stream generated by the regulated network.

Eneco's adjusted funds from operations (FFO)-to-debt ratio decreased to 27% in 2009 from 32% in 2008, while FFO interest coverage decreased to 5.5x from 7.5x in the same period. While we believe that Eneco's financial risk profile will also weaken in 2010, to about 20%, on account of the company's capital expenditure (capex) program, we believe that its credit metrics could be relatively stable or even improve thereafter, due to investments that will start to generate earnings. We anticipate that Eneco's adjusted FFO to debt will be stable at just above 20% over the next two years, with the possibility of improvement in 2012 when the power plant currently under construction and other investments come on stream.

The 'A-' rating on Eneco is based on the company's stand-alone credit profile, which we assess as 'A-', as well as on our opinion that there is a "moderate" likelihood that Eneco's owners (the municipalities of Rotterdam, The Hague, Dordrecht, and 57 other small local authorities) would provide timely and sufficient extraordinary support to Eneco in the event of financial distress.

In accordance with our criteria for government-related entities, our view of a "moderate" likelihood of timely and sufficient extraordinary support is based on our assessment of Eneco's:

- "Important" role, given Eneco's strategic importance to the municipality owners as the monopoly provider of gas and electricity distribution services in its license areas; and
- "Limited" link with the owners, given the dispersed ownership structure.

## **Liquidity**

We view Eneco's liquidity as adequate. As of March 31, 2010, Eneco had €235 million in cash and €1,500 million available under a fully undrawn credit facility expiring in 2013. This compares to €144 million in short-term debt maturities, of which €124 million was redeemed in June 2010.

While we believe that Eneco will generate solid cash flows from operations through the forecast period to 2012, we also believe that Eneco's sizable capex program--of more than €700 million annually on average--will result in negative discretionary cash flows, and in our view will likely require debt funding.

## **Outlook**

The negative outlook reflects our view that uncertainties surrounding the unbundling process remain, especially in light of the Dutch government's intention to appeal the decision that full unbundling is not compliant with EU law. The negative outlook also reflects our view that should the unbundling go

ahead, Eneco is likely to have a more aggressive financial risk profile as a separated distribution network operator than it does at present.

Assuming that the current business risk profile remains unchanged, the stability of the 'A-' rating is dependent on Eneco maintaining an adjusted FFO-to-debt ratio of at least 20%.

A negative rating action is likely if the Dutch court's decision were to be reversed by a successful appeal, or if the unbundling were to be implemented for other reasons, given our assumption that the network company would then be more highly leveraged than the combined entity at present. A negative rating action is also likely if Eneco's capex program were to cause its debt to increase and its cash flow coverage of debt metrics to decrease such that the adjusted FFO-to-debt ratio were to fall to less than 20% on a sustainable basis.

Given Eneco's sizable capex plan in the near to medium term, a positive rating action is unlikely at present.

## Related Criteria And Research

- Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Use of CreditWatch And Outlooks, Sept. 14, 2009
- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

## Ratings List

Ratings Affirmed

Eneco Holding N.V.	
Corporate Credit Rating	A-/Negative/A-2
Senior Unsecured	A-
Commercial Paper	A-2

N.V. Eneco	
Corporate Credit Rating	A-/Negative/A-2
Commercial Paper*	A-2

\*Guaranteed by Eneco Holding N.V.

### Additional Contact:

Infrastructure Finance Ratings Europe;InfrastructureEurope@standardandpoors.com

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

Copyright ( c ) 2010 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).