

# Dutch Government's Willingness To Support Is Mildly Credit Positive For Energy Distributors

July 25, 2022

S&P Global Ratings believes the Dutch government's willingness to support the energy distribution sector is supportive for the credit ratings on the country's utilities. We think financial support from the state should help restore some ratings headroom for the three rated Dutch distribution system operators (DSOs): Stedin (A-/Stable/A-2), Enexis (A+/Negative/A-1), and Alliander (A+/Stable/A-1). We see that restoring headroom in the short term as being more important to the ratings for the lower-rated issuer (Stedin) than the higher-rated issuers (Enexis and Alliander). However, once we have more clarity about the government's proposed measures, we will assess the extent and the timing of such support individually for each company to determine the rating implications.

The Ministry of Economic Affairs and Climate Policy addressed funding requirements related to the energy transition in a letter addressed to parliament on July 13. As part of the country's energy transition, the three energy grid operators expect to invest €30 billion overall by 2030 to upgrade the network and increase its resiliency, with remuneration only partially covering this capital expenditure from the next regulatory period in 2027. This means that the companies will have to frontload the higher spending, thereby increasing pressure on their balance sheet. The government's preliminary estimates point to a total of €4.5 billion in equity needs by 2027, split between the three DSOs (around €2 billion for Stedin, €2 billion for Alliander, and €0.5 billion for Enexis, according to our estimates).

Potential support measures from the government may vary, including subsidies, state guarantee on borrowings, hybrid instruments, and new shareholders among local and regional governments. That said, the central government also recognizes the strategic nature of directly acquiring equity stakes in the DSOs, which will be the subject of further discussions between stakeholders in the coming months. While timing remains uncertain, we expect further announcements will be made by year-end, with a final amount delivered under the state budget by spring next year.

## Stedin Holding

Stedin Holding has the lowest financial headroom of all three DSOs but has the strongest incentives to preserve its rating, which is already lower than peers, at 'A-'. The company's historical track record of commitment to the rating and supportive financial policy; the track record of current shareholders in terms of balance sheet support; and, importantly, the statement of intention of support from the central government are key pillars of the current rating. That said, we expect high energy costs to impair EBITDA performance in 2022 because Stedin's purchases are largely exposed to spot market prices. However, discussions are ongoing with the regulator ACM to allow for a partial pass-through of higher energy costs in the tariff, though the timing and

### PRIMARY CREDIT ANALYSTS

**Pauline Pasquier**  
Paris  
+ 33 14 420 6771  
pauline.pasquier  
@spglobal.com

**Federico Loreti**  
Paris  
+ 33140752509  
federico.lorete  
@spglobal.com

### SECONDARY CONTACTS

**Claire Mauduit-Le Clercq**  
Paris  
+ 33 14 420 7201  
claire.mauduit  
@spglobal.com

**Massimo Schiavo**  
Paris  
+ 33 14 420 6718  
Massimo.Schiavo  
@spglobal.com

**Gerardo Leal**  
Frankfurt  
+ 49 69 33 999 191  
gerardo.leal  
@spglobal.com

## Dutch Government's Willingness To Support Is Mildly Credit Positive For Energy Distributors

size of this allowance is still uncertain and not yet official. Increased pressure on the rating would materialize if we observe delays in state support implementation and no further support from Stedin's shareholders. That would result in the ratio of funds from operations (FFO) to debt to fall sustainably below 11%. Given the uncertainties about the government support measures, combined with the pressure on credit metrics, we would look for evidence of forthcoming government or shareholder support by the end of 2022 (see "Dutch DSO Stedin Holding Affirmed At 'A-/A-2' On Regulatory Visibility And Financial Policy; Outlook Stable," published on Nov. 8, 2021, on RatingsDirect).

## Enexis

Enexis' financial policy is less stringent for its rating level, with a defined FFO/debt target at 16% versus our trigger at 18%, which is driving the negative outlook on the rating. (See "Enexis Holding Affirmed At 'A+/A-1' On Regulatory Decision; Outlook Negative On Constrained Metrics," published on Dec. 13, 2021.) However, we recognize the better standing of Enexis in light of energy costs because the company is adequately hedged. We will reassess the rating trajectory once we have more clarity about the use of proceeds from the ongoing sale of the unregulated activities of energy services firm Fudura.

## Alliander

Our base case for Alliander already incorporated the implementation of remedial measures from shareholders and the Dutch state during 2022 (see "Dutch Energy Distributor Alliander Downgraded To 'A+/A-1' On Regulatory Decision; Outlook Stable," published Dec. 20, 2021). Even if implementation takes somewhat longer than we initially expected, the company's credit metrics should remain in line with the current rating. Notably, we expect FFO to debt to remain above the 18% threshold for the rating, until the end of next year. We expect equity needs to rise from as early as 2024.

This report does not constitute a rating action.

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, 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 Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P 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 (negligent or otherwise), 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 or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. 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 does not act as a fiduciary or an investment advisor except where registered as such. 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. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

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 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) (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).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.