MOODY'S INVESTORS SERVICE

## CREDIT OPINION

14 December 2022

New Issue

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### RATINGS

**Alfa Transmisora de Energia S.A.**

| | |
|---|---|
| Domicile | Chile |
| Long Term Rating | Baa3 |
| Type | Senior Secured - Fgn Curr |
| Outlook | Stable |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*


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# Alfa Transmisora de Energia S.A.

## Credit opinion


### Summary

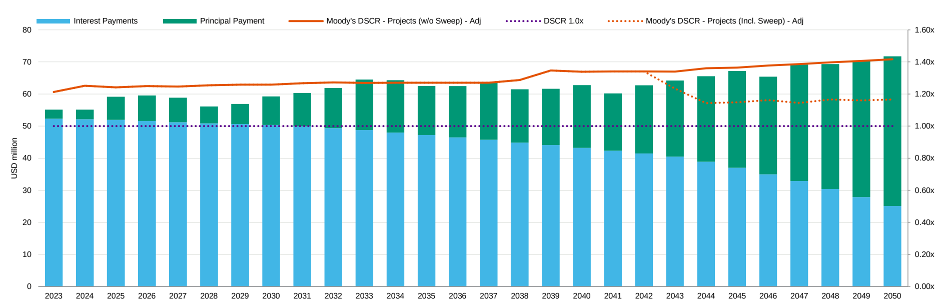
The credit profile reflects the project's diversified portfolio of transmission assets with relatively low operating risk, as evidenced by the historically high availability ratios, low capital reinvestment needs and our expectation of continued good performance under Celeo's group management. The assets are entitled to receive predictable availability-based revenues during the transaction life, from both regulated tariffs and bilateral contracts.

The credit profile is tempered by the project's high leverage yielding an average DSCR of about 1.3x over the life of the transaction (1.32x as of September 2022) and refinancing risk given the partially amortizing debt profile with approximately 50% of the original debt amount outstanding at maturity in 2051 (or 40% considering the cash sweep mechanism).

The rating considers the project finance features, including a security package that includes first-priority pledges over the project's material assets and shares of the issuer, debt service and operating maintenance (O&M) reserves, limitations on additional indebtedness, dividend restrictions and a well-defined cash waterfall that prioritizes the notes' repayment.


Exhibit 1

**DSCR is expected to average 1.3x in the legal amortization scenario**




*Source: Alfa Transmisora de Energia S.A. and Moody's Investors Service*

## Credit strengths

» Strong asset features

» Good cash flow visibility

» Supportive regulatory environment but evolving

» Solid operating track record of acquired assets & experienced operator

## Credit challenges

» High Leverage

» Repricing and recontracting risks at contracts' maturity

» Refinancing risk

## Rating outlook

The outlook is stable, reflecting our expectation of sound operations and visible and stable cash flows derived from predictable regulated and contractual revenues that will provide an average DSCR of 1.25 times over at least the first 10 years of the transaction. The stable outlook incorporates our expectation that final regulated tariffs won't differ materially from those recently published by the CNE and that any discrepancy will be addressed through the adjustments to the purchase price in a way that the project's DSCR will remain at 1.30 times on average over the life of the transaction.

## Factors that could lead to an upgrade

» Given the stable outlook and expected stability of revenues coupled with high initial debt levels, the back-loaded debt amortization profile and refinancing risk, an upgrade of the ratings is unlikely in the near term. However better than expected performance of the assets' cash flows leading to an average DSCR above 1.40 times could lead to an upgrade of the ratings.

## Factors that could lead to a downgrade

» Downgrade pressure on the ratings could emerge if the operating performance of the assets or its cash flow generation capacity, either from higher than expected expenses, lower contracted revenues or an unexpected adverse change in the regulatory framework for transmission companies, are below expectations such that the average DSCR is below 1.20 times.

## Issuer & Transaction Profile

Alfa Trasmisora de Energia S.A. (the Issuer) is a special purpose entity incorporated to acquire a portfolio of transmission assets in Chile from Colbun S.A. (Colbun Transmision S.A.). The transaction price was $1,172.5 million; the acquisition was financed by the issuer through the issuance of a senior secured bond that matures in 2051 for an amount of $1,098.6 million. Following the acquisition, the acquired company was renamed Alfa Transmisión S.A. and afterwards merged into the issuer.

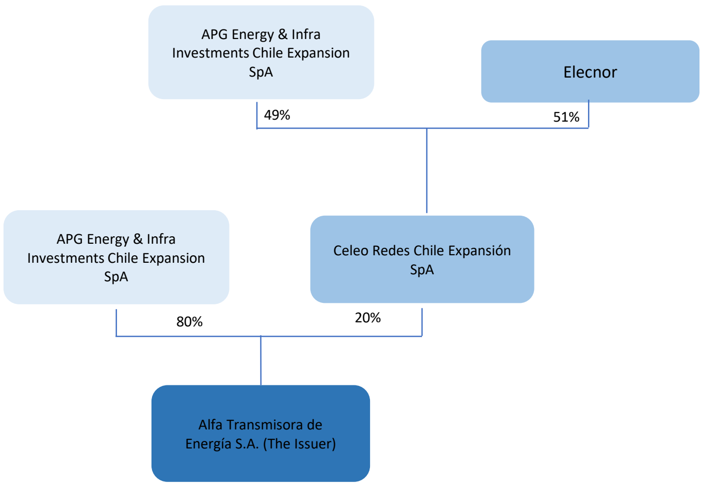
Alfa Transmisora de Energia S.A. is fully owned by APG Energy & Infra Investments Chile Expansion SpA (80%, wholly-owned by APG) and Celeo Redes Chile Expansión SpA (20%). Elecnor SA indirectly owns 51% of Celeo Redes while APG owns the remaining 49%.

APG was established in the Netherlands and is one of the largest pension funds with global footprint and approximately 560 billion euros assets under management. Nearly 75% of the portfolio allocation is on cross boarder investments, with some concentration on developed and emerging market equities. In September 2014, APG acquired a 49% stake of Celeo Redes, S.L. (co-owned by Elecnor with 51%) to increase its exposure to the Latin American Transmission sector.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Celeo Redes is headquartered in Spain; the company was formed in 2011 through the consolidation of all Elecnor's transmission activity that had been operational since 2002. The company has operations in Chile and Brazil, where it developed a robust track record in the development and operation of major transmission projects with an asset base estimated in over USD2 billion.

Exhibit 2
**Organizational Structure**




*Source: Alfa Transmisora de Energia S.A. Offering Memorandum*

Alfa's transmission assets are well diversified within the Chilean territory, serving the metropolitan region of Santiago where approximately 75% of the population lives. Most of the assets are in operations and have a robust track record evidenced by average availability levels of above 99%. O&M will be performed by Celeo Redes Chile Limitada, a fully owned subsidiary of Celeo Redes (unrated) with over 10 years' worth of experience in conducting similar works in Chile for a separate transmission line portfolio.

The project's leverage yields an average DSCR of about 1.3 times over the life of the transaction. The amortization schedule has been designed to target a minimum DSCR of 1.20x for both regulated flows pre-tariff reset in 2023 and unregulated flows for the contracted period, stepping up to a minimum of 1.35x DSCR for the post-tariff period for the regulated contracts and 1.40x after the renewal period for regulated contracts.

The project benefits from the project finance features embedded in the transaction, including six-month debt service reserve account and a three-month O&M reserve account backed by a letter of credit (LC); restrictions on business activities and M&A; a security package that benefits senior creditors, with first-priority pledges over material assets, accounts and insurance; a distribution test subject to DSCR of 1.15x; limitations on additional indebtedness and; a well-defined onshore and offshore cash waterfall that prioritizes the notes repayment.

## Detailed credit considerations

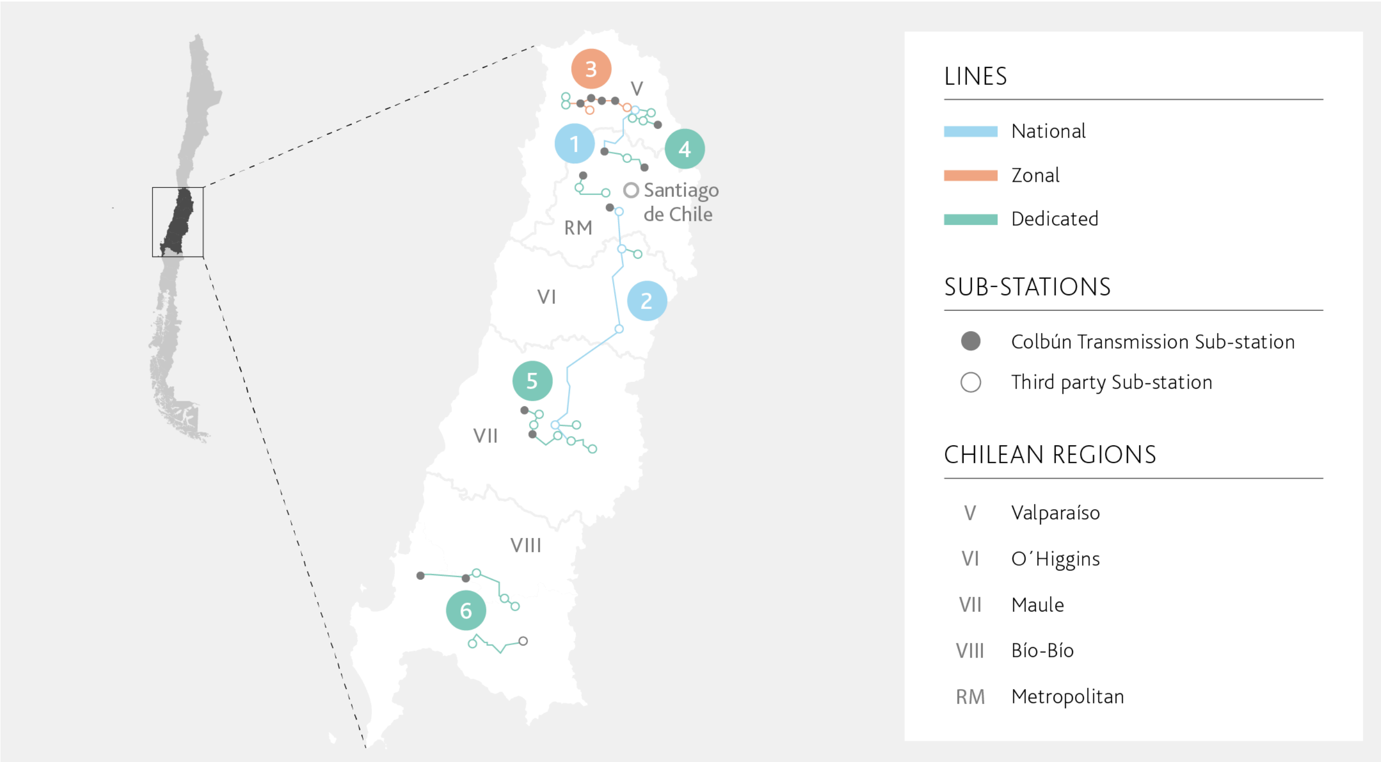
### Strong assets features with no material construction risk and pre-funded pending investments

The acquired transmission assets consist of a portfolio of operating electric transmission assets in Chile and associated expansion projects. In total, the portfolio consists of 899 km of national, zonal and dedicated transmission lines and 27 substations, distributed along 5 regions in Chile.

The portfolio consists of relatively young assets, with less than 30 years of operations, except for a few km of zonal 44 kV lines that are older. In general, major substation and transmission line equipments typically have useful lives of between 40 years and 60 years, if properly maintained and operated, which is our expectation under Celeo's operation.

The portfolio of transmission assets is part o the Sistema Eléctrico Nacional (SEN), the largest sub-system which accounts for 99% of the country's generation capacity and serves 98% of the population. The regulation divides the transmission network into three categories: the dedicated, the national and the zonal systems.

Exhibit 3
**Asset's Location**




*Source: Alfa Transmisora de Energia S.A.*

As Chile's electricity demand continues to grow and renewable projects are built, there will be continued requirements for expanding the existing transmission infrastructure. The acquired company (Colbun Transmision) has participated in tenders to grow its asset base through expansions, some of which are still underway within the project. Debt documentation limits further expansion works beyond those mandated by the regulator. While there is no maximum capital spending budget limit for these mandated expansions, by regulatory definition they must be critical for the system, and in practice generally below USD20 million of investments. Any potential mandatory regulated investment in the national or zonal system will be fully recovered by the tariff mechanism applicable to regulated assets.

The capital spending plan included an initial maintenance capex cycle (in 2021 and 2022) and pending expansion capex to be executed until 2025 amounting to around USD68.9 millon and supported by a LC provided by the sponsors, with no recourse to the project. Upon completion of these projects, the expansion assets will be categorized as regulated national or zonal projects and be subject to a regulated tariff (regulated return on the investment).

### Supportive regulatory framework, still evolving

We view that the Chilean regulatory framework is developing; however, the gradual implementation and approach to asset remuneration remains constructive and aligned to Chile's predictable regulation for public services. Despite recent social tensions in the country, that led among other measures to the temporary suspension of tariff's indexation, we take comfort from the country's solid institutional framework that provides for a long track record of adequate return on private investments.

Regulation for transmission has been in place since 2006, with some subsequent changes introduced by the New Transmission Law of 2016. Main changes introduced by the new law refer to the redefinition of the transmission system components (national, zonal, dedicated), changes to the planning for the growth of the system, payment allocation mechanism and changes in the rate of return, among others. All these changes were largely expected, broadly discussed and implemented gradually and there is no evidence of any unexpected adverse change in the future. The presence of an independent panel of experts in most of the regulatory studies and decisions or in cases of discrepancies (in the setting of the final tariffs for example) guarantees additional independence of regulatory decisions. Furthermore, there is long track record of adequate compensation mechanisms for capital investments and inflation pass-through on operating costs and expenses. For example, inflation adjustment of regulated tariffs was suspended by the price stabilization mechanism since the end of 2019, however pending indexation will be accumulated and reassessed once the new tariffs (2020-23 cycle) are enacted. We also note that this last tariff cycle has been largely delay and that the tariff has not been applied yet.

### Good visibility on long-term cash flows

Our credit view recognizes the predictability of availability-based, perpetual regulated revenues during the life of the transaction. Overall, we believe that the tariff review process is transparent and provides good predictability over regulated revenues with adequate mitigants against volatility arising from market risk.

The project will benefit from two main sources of revenues: regulated (growing from around 35% to 63% of total revenues over the life of the debt) and bilateral agreements (65% to 37%). The proportion of unregulated revenues is anticipated to gradually decrease over time reaching around 40% of the portfolio by 2040, as a combined result of the completion of regulated expansion projects and re-classification to the national system of some unregulated contracts. Further enhancing cash flow visibility is the contracted revenue indexation mechanism that provides for monthly adjustments to reflect changes in the Chilean inflation rate and in the exchange rate CLP/USD, effectively reducing the project exposure to key market risks.

Exhibit 4

**Total revenue breakdown**


*Source: Alfa Transmisora de Energia S.A. and Moody's Investors Service*

Most of the project's unregulated revenues are contracted until 2039 and as such revenues are exposed to some repricing risk. The credit profile considers that the project is able to absorb a 40% reduction in the contract's prices to be in break even. Additionally, approximately 13% of the revenues relates to the network connection with Colbun's Santa María coal plant that was expected to be retired by 2040, in accordance with the Chilean's Government decarbonization. However, Colbun has recently announced that the main contract supporting Santa María's generation with (PPA with Codelco) has been amended. According to the amendment Colbun will gradually start supplying Codelco with renewable power instead of through the Santa Maria's coal-based production. Nevertheless, our credit view incorporates the contractual arrangements supporting the connection off the Santa María coal plant that will remain in place. In addition, our view considers the potential "nationalization" (i.e. incorporation to the national transmission system) of the associated transmission line due to the connection needs in the geographical area where the Santa Maria coal plant is located.

### Some delays in regulated tariff reviews

Regulated tariffs are paid according to a regulated return (VATT), comprising an annualized regulated return on investments costs (AVI), as well as compensation for operating costs (COMA), which is designed to make a transmission owner whole for their expenses. From January 2020 onwards, the VATT remuneration is inclusive of an adjustment for corporate income tax expense effect (AEIR). The AVI is annualized from the initial acquisition and installation costs (VI), subject to an established discount rate and useful life. From 2020 onwards, the regulatory rate of return to obtain such annuity will be in a range between 7% and 8% post-tax in USD real terms, which is lower from the previous tariff period.

The VATT tariff is adjusted monthly, considering US and Chilean inflation, as well as exchange rate. The weight of inflation indexation factor varies between national and zonal systems and depending on the asset type. New assets are entitled to a 20 year-fixed tariff scheme (“fixed tariff period”), after which the tariff is subject to a reset every 4 years from the review. For the resettable period, the CNE and an independent panel of experts will carry studies for a revaluation assessment of the asset base component (VI) and COMA. This adds some uncertainty to cash flows on the long run, because the VI is based on the assets' value of new replacement (VNR), but always considering the same technology of the existing assets which mitigates the risks of a major technology shift in the valuation process.

The assigned rating incorporates our view that the final tariff (2020-2023 period) will not differ materially from the latest tariffs report that set the projects' VATT at $16.721.316/year for the portion of the project's regulated assets under the tariff ongoing review (Alpha component in average at 0.73/0.71 for national transmission lines and substations respectively and 0.78/0.63 for zonal transmission lines and substations respectively). Furthermore, the credit view incorporates that any difference away from the CNE final report affecting the project future cash flows will be address by the adjustments to the asset’s purchase price in a way that the project’s average DSCR will remain at 1.30 times over the life of the transaction.

As of today, the 2020-23 tariff is still pending and management expects that it will be in force in the second half of 2023. Given the delay in the current tariff period, it is likely that the next period (2024-27) will also experience some delay.

According to the terms of the Notes and pursuant to the sale and purchase agreement (SPA), in the event that the final tariff decree differs from the latest tariff report issued by Comision Nacional de Energia (CNE), the final purchase price under the SPA will be adjusted upward or downward accordingly:

» If the tariff review process results in a tariff that is higher than expected, the purchase price would increase and the buyers, directly or through its affiliates, would be required to pay an additional amount to the sellers. In this case, there would be an upward purchase price adjustment, where the issuer could incur additional indebtedness to cover such payment, but subject to ratings reaffirmation and additional debt covenants.

» If the tariff review process results in a tariff that is lower than expected, the purchase price would be reduced and the buyer would be entitled to a reimbursement from the sellers. In this case, to avoid that the lower cash flows lead to lower coverage - DSCR- metrics, the issuer shall partially redeem the Notes within 90 days after the occurrence of such Purchase Price Adjustment Reimbursement Event, also subject to ratings reaffirmation. The redemption would occur without premium or penalty, on a prorata basis among all note holders and applied to reduce the remaining scheduled payments on the Notes on a pro rata basis across scheduled amortization payments.

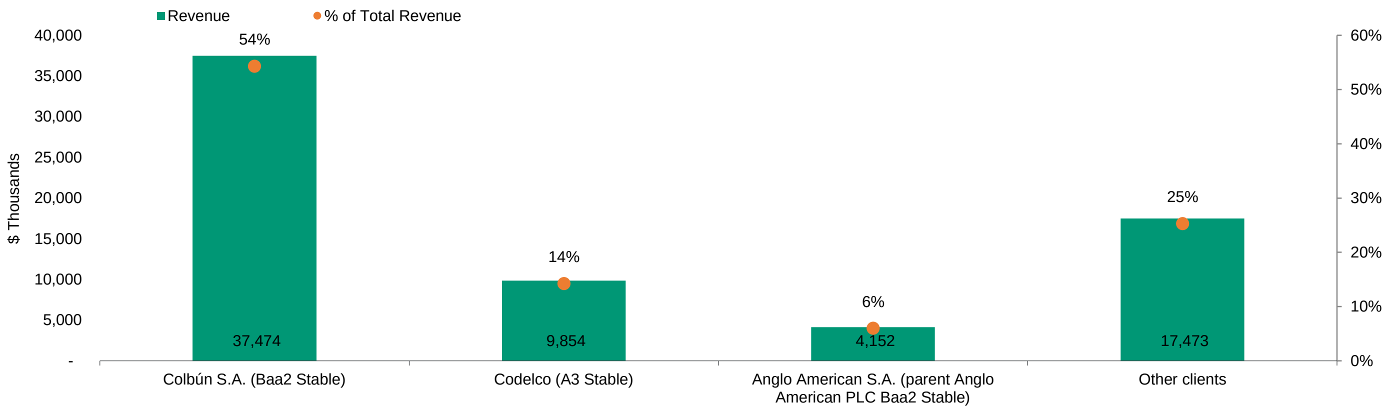
### Satisfactory counterparty risk from bilateral contracts

National and Zonal assets are entitled to receive perpetual compensation payments under toll contracts for providing transmission services to the bulk electric system for as long as the assets are operational. Modifications to the transmission rules (Law 20.936/2016) established a new collection of a CUT (“CARGO ÚNICO DE TRANSMISIÓN”) which determines the cost that final customers must bear in full and payments associated with transmission services, with a gradual liability transfer from generators to regulated end-users through 2034. As of today, over 90% of the collections in the national and zonal systems are being collected from end-users through the distribution companies.

Revenues from bilateral agreements on the other hand, are exposed to a diversified client's base. Generation plants are expected to yield 40% of the portfolio total revenues with a majority of contracts signed directly with generation plants of Colbun S.A. (Baa2 Stable). The other dedicated contracts with generation companies represent a small amount of revenues.

Exhibit 5

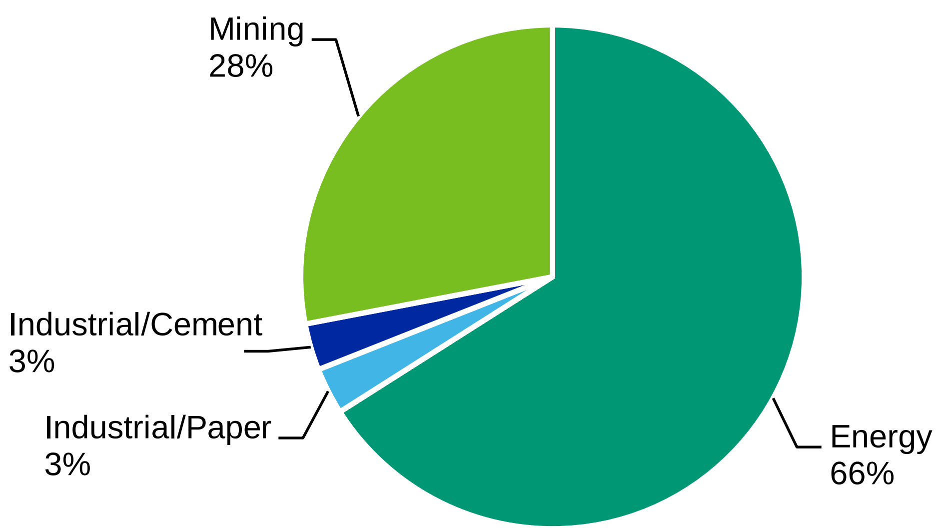
**As of December 2021, the annual income of Alfa Transmisora de Energia S.A. were concentrated in a small group of main clients.**
**% Concentration of the 4 main clients is 74%**




*Source: Alfa Transmisora de Energia S.A.*

Exhibit 6

**Revenue breakdown of unregulated assets**




*Source: Moody's Investors Service*

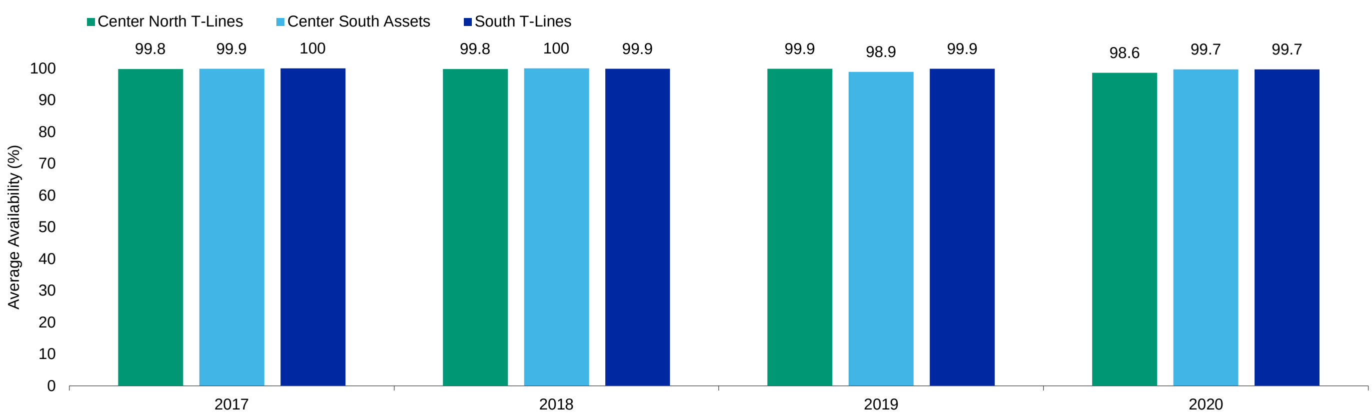
Colbun's generation assets are the most representative exposure within the portfolio. Pricing for these generation contracts varies, but are generally fixed and inclusive of an escalation factor to compensate for inflation. All contracts were signed for a 20 year period, most expiring by 2038, with 5 year successive automatic renewal under the same conditions (non-renewal must be notified with a 2 year notice prior to term ending). We believe these contracts are likely to be renewed because the project's assets are responsible for connecting 92% of Colbun's total electricity generation into the system and there are no other connection alternatives to the grid.

### Operating track record and high availability also support cash flow stability

The portfolio has been able to demonstrate overall high availability rates that were above 98.6% under Colbun's operations. While unavailability may lead to fines, typically they are levied only when there is a material negative impact to the system resulting from a prolonged outage event, which is rare in Chile given the network's configuration. Furthermore, the amount of penalties that may be imposed to a transmission company cannot exceed 5% of the company's annual income during the last year (equivalent to 5% of the VATT). In addition, according to the O&M contract, penalties and fines imposed by regulators for unavailability will be passed through to the operator (Celeo Redes), limited to 25% of annual O&M fee (30% could trigger an early termination).

Interim availability rates are measured by a Real Time Information System (SITR), which is calculated as the percentage of time in each month where the signals reported by a company reach the SCADA system of the CEN with a valid data mark. This system indicates if there are failures in signals equipment or in the network links. The independent engineer (IE) report indicates that the portfolio's transmission lines have performed better than the industry average in Chile, but slightly below the technical international norm on the interim data.

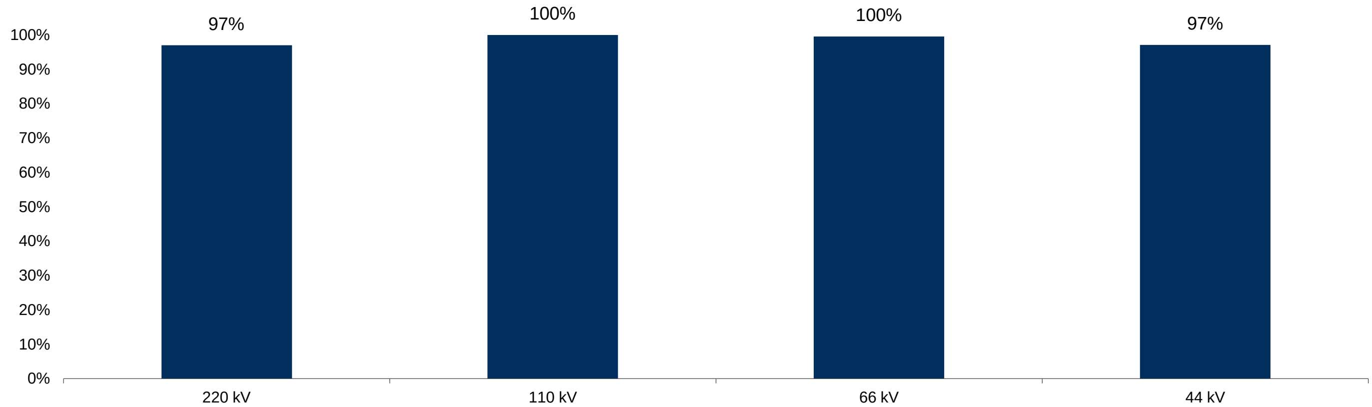
Exhibit 7
**Strong historical availability of the assets**




*Source: Alfa Transmisora de Energia S.A.*

Following the acquisition, the operating and maintenance (O&M) will be performed by Celeo Redes, an experienced operator of transmission assets in Chile, that entails some synergies and cost reductions for the project. The O&M agreement targets high availability rates (99.9%), has a 10-year term with automatic 5-year renewal thereafter and a fixed fee structure, indexed to Chilean CPI. We believe this agreement contains adequately experienced counterparties and incentives to maintain a very high performance of the assets.

Exhibit 8
**Accumulated availability from April 2022 to September 2022 under Celeo's operation.**




*Source: Alfa Transmisora de Energia S.A.*

## Leverage and debt service profile

The Baa3 rating reflects the project's high leverage yielding an average DSCR of about 1.3 times and average adjusted cash from operations to debt in the 3% to 6% range over the life of the transaction, reflecting the partially amortizing debt profile with approximately 50% of the original debt amount to be refinanced at the bonds maturity in 2051. In addition to the legal amortization schedule, the financing contemplates a cash-sweep mechanism starting in 2043 that aims at reducing the balloon payment to 40% of the original debt amount with excess cash and therefore slighty decreasing the refinancing risk. Nonetheless, the large refinancing risk in the long term, justifies a one notch adjustment to the rating based on structural features.

The amortization schedule of the notes has been designed to target a minimum DSCR of 1.20x for both regulated cash flows (pre-tariff reset in 2023) and unregulated cash flows for the contracted period (around 2039), stepping up to a minimum of 1.35x DSCR for the post-tariff period for the regulated contracts and 1.40x after the renewal period for regulated contracts.

The break-even analysis, considering the transaction period pre-refinancing through 2051, that results in a 1.0x DSCR would need nearly a 45% reduction in the VI or a 40% reduction in the pricing of renewal of unregulated contracts, which helps alleviate long-term credit concerns given the type of assets and their expected importance for the system.

## Structural considerations and liquidity

The transaction includes several of the structural features typical of a project financing as detailed below:

» Six-month debt service reserve account (LC backed)

» Three-month operating and maintenance (O&M) reserve account (LC backed)

» Restrictions on business activities and M&A

» Distribution test subject to DSCR of 1.15x

» Limitations on additional indebtedness

» Well-defined onshore and offshore cash waterfall that prioritizes the notes repayment

» A security package that benefits senior creditors with first-priority security interest over material assets; all equity interests in the Issuer; the collection rights under all material project documents; the transmission lines, substations and all tangible assets of the Issuer; the real estate rights of the Issuer in the sites where the Substations are located (including, easements and rights of way granted by any electrical concession); the project accounts; all related party subordinated loans to the Issuer and the guarantors, which will be subject to corresponding subordination agreements.

## ESG considerations

### Alfa Transmisora de Energia S.A.'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 9
**ESG Credit Impact Score**

**CIS-3**
**Moderately Negative**

NEGATIVE IMPACT — POSITIVE IMPACT

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

*Source: Moody's Investors Service*

Alfa's ESG Credit Impact Score is moderately negative (**CIS-3**), indicating that its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time.

Exhibit 10
**ESG Issuer Profile Scores**

| ENVIRONMENTAL | SOCIAL | GOVERNANCE |
|---|---|---|
| E-3 | S-3 | G-3 |
| Moderately Negative | Moderately Negative | Moderately Negative |

*Source: Moody's Investors Service*

### Environmental

The project has moderate exposure to environmental risk (**E-3** issuer profile score). Climate change presents both risks and opportunities for the project's business. The transaction has a low carbon transition risk exposure within the regulated utility sector because the business consists purely of electric transmission lines. The increase in frequency and intensity of wildfires and natural disasters associated with climate change posses additional risk over the company's assets. The company's carbon transition exposure is neutral given it is a pure transmission company that does not own any generation assets. The company's exposure to other environmental considerations such water management, natural capital and waste & pollution is low.

### Social

Alfa's social risk is also moderate (**S-3** issuer profile score), reflecting moderate risks of adverse regulations due to social pressures or public concern over affordability issues on regulated tariffs that had recently manifested in Chile and that resulted for example in the recent temporary suspension of the electricity tariffs indexation. These risks are balanced by low to neutral exposure to loss of clients or limited access to capital due to ESG related concerns.

### Governance

The project has moderate exposure to governance risk (**G-3** issuer profile score). The transaction will be based on prudent financing planning, including the establishment of a budget plan, and makes estimates and assumptions providing the ability to identify potential pressures and allowing for sufficient time to adjust plans accordingly to mitigate any credit implications. We expect to receive transparent, timely financial reports for proper monitoring, adhering to strict policies on debt and investment management. However, the transaction involves refinancing risks, given the partially amortizing debt schedule. The financing structure also limits changes in ownership, M&A activity or other discretionary management decisions that may influence performance and credit outcomes.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Rating methodology and scorecard factors

Moody's evaluates Alfa Transmisora de Energia S.A.'s expected financial performance under the Generic Project Finance rating methodology published June 2021. The grid indicated outcome (before notching adjustments) is Baa2; nonetheless, the large refinancing risk at maturity of the notes justifies a one notch adjustment based on structural features.

Exhibit 11

**Alfa Transmisora de Energia S.A.**

| Generic Project Finance Industry Grid | |
|---|---|
| **Factor 1 : Business Risk (50%)** | **Measure** |
| a) Market Position | A |
| b) Predictability of Net Cash Flows | Baa |
| **Factor 2 : Operating Risk (20%)** | |
| a) Technology | Aa |
| b) Capital Reinvestment | A |
| c) Operating Track Record | Baa |
| d) Operator and Sponsor experience, support, and quality | Baa |
| **Factor 3 : Leverage and Coverage (30%)** | |
| a) DSCR | Ba (1,34x) |
| b) Project CFO/Adjusted Debt | B (3%-6%) |
| **Notching Adjustments:** | |
| a) Liquidity | 0 |
| b) Structural Features | 0 |
| c) Refinancing Risk | -1 |
| d) Construction and Ramp-up Risk | 0 |
| e) Priority of Claim, Structural Subordination and Double Leverage | 0 |
| **Rating:** | |
| Indicated Outcome before Notching Adjustments | Baa2 |
| Notching Adjustments | -1 |
| Indicated Outcome before Offtaker Constraint | Baa3 |
| Offtaker Constraint Applied? | Yes |
| Level of Offtaker(s) Constraint | Baa1 |
| a) Indicated Outcome from Scorecard | Baa3 |
| b) Actual Rating Assigned | Baa3 |

*Source: Moody's Investor Services*

## Ratings

Exhibit 12

| Category | Moody's Rating |
|---|---|
| **ALFA TRANSMISORA DE ENERGIA S.A.** | |
| Outlook | Stable |
| Senior Secured | Baa3 |

*Source: Moody's Investors Service*

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