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CREDIT OPINION
21 May 2023

Update

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RATINGS

Celeo Redes Operacion Chile S.A.

Domicile	Santiago, Chile
Long Term Rating	Baa2
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.

Contacts

Daniela Cuan +54.11.5129.2617
VP-Senior Analyst
daniela.cuan@moodys.com

Jose Aybar Critto
Associate Analyst
jose.aybarcritto@moodys.com

Cristiane Spercel +55.11.3043.7333
Senior Vice President/Manager
cristiane.spercel@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
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EMEA	44-20-7772-5454

Celeo Redes Operacion Chile S.A.

Update to credit analysis

Summary

Celeo Redes Operacion Chile S.A.'s (Celeo, Baa2 stable) credit quality reflects the low business risk and solid operational performance of its transmission projects in Chile: Alto Jahuel Transmisora de Energia S.A. (AJTE 1 and AJTE 2) and Charrua Transmisora de Energia S.A. (CHATE). CHATE and AJTE jointly and severally guarantee Celeo's $345 million senior secured outstanding notes and UF5.4 million Unidades de Fomento (UF) notes.

Celeo's credit quality incorporates the high visibility of cash flow, which is driven by the availability-based revenue of AJTE 1 and CHATE (around 86% of revenue) over a 20-year period (until 2035 and 2037, respectively), and a credit-supportive outcome of the tariff review process for AJTE 2 (14% of revenue, new tariff was approved in February 2023). The predictability of cash flow is also supported by the projects' low counterparty risk and by the natural hedge that results from the tariffs underlying indexation formulas and the debt currency breakdown ($65% USD; 35% UF). Following the expiration of the 20-year fixed period, these two concessions will be subject to tariff reviews every four years, which somewhat diminishes their long-term cash flow visibility. Around 65% of the principal debt will be still outstanding after the expiration of the initial 20-year fixed tariff period for AJTE 1 and CHATE.

While the financial model and the debt amortization profile target a minimum 1.25x debt service coverage ratio (DSCR) during the fixed-tariff period and a 1.35x DSCR during the resettable-tariff (period to address the higher revenue risk on the later part of the transaction), leverage for the project is overall high, which tempers the rating.

The credit profile is further enhanced by the project financing structure features of the debt, which encompass several creditor protections like a six-month debt service reserve account ($20.6 million), three-month O&M reserve account ($720 thousand), limitations to business activity, to additional debt, restriction on distributions and comprehensive insurance package.

Exhibit 1
Debt Service Coverage Ratio

	2019	2020	2021	2022
DSCR	1.28x	1.24x	1.21x	1.27x

Source: Celeo and Auditor's report calculations

Credit strengths

» Credit supportive regulatory environment and satisfactory counterparty risk

» Long-term useful life of transmission assets held in perpetuity that provide for 20 years of fixed tariffs

» No exposure to volume risk

» Contractual terms and tariff mechanism underpin predictability of cash flow

» High availability levels, which support cash flow stability

Credit challenges

» High leverage

» Long-term cash flow uncertainty after the expiration of the 20-year fixed-tariff period

» Delays in implementation of tariff review, mitigated by full compensation

Rating outlook

The stable outlook reflects our assumption that AJTE and CHATE will maintain high availability levels for its operating transmission assets, such that Celeo's financial performance will be generally consistent with our base case expectations assuming a minimum and average DSCR of 1.15x and 1.28x, respectively, during the tenor of the notes.

Factors that could lead to an upgrade

» An upgrade of the rating is unlikely over the near term because of Celeo's high leverage. Over the long term, stronger-than expected financial metrics that result in a minimum and average DSCR of 1.30x and 1.40x, could result in a rating upgrade.

Factors that could lead to a downgrade

» The rating could be downgraded if the operational performance of the assets deteriorates, or if Celeo's financial performance is materially different from expected such that the minimum and average DSCR remain below 1.15x and 1.20x, respectively.

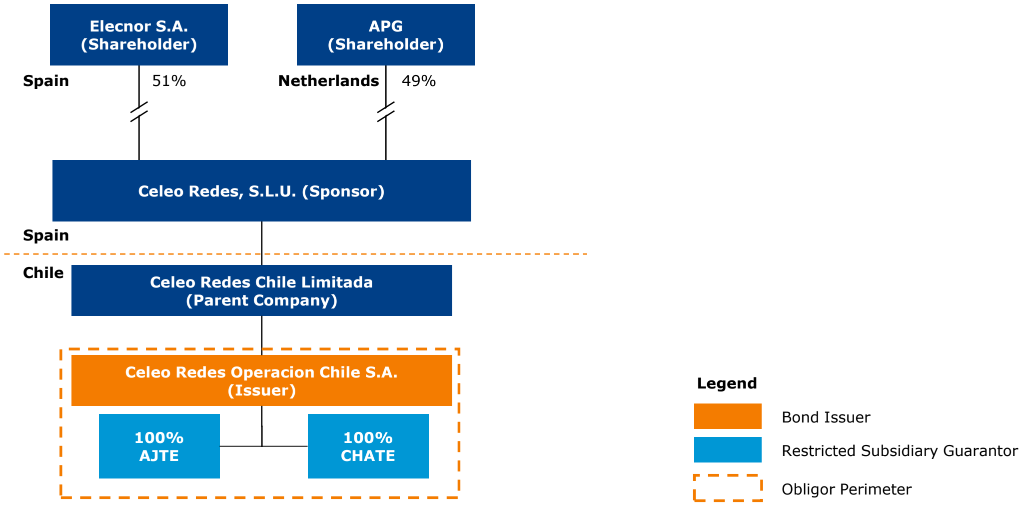
Profile

Headquartered in Santiago, Chile, Celeo Redes Operation Chile S.A. (Celeo) holds a 99.99% direct interest stake in the 500 KV transmission projects Alto Jahuel Transmisora de Energia S.A. (AJTE) and Charrua Transmisora de Energia S.A. (CHATE).

Celeo's holding parent company, Celeo Redes Chile Limitada, is 99.99% owned by Celeo Redes, SLU (Celeo Redes Spain), the sponsor (see Exhibit 1).

Celeo Redes Spain is an indirect subsidiary of the Dutch pension fund Algemene Pensioen Groep N.V. (APG, 49%) and Elecnor S.A. (51%), the parent company of Elecnor Chile S.A., which was also the engineering, procurement and construction (EPC) contractor for the project.

Exhibit 2
Celeo's simplified organizational structure



Source: Celeo and Moody's Investors Service

Detailed credit considerations

Supportive Regulatory Environment & Satisfactory counterparty risk

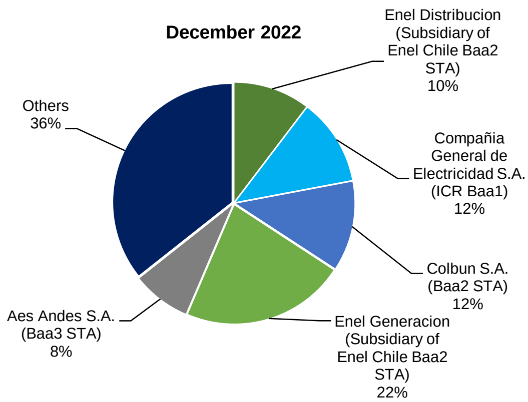
The regulatory framework in Chile is well developed. Regulation has been in place since 2006 (Transmission Law), and ulterior modifications implemented by the Transmission Law -TxL- in 2016, that improved some inefficiencies of the previous regulations and modified the payments allocation for transmission. With the 2016 Law National Transmission Remuneration System has transitioned to a scheme based on the allocation of the transmission payment obligations across the unregulated generation and utility companies from a model where Celeo used to receive the payments related to their transmission services (embedded in the power generation costs) from the power producers. Exhibit 2 shows Celeo's current revenue composition. Past exposure to volume risk has declined significantly; 2016 TxL changed the transmission system remuneration from a volume-based to an annuity payment (take or pay) over the zonal system transmission assets. This process started in 2018 and was fully implemented during 2019; as a result Celeo's revenues are not exposed to volume risk.

All these changes were largely anticipated and implemented gradually so there is no evidence of unexpected or adverse change. The presence of a panel of experts in most of the regulatory studies and decisions or in cases of discrepancies guarantees additional independence of regulatory decisions.

The credit profile factors in the satisfactory credit profile of Celeo projects' key counterparties and the fact that the ultimate risk exposure is to the system. The regulation provides for a mechanism by which if any of the transmission system's users (either independent power producers [IPPs] or distribution companies) fail to pay for the transmission (for example, because of bankruptcy), the remaining users will have to make up for the difference in a way that Celeo always receives the full amount of its annual VATT.

Exhibit 3

Celeo's revenue breakdown by client after the change of the National Transmission Remuneration System



Source: Celeo and Moody's Investors Service

Low business risk from long lived assets held in perpetuity

The projects' annual revenues (VATT) consist of the AVI, an annuity calculated on the assets' investment value and the applicable rate or return, and the COMA that represent the project's remuneration for its O&M and administrative costs (COMA). The AVI represents more than 80% of the projects' total income (operational costs of transmission are typically low). Importantly, all of Celeo's transmission assets are owned by the company in perpetuity and; the estimated useful life for transmission assets is of 50-60 years.

Transmission tariffs for "legacy assets" are determined by the National Electricity Commission (CNE) every four years by conducting internationally tendered studies that include the participation of companies, users and the Panel of Experts. For new assets or assets recently built, tariffs are determined in public competitive bids and then are fixed for a 20 year period and annually indexed by inflation.

Celeo's risk profile takes into account the fact that around 86% of its total revenue (AJTE 1 and CHATE) is fixed over a 20-year period. Upon the expiration of the projects' fixed tariff period its revenue will be subject to tariff reviews every four years (resettable project revenue), as is the case for AJTE 2, which currently represents around 14% of total revenue.

The rates are adjusted monthly for AJTE 2 but only annually for AJTE 1 and CHATE. Nevertheless, we acknowledge the fact that the underlying revenue indexation formulas and Celeo's debt composition (dollar-denominated notes around 65% and UF-denominated notes around 35%) allow for a natural hedge of the debt. This takes into consideration the fact that the projects' COMA are fully indexed to changes in local inflation (with labor accounting for most of their operating costs). In contrast, CHATE's AVI is fully subject to changes in the CLP/USD exchange rate, which represents 44% of AJTE 1's and AJTE 2's AVI indexation formulas (56% indexed to changes in local inflation).

Outcome of tariff review in line with expectations

While most of Celeo's revenue (AJTE1 and Chate) is fixed for a 20 year period, AJTE2 (14% of revenues) is subject to the 4 year tariff review scheme. Celeo's credit quality incorporates AJTE 2's first tariff review, published last February 2023, which was in line with the report issued by the independent consultant in March 2022. This new tariff, that as previously expected reduced the asset's remuneration (internal rate of return or IRR) to a 7% post-tax IRR from a fixed 10% rate of return (pretax), should have been in place in 2020 (2020-2024 period). However, the valuation studies and all the regulatory steps to implement the tariff was largely delayed. As a result, AJTE2 has been collecting higher revenues that what it should have and, following the publication of the decree for the new tariff, it will need to return those excess revenues to its clients (for an amount of approximately $5 million). Although these regulatory delays are not uncommon, we take comfort from the fact that tariffs are applied retroactively to the time the should have been in place and have therefore no credit impact.

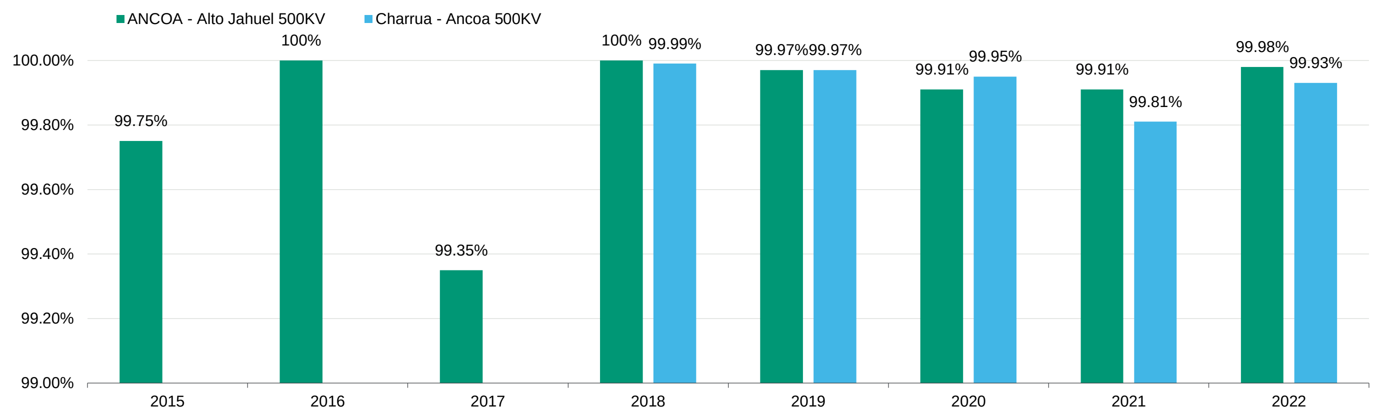
We understand that the 2024-2027 tariff and valuation studies already started in early 2022 but given the delay of the previous process, another delay of the next tariff period is not unlikely. In that case, we expect any delay in the implementation of the tariff to be again fully compensated.

Strong operational track record, low investment needs

Celeo's assets started operations in 2015 and 2017 and as new assets they continue to report a strong operating performance and very high availability ratios (above 99.8% since 2018) while requiring relatively low investments (maintenance only). This is important because the revenue lost because of availability interruptions (fines), which are passed through to Celeo Redes Chile under the O&M agreements, are capped at 50% of the monthly O&M fee. Any remaining discounts could be carried over to the following month but the total aggregated discount amount is capped at 12.5% of the annual O&M fee, which is relatively modest. Our analysis also takes into account the experience of Elecnor and its subsidiaries in operating transmission assets, and the reputational considerations that may result should the transmission assets face material operating challenges and penalties. Our expectations is that the company will maintain the assets' strong operational performance.

The transmission law also foresees a mechanism to compensate end-users for failures in services, capped at 5% of the asset's revenue. Importantly, the n-1 redundancy configuration of the Chilean system reduces the risk of outages caused by unavailability events. Celeo's credit profile also benefits from a three-month O&M reserve.

Exhibit 4
Transmission lines
Availability



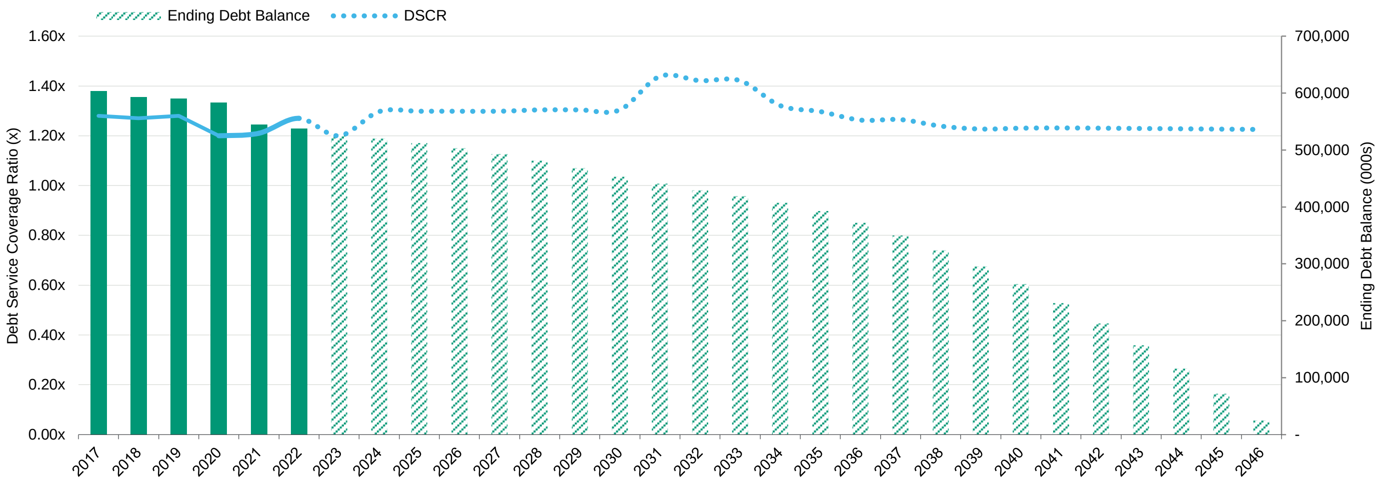
Source: Companies Annual Business Plan 2023

High initial and current leverage tempered by the debt amortization profile

Celeo's credit quality is mainly constrained by the project's overall high leverage. However, we acknowledge the fact that the project's debt will fully amortize by its contractual maturity in 2047 and that the debt amortizing profile will result in a gradual reduction in the project's leverage. We also acknowledge the back-loaded amortization profile given that the scheduled principal payments will allow Celeo to repay only 35% of the notes' principal by 2037, when the assets will be operating in full under the resettable tariff scheme.

To address the revenue uncertainty after the initial 20 years of fixed tariffs, the company designed the amortization profile to target a minimum 1.25x DSCR for the cash flows during the fixed tariff period and a 1.35x DSCR for the cash flows subject to resettable tariffs. As of December 2022 Celeo recorded a DSCR of 1.27x, in line with expectations.

Exhibit 5
DSCR until the debt fully amortizes at maturity in 2047 [1]



[1] Historical DSCR as per financial statements and covenants definition
Source: Moody's Investors Service and issuer financial model

Long-term cash flow uncertainty

The long-term uncertainty surrounding the value of the projects' asset base used to set the tariffs (value of investments or VI), after the initial 20 years of fixed tariff constrains the credit profile. However, our analysis takes into account a break-even scenario that allows for a reduction of at least 20% in the projected VI after the expiration of the 20-year fixed-tariff period, which helps alleviate credit concerns because of the long useful life of the assets that are held in perpetuity. At that point Celeo will have repaid nearly 35% of the total debt, given the back-ended debt amortization schedule. Thus, the credit risk increases during the notes' final 10 years, particularly if the projects' tariffs are significantly lower than expected.

In Chile, the asset base used to calculate the tariffs is premised on the asset's investment value (VI) which, unlike that in most global jurisdictions, does not reflect the assets' depreciated value but the assets' value of new replacement (VNR). VNR represents the investments required to build a complete new system, which is currently uncertain and limits the asset's cash flow visibility after the initial 20 years of the regulated tariff period.

Structural Considerations

While Celeo operates as a regulated transmission company, its financing structure corresponds to that of a project financed transaction; therefore the credit profile acknowledges the existence of several structural considerations and certain bondholder protections that provide uplift to the company's rating. These include but are not limited to a 6-month debt service reserve, a 3-month O&M reserve, a distribution test based on a 1.15x DSCR (which rises to 1.2x after January 2036), a collateral package, and extensive insurance coverage, among others.

ESG considerations

Celeo Redes Operacion Chile S.A.'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 6
ESG Credit Impact Score

CIS-3
Moderately Negative

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

Celeo'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 7
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-2
Moderately Negative	Moderately Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental

Celeo's moderately negative environmental risk (**E-3** issuer profile score) mainly reflects the company's moderate exposure to physical climate risks that are common for transmission companies whose networks are not underground and therefore more exposed to climate events that could damage the assets. Partially mitigating the exposure of grid unavailability due to extreme weather events are the stand-alone insurance policies covering business interruption. 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

Celeo 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

Governance risk for Celeo is low/neutral (**G-2** issuer profile score) because the company's financial profile is reflective of strong structural protections embedded in the company's project financed structure that limits incurrence of additional debt and distributions. In addition, the company's management team has a sound track record in the industry, and provides for timely financial and operational information. While Celeo presents ownership concentration in two shareholding groups, we see limited exposure to board structure and procedures due to strong creditor protections provided by the structural package of the transaction.

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.

Methodology and scorecard

We evaluate the financial performance of Celeo Redes Operacion Chile S.A. using our Regulated Electric and Gas Networks rating methodology (April 2022). As depicted in the grid below, the scorecard-indicated outcome under this methodology is B2. The assigned rating of Baa2 for Celeo is one notch below the scorecard-indicated outcome because of the long-term uncertainty surrounding cash flow after the expiration of the 20-year fixed-tariff period for AJTE 1 (2035) and for CHATE (2037).

Exhibit 8
Rating factors
Regulated Electric and Gas Networks

Celeo Redes Operacion Chile S.A.		
Regulated Electric and Gas Networks Industry Grid		
Factor 1 : Regulatory Environment and Asset Ownership Model (40%)	**Measure**	**Score**
a) Stability and Predictability of Regulatory Regime	A	A
b) Asset Ownership Model	Aa	Aa
c) Cost and Investment Recovery (Ability and Timeliness)	A	A
d) Revenue Risk	A	A
Factor 2 : Scale and Complexity of Capital Program (10%)		
a) Scale and Complexity of Capital Program	A	A
Factor 3 : Financial Policy (10%)		
a) Financial Policy	Ba	Ba
Factor 4 : Leverage and Coverage (40%)		
a) Minimum Debt Service Coverage Ratio	1.15x	Ba
b) Average Debt Service Coverage Ratio	1.28x	Ba
c) Concession Life Coverage Ratio (CLCR)	1.32x	Ba
Rating:		
Indicated Rating from Grid Factors 1-4	Baa3	Baa3
Rating Lift	**1.5**	**1.5**
a) Indicated Rating from Grid	Baa1	Baa1
b) Actual Rating Assigned	Baa2	Baa2

Financial performance based on Moody's base case using the forecast through the tenor of the debt.
Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
CELEO REDES OPERACION CHILE S.A.	
Outlook	Stable
Senior Secured	Baa2

Source: Moody's Investors Service

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