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Research Update:

Electricity Transmission System Operator TenneT's Hybrid Equity Content Revised To Intermediate; 'A-' Ratings Affirmed

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Overview

- Dutch regulated electricity transmission system operator TenneT has waived a certain call option right in its hybrid security documentation.
- As a result, we have revised our assessment of the equity content of TenneT's hybrid to intermediate from minimal.
- We are affirming our 'A-' corporate credit rating on TenneT Holding B.V. The outlook remains stable.

Rating Action

On Dec. 14, 2015, Standard & Poor's Ratings Services affirmed its 'A-' corporate credit rating on Dutch regulated electricity transmission system operator TenneT Holding B.V. The outlook remains stable. We also affirmed the 'A-' issue credit rating on the senior debt and 'BBB' issue credit rating on the hybrid capital (ISIN: XS0484213268) issued by TenneT.

Rationale

The affirmation reflects our revised assessment of the equity content of TenneT's hybrid capital to intermediate from minimal following TenneT's announcement that it has, by a legally binding waiver of rights, unconditionally and irrevocably waived a certain call option for the €500 million hybrid, other than in circumstances noted below. The option relates to a "redemption for rating reasons" clause appearing in the hybrid's documentation.

The call option in question gives TenneT the right to call the hybrid if equity content is lowered for any reason. As we explained in our announcement of our removal of equity content from various issuances (see "Standard & Poor's Affirms Various Ratings Following Review Of Corporate Hybrid Equity," published on Oct. 27, 2015, on RatingsDirect), this type of clause weakens our expectation that the issuance will remain a permanent part of the issuer's capital structure.

In line with the appendix that we have added to "Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions," to address several frequently asked questions (see "S&P Explains Treatment Of Step-Ups, Deeds, And Waivers For Certain Hybrids," published Nov. 13, for more details),

we considered the terms of the waiver of rights, its public nature, the circumstances under which it could be modified, the likelihood of its breach, and whether the other features of the hybrid are consistent with intermediate equity content. We concluded that TenneT's waiver of the call option, in respect of a loss of equity content for any reason other than due to any amendment to, clarification of, or change in the hybrid capital methodology, or a change in the interpretation thereof after the issue date of the hybrid, sufficiently mitigates the risks of call and have accordingly reassessed the equity content of TenneT's hybrid security to intermediate from minimal. As a consequence, we now regard the hybrid securities as 50% equity when calculating credit ratios. Although we have revised TenneT's credit ratios, the change is within the tolerance of the ratings and outlook and, accordingly, none of the ratings on TenneT are affected by the revision of equity content to intermediate.

Ratings Score Snapshot

Corporate Credit Rating: A-/Stable/A-2

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

- Related government rating: AAA
- Likelihood of government support: Moderately high (+2 notches from SACP)

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate

Issuers, Dec. 16, 2014

- Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov.19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 1, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, October 1, 2010
- General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Research

- S&P Explains Treatment Of Step-Ups, Deeds, And Waivers For Certain Hybrids , Nov. 13, 2015
- Standard & Poor's Affirms Various Ratings Following Review Of Corporate Hybrid Equity, Oct. 27, 2015

Ratings List

Ratings Affirmed

TenneT Holding B.V.

Corporate Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Subordinated	BBB
Junior Subordinated	BB+
Commercial Paper	A-2

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