Standard & Poor's upgrades rating on E-CL to BBB-

- **Chile-based power generation company E-CL S.A.'s business risk profile improved significantly, mainly due to the merger with several assets from its major shareholders, the increased base of power sale contracts, and their higher pricing flexibility.**

June 8, 2010
E-CL is currently the market leader in terms of installed capacity in the Chilean Northern Electric System with about 50% market share, and its cash flow generation is expected to be more stable mainly due to greater price flexibility.

These factors mitigate the higher debt levels following the merger.We are raising the issuer credit rating on E-CL to 'BBB-' from 'BB-' and removing it from CreditWatch with developing implications. The outlook is stable.

Rating Action
On June 7, 2010, Standard & Poor's Ratings Services raised its issuer credit rating on E-CL S.A. (formerly called Empresa Electrica del Norte Grande S.A.) to 'BBB-' from 'BB-' and removed it from CreditWatch with developing implications where it was placed on Nov. 13, 2009. The outlook is stable.

Rationale
In December 2009, the company merged with several power generation, transmission, and natural gas distribution assets that belonged to its main shareholder Suez Energy Andino S.A. (not rated) and its minority shareholder Chilean copper producer Corporación Nacional del Cobre de Chile S.A., (Codelco; A/Stable/--). Following the merger, the upgrade reflects the significant improvement of E-CL's market position as the largest power generator in the Chilean Northern Electric System (SING) with about 50% market share in terms of installed capacity (1,795 megawatts). In addition, the upgrade reflects the expected greater stability of its cash flow generation deriving from the increased contract base and its higher pricing flexibility that better allows passing through higher fuel costs to its customers. These factors are partly mitigated by volatile market conditions in the SING (mainly resulting from high natural gas shortages and volatile diesel oil prices), its exposure to construction risk related to its relatively large power generation projects, and projected significant increase in debt levels by 2011-2012.

Despite the significant increase in debt due to the merger, E-CL's credit metrics were satisfactory, with debt to EBITDA of 2.2x (including debt raised by projects under development) and funds from operations to debt ratio of 37.7% in 2009. We expect the company to develop new projects associated with new power sale contracts which are projected to result in a further increase in debt by 2011-2012, with total debt to EBITDA of up to 4x including Central Termica Andina and Hornitos projects.

However, we expect this to be offset by the higher cash flow stability, adequate debt structure, good liquidity level, and a flexible dividend policy.

Suez EnergyAndino, a subsidiary of GDF Suez (A/Positive/A-1) owns 52.4% of E-CL and Codelco owns 40%. The remaining 7.6% floats in the Santiago Stock Exchange.

Liquidity

We believe that E-CL's liquidity position is adequate. As of March 31, 2010, the company had cash holdings of $202 million compared with a $26 million in short-term debt and $722 million in total debt (including debt with shareholding companies). We expect the company to refinance its relatively high $513 million debt with shareholders due in 2011 with long-term bonds. In addition, we expect the company to maintain cash holdings of at least $100 million and to enjoy a good financial flexibility.

Outlook

The stable outlook reflects the company's strong market position and projected higher stability in cash flow generation. It also incorporates the refinancing of its outstanding debt with shareholders with long-term debt at favorable terms and conditions, cash reserves of at least $100 million, with access to the financial markets at favorable terms. The ratings will benefit from a significant consolidation in business risk profile and much stronger debt service coverage ratios. The ratings could come under pressure from significant delays in the current and future projects, a significant deterioration in operational performance of efficient units and/or if the company assumes higher-than-projected debt levels and presents a weaker-than-expected liquidity position and financial flexibility.

Source: Standard&Poor's.com