MOODY'S
INVESTORS SERVICE

Rating Action: **Moody's assigns (P)Baa3 rating to EEB's proposed senior unsecured notes**

Global Credit Research - 31 Oct 2011

Approximately US$610 million of debt securities affected.

New York, October 31, 2011 -- Moody's Investors Service has assigned a (P)Baa3 foreign currency rating to the proposed issuance of up to US$ 610 million in senior unsecured notes due in 2021 to be issued by Empresa de Energias de Bogota S.A. E.S.P. (EEB). The outlook is stable. This is the first time Moody's has assigned a rating to EEB.

Proceeds of the offering will be used to fund the early redemption of the issuer's wholly-owned subsidiary's EEB International Limited US$610 million outstanding 8.75% 7-year senior unsecured notes due in 2014, after the exercising of the embedded call option.

Rating Rationale

The (P)Baa3 rating reflects EEB's ownership structure and linkages with the District of Bogota (Baa3, stable). It is Moody's understanding that pursuant to Agreement nr 01, 1996, the District of Bogota is required to hold at least a 51% ownership stake in the issuer. Given the District's majority stake EEB falls under the scope of Moody's rating methodology for government-related issuers (GRIs). The rating reflects Moody's assessment of a strong probability of extraordinary support from the municipality and a moderate level of dependence. The latter reflects the degree to which the District is exposed to the same risks as those that would affect credit quality at EEB. EEB's BCA, which is a representation of its intrinsic creditworthiness before taking into account possible extraordinary support from the municipality, is 11 (maps to Ba1), based on a scale of 1-21 in which 1 indicates the highest credit quality (Aaa).

"EEB's BCA reflects the material structural subordination that results from the fact that despite its own transmission operations the vast majority of EEB's historical and future cash flows are associated with the dividends and interest payments received from its subsidiaries" said Natividad Martel, an Assistant Vice President at Moody's. EEB's BCA incorporates the group's substantial exposure to regulated subsidiaries that operate in relatively stable and predictable regulatory environments. However, it also recognizes that the bulk of those cash flows are up-streamed from non-controlled subsidiaries, particularly, the unregulated generation company Emgesa and the regulated utilities Codensa and Gas Natural. Despite the lack of control, Moody's believes that the visibility of EEB's cash flows is enhanced by the aggressive distribution policies of these three companies. These have historically consisted not only of very aggressive dividend payout ratios but also of capital reductions, as was Emgesa's case during 2010. Moody's rating incorporates the assumption that these dividend distribution policies will not change substantially over the medium to long term.

The BCA is largely capped by the uncertainty in connection with the successful completion of the material transmission and natural gas capital expenditure (capex) projects pursued in Guatemala, via Trecsa (aggregate capital outlay: US$370 million), and Peru, via Contugas (total investments: US$280 million), respectively. These controlled subsidiary projects are scheduled to be completed during 2013. In Moody's opinion, these projects are not without risks given the associated execution risk and that EEB is moving outside its traditional regulatory environment to other jurisdictions. This is particularly true for the Guatemalan transmission project given EEB's limited experience in the Central American region. Nevertheless, Moody's acknowledges the resulting diversification benefits and expects that EEB will continue funding these projects in a relatively prudent manner with relatively modest incurrence of indebtedness at the holding company to fund its agreed upon equity contributions (around 30% of total capex). We note that EEB is granting intercompany loans to both companies. The expected cash flows from the projects will be enhanced by the interest payments to be made on these loans that are in addition to equity contributions. EEB's BCA also acknowledges the anticipated increase in the controlled subsidiaries' relevance as cash flows contributors upon completion of these projects but also of TGI that is currently in the tail-end of its material capex program and could start making dividend distributions over the medium term. The latter would be subject to a maximum 50% payout ratio under the terms of TGI's own outstanding indebtedness. This would come on top of the interest payments made to EEB under the 8.75% 10-year US$370 million subordinated intercompany loan due in 2017. In this regard, the BCA also acknowledges that the bulk of EEB's outstanding debt was used to aid in the funding of the acquisition of TGI's transportation assets given EEB's access to better market terms and conditions. Prospectively, Moody's expects that EEB will exclusively pursue investments in regulated companies that operate in stable and predictable regulatory environments in which it also has controlling positions.

The BCA incorporates the assumption that EEB will fully use the proceeds raised in connection with the issuance of the proposed notes to redeem a portion of its outstanding indebtedness. The BCA also acknowledges that EEB used cash on balance to fund the acquisition of its ownership-stakes in Promigas and Calidda completed earlier this year, as well as the expectation that the an initial public offering of over Colombian Pesos 1,000 billion (equivalent to around US$520 million) is closed early next month. Moody's expects this will strengthen EEB's capital structure, particularly after its 2011 material capital distributions on account of Emgesa's equity reduction cited above, and that EEB will use the proceeds to finance a portion of its investment plan. We also note that EEB has publicly disclosed it plans to continue distributing at least 50% of its distributable net income, and pursue capital reductions on account of its subsidiaries' capital distributions.

Given EEB's dependence on its subsidiaries' dividend distributions to service its debt we consider in our assessment mainly EEB's standalone credit metrics. Its historical nonconsolidated credit metrics compare well with its BCA rating category somewhat offsetting the inherent structural subordination that its cash flows are exposed to. In this regard, we note that its 2008-2010 CFO pre-W/C to debt and CFO pre-W/C interest coverage averaged over 30% and 5x, respectively. However, EEB's 2008-2010 Retained Cash Flow (RCF) to debt averaged only 6%, which is weakly positioned within the BCA 11 rating category. EEB's BCA incorporates our expectation that even if EEB incurs additional indebtedness to fund new material investments in regulated subsidiaries it will register over the medium to long-term standalone CFO pre-W/C to debt and interest coverage that stills compare well to the Ba-rating category, specifically a CFO pre-W/C to debt and CFO pre-W/C interest coverage that average in the mid to high teens and 2.5x, respectively. The material dividend distributions remain a concern particularly in the absence of a governance framework agreement that clearly outlines EEB's relationship with its majority shareholder, the District of Bogota, particularly in terms of dividend distributions. However, Moody's also notes that currently under the terms of the proposed notes, EEB's ability to incur new indebtedness and make restricted payments is subject among others to maintaining certain financial covenants, namely a Consolidated Interest Coverage ratio of at least 2.25x and a Consolidated Net Debt to Consolidated Adjusted EBITDA Ratio no greater than 4.5x.

It is Moody's understanding that EEB's exposure to foreign exchange risk is modest due to the natural hedges that result, among others, from the up-stream cash flows associated with the intercompany loans that are denominated in U.S. dollars, as well as the foreign currency swaps contracts that are in place. In terms of liquidity, the BCA incorporates the fact that similar to other Latin American issuers, EEB has no committed credit facility in place albeit we acknowledge that EEB usually maintains balances of cash and short term investments exceeding US$100 million to cope with unforeseen liquidity requirements, albeit this was only around US$55 million as of June 30, 2011 due to the acquisitions consummated earlier in the year.

The outlook on EEB's ratings is stable, which is based on Moody's belief that EEB will continue to benefit from the strong cash distributions received mainly from its uncontrolled subsidiaries, that it will be able to successfully complete the ongoing major capex programs in Guatemala and Peru, and that the relevance of the controlled subsidiaries, including TGI, will increase over time in terms of cash flows contributions. It also incorporates our expectation that any new material investments will focus exclusively on regulated operations and will be funded in a prudent fashion, such that EEB reports key credit metrics that compare well with the current BCA-rating. The stable outlook is also based on the successful close of the current initial equity offering.

The BCA rating of EEB could be upgraded if over the long term its reliance on its controlled subsidiaries increases significantly such that they exceed the un-controlled subsidiaries in terms of cash flow contributions. Quantitatively, an upgrade could be triggered if EEB reports RCF over total debt in the mid to high teens, on a sustainable basis The FC senior unsecured rating could be reviewed upwards if the rating of the District of Bogota is upgraded, and Moody's considers the strong level of support and high dependence factors are still appropriate.

The BCA rating could be downgraded if the ongoing capex program pursued via Trecsa (Guatemala) and/or Contugas (Peru) is poorly executed. Negative momentum could be triggered if the cash upstreams received by EEB deteriorate substantially and/or indebtedness increases significantly above anticipated levels such that the credit metrics deteriorate, specifically, if CFO pre-W/C interest coverage and CFO pre-W/C to debt fall below 2.0x and the mid teens on a sustainable basis. Apart from a change in the standalone fundamental credit quality of the issuer, the rating of the notes could be downgraded if EEB decided to incur significant amounts of secured debt as a proportion of total debt. Moreover, a downgrade in the District of Bogota's foreign currency rating and/or a perception that a lower degree of support from the District is applicable could also negatively affect EEB's rating.

The principal methodologies used in rating EEB are the Moody's Regulated Electric and Gas Utilities published in August 2009 as well as the Government Related Issuers: Methodology Update published in July 2010.

Headquartered in Bogota, Colombia, Empresa de Energia de Bogota S.A. E.S.P. (EEB) is an operating transmission company and a holding company that holds interest stakes in controlled and non-controlled subsidiaries that conduct their businesses in Colombia, Peru and Guatemala. EEB's controlled subsidiaries include the Colombian natural gas transportation company, Transportadora de Gas Internacional S.A. E.S.P. (68.1% ownership stake), the Peruvian natural gas distribution company, Calidda (total in- and direct interest 66.2%) and the holding company Decsa (51% interest) that holds a 82% ownership stake in the electric utility Empresa de Energia de Cundinamarca S.A. E.S.P. (EEC). EEB's controlled subsidiaries Contugas and Trecsa are pursuing material investment programs in Peru and Guatemala, respectively. Currently EEB receives the bulk of its cash flows from its non-controlled subsidiaries, namely the unregulated generation company Emgesa as well as the electric and natural gas utilities Codensa and Gas Natural S.A. E.S.P. Earlier this year EEB also acquired a 15.6% intereset in the Colombian energy company Promigas that holds a 40% ownership stake in Calidda. The District of Bogota currently holds a 81.5% ownership stake in EEB. It is our understanding that if it does not participate in EEB's current initial public offering the District's interest in EEB will be at least 75%. As of June 30, 2011, EEB had on a standalone basis assets totalling Colombian Pesos 9,553.8 billions (equivalent to around US$5 billion) and recorded last twelve-months Funds from Operations of around Colombian Ps 540 billions (around US$290 million).

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