Article Title: Criteria | Corporates | Utilities: Rating Structurally Enhanced Debt Issued By Regulated Utilities And Transportation Infrastructure Businesses Data: (EDITOR'S NOTE: —On Jan. 17, 2023, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.) 1. This article describes S&P; Global Ratings' methodology and assumptions for assigning issue credit ratings to structurally enhanced debt (SED) issued by regulated utilities and transportation infrastructure businesses. These criteria are related to the criteria "Methodology: Holding Companies That Own Corporate Securitizations And Structurally Enhanced Debt Transactions." 2. We define SED as debt that 1) is issued by a financing group that is delinked from its parent company (see chart 2), and 2) includes structural enhancements designed to reduce the likelihood that the financing group (including the related operating company) may default. For an operating company that experiences a moderate degree of underperformance, the enhancements provide a set credit remedy period (see glossary of terms) during which the company can take steps to stabilize its credit quality, or creditors can sell the company's shares while it retains significant value. SED structures lack postinsolvency protection, unlike structures such as corporate securitizations. 3. This paragraph has been deleted. SCOPE OF THE CRITERIA 4. The criteria apply to issue credit ratings on SED issued by regulated utilities and transportation infrastructure businesses, which fall in the scope of the transportation infrastructure industry and the regulated utilities industry (for the latter, also see "Key Credit Factors For The Regulated Utilities Industry"). As described in these methodologies, we would use the "low" or "medial" volatility tables for our cash flow/leverage ratio analysis (see "Corporate Methodology"). For the criteria to apply, the SED must also operate in a creditor-friendly jurisdiction identified as a Group A insolvency regime (for S&P; Global Ratings' most updated jurisdiction ranking assessments, see our commentary "Jurisdiction Ranking Assessments Update," which we periodically update). 5. The SED criteria apply only to senior secured and subordinated secured SED (see glossary of terms) issued by financing groups that meet the characteristics in Section I: Identifying Structurally Enhanced Debt below. 6. For structures that do not meet the characteristics in Section I: Identifying Structurally Enhanced Debt required, we would apply our "Corporate Methodology" and "Group Rating Methodology" criteria (see chart 1). SUMMARY OF THE CRITERIA Table 1 Matrix For Determining How To Rate Structurally Enhanced Debt STRUCTURAL ENHANCEMENTS MET STRUCTURAL ENHANCEMENTS NOT MET There is no subordinated debt Issue credit rating is one notch higher than the SACP Issue credit rating mirrors the SACP Subordinated debt meets all of the conditions in paragraph 52 (i.e., junior in waterfall, limitations on remedies, and other listed conditions) Determine SACP based on senior debt metrics. Senior issue credit rating is one notch higher than SACP. Determine subordinated SACP based on senior and subordinated debt metrics. Subordinated issue credit rating mirrors the subordinated SACP* Determine SACP based on senior debt metrics. Senior issue credit rating is at the SACP. Determine subordinated SACP based on senior and subordinated debt metrics. Subordinated issue credit rating is at the subordinated SACP* but at least one notch lower than the senior issue credit rating (if senior and subordinated SACP are the same) Subordinated debt does not meet all of the conditions in paragraph 52 Determine SACP based on senior and subordinated metrics. Issue credit rating on the senior debt is one notch higher than the SACP. Subordinated issue credit rating is at the SACP* Determine SACP based on senior and subordinated metrics. Senior issue rating is at the SACP. Subordinated issue credit rating is at the SACP* *Subject to notching for nonpayment risk, as described in paragraphs 50 and 51. 7. Under the criteria, we first determine the stand-alone credit profile (SACP) of the financing group (see chart 2) using our "Corporate Methodology," "Guidance: Corporate Methodology," and our criteria "Key Credit Factors For The Regulated Utilities Industry." The SACP is derived from the operating company's business risk profile and the consolidated financing group's financial risk profile, which includes the analysis of the financing group's credit metrics. 8. If the debt benefits from a package of supportive structural enhancements designed to reduce the likelihood that the financing group may default, the issue credit rating on the SED (in single-class transactions) or the rating on the senior class of debt (in multiple-class transactions) could be one notch above the SACP. 9. For a financing group that issues senior and subordinated debt, we assess whether the subordinated debt is at greater risk of default than the senior debt. Subordinated debt is at greater risk of default if it meets the criteria in paragraph 52. In such a case, we determine the SACP based on credit metrics that exclude the subordinated debt. 10. If the subordinated debt does not meet the criteria in paragraph 52, we would consider it to have the same likelihood of default as the senior debt in the SED structure. As a result, the SACP would be based on credit metrics that include the subordinated debt. 11. If the subordinated debt meets the requirements defined in paragraph 52, we would assign a subordinated SACP. We determine this in the same way as the SACP, but using debt metrics that include both senior and subordinated debt. We would generally rate the subordinated debt at the subordinated SACP if it meets the criteria in paragraph 52 or at the SACP if the subordinated debt does not meet the criteria in paragraph 52 (subject to the conditions in paragraph 26). 12. The SED issue credit rating could be constrained by the relevant sovereign rating and transfer and convertibility (T&C;) assessment. For the issue credit rating to be higher than the sovereign rating or T&C; assessment, the entity must meet the conditions in "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions." 13. This paragraph has been deleted. 14. This paragraph has been deleted. 15. This paragraph has been deleted. METHODOLOGY 16. These criteria would apply where SED is issued by a financing group that includes an operating company (see chart 2) which derives almost all of its earnings from regulated utility activities or regulated transportation infrastructure activities. A regulated utility or regulated transportation infrastructure company is defined as a corporation that offers an essential or near-essential infrastructure product or service with little or no practical substitute (such as electricity, water, and gas, airports, and toll roads), has a business model that is shielded from competition (naturally, by law, shadow regulation, or by government policies and oversight), and is subject to comprehensive regulation by a regulatory body or implicit oversight of its rates (sometimes referred to as tariffs), service quality, and terms of service. Furthermore, the regulated businesses must operate in a jurisdiction where rates are high enough for the operating company to recover prudently incurred costs, including all debt costs and a fair return on its capital. As a consequence, these operating companies have favorable credit characteristics and generate stable, recurring cash flows. We therefore would assess them using the "low" or "medial" volatility tables for our cash flow/leverage analysis ratios (see "Corporate Methodology" and "Guidance: Corporate Methodology"), as described in "Key Credit Factors For The Regulated Utilities Industry." Section I: Identifying Structurally Enhanced Debt 17. SED is issued by a financing group that is delinked from the parent, as described in paragraph 19. The financing group typically consists of a holding company, an operating company, and often a finance company (the issuer), which may or may not be owned by the operating company. The finance company is a limited-purpose entity (LPE) which raises debt and lends the proceeds on identical terms to the operating company (borrower) under an issuer/borrower loan agreement. If a finance company is not present, the debt is issued by the operating company. The holding company is an LPE that provides a pledge to secured creditors over its shares and the shares of its 100%-owned subsidiary, the operating company. This would allow the senior secured creditors to take control of and sell the shares in the operating company during the credit remedy period, when the operating company is still likely to retain significant value. The operating company makes loan payments to the issuer, which in turn uses these to service its debt. The operating company is prohibited from undertaking any material activities outside its regulated license. 18. All existing creditors of the financing group sign up to a common set of documentation and agree on ranking and payment priorities. Nearly all future creditors must also sign up to the same documentation. Covenants prevent the entities in the financing group from issuing unsecured debt that is not party to the transaction documentation above a maximum level, typically 1% of regulated capital value (RCV) or a fixed amount no more than 2%-3% of outstanding debt. A majority of the debtholders would have to consent to any waiver or amendment of certain conditions, such as covenants. The transaction documentation provides for a credit remedy period (see glossary of terms) of at least 12 months, during which all creditors suspend their enforcement claims, except for their right to sell the shares of the operating company. 19. To be delinked from its parent(s) according to our criteria, the financing group needs to meet all of the conditions below (terms are defined in "General Project Finance Rating Methodology"): It has independent directors (or an equivalent anti-bankruptcy filing mechanism) at the operating company. It has no cross-default provisions to entities outside of the financing group. It cannot merge or reorganize. There are limitations on amendments to organizational documents. It meets the conditions for separateness from its parent(s) as defined in our criteria "General Project Finance Rating Methodology." Creditors have a security interest over those of the financing group's assets that can be pledged as security. It has no parent dependencies (such as certain contracts with parents and affiliates, taxes, or insurance contracts). 20. If the financing group does not meet all the conditions stated in paragraph 19, this criteria would not apply and we would consider the financing group to be part of the same group as its parent, including any other holding companies outside the financing group. In such cases, we would apply our "Group Rating Methodology" to the parent and the financing group and we would not analyze the financing group's debt as SED. Section II: Rating Approach 21. Under the criteria, we first determine the SACP of the financing group using our "Corporate Methodology," "Guidance: Corporate Methodology," and "Key Credit Factors For The Regulated Utilities Industry." The SACP reflects the operating company's business risk profile and the consolidated financing group's financial risk profile. We do not include as sources in our liquidity analysis dedicated liquidity reserves that would be available to meet scheduled interest payments during the credit remedy period. 22. If applicable, we analyze shareholder loans or preference shares provided to the financing group by its owner using the criteria described in "The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities." 23. For a financing group that has issued senior and subordinated debt (see glossary of terms), we assess whether the subordinated debt is at greater risk of default than the senior debt. Subordinated debt is at greater risk of default if it meets the criteria in paragraph 52, if it would be paid after the senior debt, has no claim on the security until the senior debt is paid, and its default could not cause the senior debt to default. In such a case, we derive the SACP from credit metrics that exclude the subordinated debt because the subordinated debt provides credit enhancement for senior creditors on a going-concern basis. The subordinated debt typically defers interest and principal when the financing group has insufficient cash to make the payments due. This can occur while the financing group is still paying interest and principal on the senior debt and even before the debt restriction covenants (see glossary of terms) are triggered. 24. We assign a subordinated SACP if the financing group has issued subordinated debt which meets the requirements defined in paragraph 52 because, in our view, the senior and subordinated debt classes have a different likelihood of default. We generally rate the subordinated debt at the subordinated SACP or lower, subject to the conditions in paragraph 26. The subordinated SACP is determined in the same way as the SACP, but using debt metrics that include both senior and subordinated debt. 25. If the subordinated debt does not meet the criteria in paragraph 52, we would consider it to have the same likelihood of default as the senior debt in the SED structure and to not provide credit enhancement for senior creditors on a going-concern basis. As a result, the SACP would be derived from credit metrics including the subordinated debt. 26. The subordinated debt is rated below the senior debt to reflect deferral risk if it includes interest or principal deferral features that would conserve cash in the financing group for the benefit of senior creditors, as long as the senior debt is rated higher than 'C' (unless a 'D' rating applies to the subordinated debt). The deferral feature would allow the issuer to avoid paying interest or principal in certain circumstances without this causing an event of default for the subordinated or senior debt. The number of notches between the senior and subordinated debt ratings would increase if the risk of nonpayment (deferral risk) increases. We will generally lower the rating on debt with a coupon or principal deferral feature to 'D' when the issuer makes use of the deferral features, as permitted by the terms of the instrument, and we are almost certain that the deferred amounts will not be paid in full at or before the maturity date. 27. SED issue credit ratings do not reflect our expectations for recovery after a payment default. We would, however, assign a separate recovery rating to reflect our expectations for recovery after a payment default to an SED issue rated 'BB+' or lower if there is only one tranche of rated debt or if there are two tranches of rated debt and the senior debt is rated 'BB+' or lower. 28. If the SED benefits from a package of supportive structural enhancements, the issue credit rating on the SED in single-class transactions or that on the senior debt in multiple-class transactions could be one notch above the SACP. Subordinated debt would be rated at the SACP or subordinated SACP, but no higher, because it does not benefit from the same degree of structural protection as the senior debt. 29. The SED issue credit rating could be constrained by the relevant sovereign rating and transfer and convertibility (T&C;) assessment. For the issue credit rating to be higher than the applicable sovereign rating or T&C; assessment, the entity must have met the conditions in "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions." Section III: Analysis Of Structural

Enhancements 30. In our view, certain structural enhancements can mitigate the most common causes of credit deterioration in otherwise stable regulated utility or regulated transportation infrastructure businesses. These are: An increase in leverage decided by the parent; Credit-dilutive expansion into higher-risk, unregulated activities; or A sudden and unpredictable cost increase that is not immediately passed through via higher end-user tariffs. 31. The structural enhancements in SED can significantly reduce these risks by preventing or restricting actions that would change the business model or increase leverage. Default risk is reduced further because a credit remedy period would be triggered for SED structures if the financing group experiences credit stress, due for example to the crystallization of conditions identified in the preceding paragraph, but remains a viable business. Furthermore, the intercreditor agreement that is part of the SED documentation imposes a tight covenant package that prevents dividend and other cash distributions outside of the financing group to the parent (see chart 2) and restricts the financing group's leverage. 32. The rating on the SED where there is a single class of debt and the rating on the senior SED (where the transaction has multiple classes), would be one notch higher than the SACP if all of the structural enhancements listed in table 2 exist and the transaction meets all of the criteria in paragraph 35-45. 33. In order to consider the package of structural enhancements as credit-supportive, all of the following protections must be present: Restrictions on business activities and mergers and acquisitions; Distribution restriction covenants that provide incremental protection above the debt restriction covenant; Dedicated liquidity reserves during credit remedy period; Prudent treasury policies; Pledge on holding and operating company shares and operating assets (to the extent allowed by regulation); and Debt restriction covenants. We believe that creditors are better positioned if the structure provides these protections. 34. If all of the structural enhancements are not present, or all of the enhancements are present, but the enhancements do not fully meet the criteria in paragraphs 35-45, we rate the SED in single-class transactions--and the senior SED in multiple-class transactions--at the level of the SACP. In addition, the rating on the senior SED cannot exceed the subordinated SACP by more than three notches if the debt restriction covenants are based on total senior and subordinated debt. This is because a breach of the debt restriction covenant would automatically trigger a credit remedy period, during which time any refinancing of maturing senior debt would be more difficult. Table 2 Structural Enhancements Restriction on business activities, mergers, acquisitions, and business transformation Distribution restriction covenants Dedicated liquidity reserves during credit remedy period Prudent treasury policies Pledge on holding and operating company shares and operating assets Debt restriction covenants Restriction on business activities, mergers, acquisitions, and business transformation 35. Restricting the operating company from engaging in nonregulated activities reduces the risk of the operating company having weaker, more-volatile earnings and less predictable asset values. This condition is satisfied if the entities within the financing group are restricted from material asset sales and engaging in material activities outside of those permitted by the operating company license. These restrictions specifically relate to mergers, acquisitions, and business transformations beyond what is permitted by the operating license. Distribution restriction covenants 36. A tight covenant package can provide an early warning of credit quality deterioration and reduces the risk of a parent-driven increase in leverage. We would only consider that covenants that restrict distributions (dividends and other payments) to entities outside the financing group (see chart 2) provide incremental protection above the debt restriction covenants if they would be activated before the debt restriction covenants. Specifically, dividend restriction covenants must be set at levels at least 10% lower than any debt restriction covenants that would trigger the credit remedy period (for example, if the debt restriction covenant is set at 10x debt to EBITDA, the dividend restriction covenant must be set at 9x debt to EBITDA or below). 37. The covenants must be based on financial ratios which are forward-looking over at least 12 months, measurable, and reliable. 38. The distribution restriction covenants must be supplemented by trigger events that restrict distributions and other payments outside the financing group if there is any shortfall in a dedicated liquidity reserve or facility, or for example if there is a risk of termination of the operating license or if regulatory reviews, government legislation, or modification of the operating license could adversely affect the business. Credit remedy period and liquidity reserves 39. The credit remedy period provides time for the financing group to implement measures to strengthen its credit quality. For example, it could request from its regulator a tariff increase to compensate for any sudden and unpredictable increase in costs.

Alternatively, the senior debtholders could use the credit remedy period to sell the operating company shares while they retain significant value. 40. The transaction documents must allow for a credit remedy period of at least 12 months that would be activated automatically if any of the debt restriction covenants are breached. During the credit remedy period, creditors suspend their enforcement claims against the operating company, apart from the right to sell the operating company shares, giving the operating company time to stabilize its credit quality. The credit remedy period should allow creditors sufficient time to sell the operating company shares while the operating company retains significant value. The liquidity reserves or facilities must be available to the issuer for each class of debt and must be sized to pay the interest charges, in full and on time, for at least the first 12 months of any credit remedy period. 41. The providers of the liquidity facilities must meet the counterparty rating requirements as described in "Counterparty Risk Framework Methodology And Assumptions." Prudent treasury policies 42. We assess the financing group's capital structure to identify treasury risks which might affect the performance of the financing group or make debt refinancing more difficult during a credit remedy period. We test the following risks: Interest rate risk: The financing group must be able to withstand a proportionate interest rate increase of 25% (for example, floating interest rate increasing to 5% from 4%) without any deterioration in the SACP and subordinated SACP, if there is a subordinated SACP. Foreign exchange risk: The financing group cannot take material foreign exchange risks (under our definition of material, no more than 5% of outstanding debt can be denominated in foreign currency). We factor into our analysis of foreign currency exposure the financing group's natural or currency hedges as per paragraph 142 in "Corporate Methodology." Debt maturity concentration risk: Debt maturities must be well spread out so that the financing group is exposed to low refinancing risk. That is, no more than 50% of the financing group's debt may mature in any three-year period. Derivative counterparty risk: The financing group may not have material exposure to any derivative counterparty rated 'BB+' or below (that is, the swap notional amount may not exceed 10% of SED senior and subordinated debt). Derivative liquidity risk: There may not be any derivative collateral posting requirements and swap breakage costs must be limited. Swaps that have break clauses must be restricted in terms of asset exposure. For example, the value of the swap must be no more than 10% of RCV, or 1x EBITDA for companies where the RCV is not available, unless the financing group has adequately mitigated the liquidity and refinancing risk relative to swap breaks by, for example, having diverse counterparties, well spread swap break dates, and no exposure to breaks in the next 24 months. Pledge on holding company and operating company shares and operating assets 43. SED structures must provide to SED secured creditors a first-ranking and enforceable pledge over the shares in the holding company, and the shares and all operating assets (to the extent allowed by regulation) of the operating company (see chart 2). There must be a comprehensive negative pledge and covenants should restrict the issuance of unsecured debt at a level we consider immaterial--typically, no more than 1% of RCV or a fixed amount no more than 2%-3% of outstanding debt. Debt restriction covenants 44. The debt restriction covenants must be set at a level that would enable senior creditors to sell the operating company during the credit remedy period, while it still retains significant value. The covenant level is expressed in terms of debt to RCV. Where RCV or a similar measure of capital is not available, it is expressed in terms of debt to EBITDA. 45. We assess whether the achieved enterprise values from the sale of comparable businesses--when measured as a percentage of RCV or an EBITDA multiple--are higher than the level of the debt restriction covenant (see Appendix for how we determine enterprise values). The debt restriction covenant can differ between regions and markets to reflect different earnings volatility, market conditions, and past transactions. The covenant trigger point must also be set at a level where there would be limited risk of regulatory intervention to suspend or remove the operating company's operating license. Section IV: Analysis Of Subordinated Debt 46. We would assign a subordinated SACP if the financing group has issued subordinated debt that meets the conditions in paragraph 52, because in these cases, we would view the senior and subordinated debt as having different default risk. We would generally rate the subordinated debt at the subordinated SACP (subject to the conditions in paragraphs 50 and 51). The subordinated SACP is determined in the same way as the SACP, but is based on debt metrics that include both senior and subordinated debt. 47. If the subordinated debt meets all of the conditions in paragraph 52, a subordinated SACP is derived from the senior and subordinated debt metrics. In this case, the subordinated issue credit rating will mirror the subordinated SACP, unless the subordinated debt is exposed to deferral risk, in which case paragraphs 50 and 51 apply. However, if the senior and subordinated SACP are the same and the conditions in paragraphs 35-45 are not met, the subordinated issue credit rating must be one notch lower than the senior issue credit rating to reflect the higher default risk of the subordinated debt. 48. If the senior issue credit rating is one notch higher than the SACP because the subordinated debt does not meet all of the conditions in paragraph 52 and the conditions in paragraphs 35-45 are met, the issue credit rating on the subordinated debt mirrors the SACP unless the subordinated debt is exposed to deferral risk. In that case, paragraphs 50 and 51 apply. 49. If the senior issue credit rating mirrors the SACP because the subordinated debt does not meet all of the conditions in paragraph 52 and the conditions in paragraphs 35-45 are also not met, the issue credit rating on the subordinated debt is the same as the SACP. If the subordinated debt is exposed to deferral risk, paragraphs 50 and 51 also apply. 50. Furthermore, the subordinated debt is rated below the senior debt, reflecting deferral risk, if it includes interest or principal deferral features that would conserve cash in the financing group for the benefit of senior debtholders, as long as the senior debt is rated higher than 'C' (unless a 'D' rating applies to the subordinated debt). 51. We would increase the number of notches between the ratings on the senior and subordinated debt should the risk of nonpayment increase. We will generally lower the issue credit rating on debt with a coupon deferral or principal deferral feature to 'D' when a deferral occurs, if the deferral is permitted by the terms of the instrument, and we consider it almost certain that the deferred amounts will not be repaid in full on or before the maturity date. 52. Under these criteria, if subordinated debt is to provide credit enhancement for senior creditors, it must meet all of the following conditions (see Subordinated debt obligations in "General Project Finance Rating Methodology"): Subordinated debt principal and interest is only paid after any senior debt obligation is paid, and any prior-ranking reserves are replenished. Subordinated debt has no right to access or share the liquidity reserves dedicated to senior debt. Subordinated debt has no right to call or trigger a payment default and nonpayment on the subordinated debt cannot trigger a cross-default on any senior debt or debt-like obligation. While any senior debt is outstanding, subordinated debt has no rights of acceleration, even at maturity, unless the senior debt has accelerated, and maintains its subordinated ranking in the cash flow waterfall. Nonpetition language is included in the transaction documents, under which subordinated debtholders or lenders agree not to initiate insolvency proceedings against any of the LPEs, and not to join any such proceedings. Subordinated debt has no voting rights while any senior debt or debt-like obligation is outstanding, apart from matters which would adversely modify the subordinated debt's terms or the rights, obligations, or liabilities of the subordinated debtholders. Any collateral and security interests or claims on liquidation granted to subordinated lenders should rank after senior debt. Recovery Ratings 53. SED issue credit ratings do not reflect our expectations for recovery after a payment default. SED transactions operate in jurisdictions which we classify as Group A insolvency regimes (for S&P; Global Ratings' most updated jurisdiction ranking assessments, see our commentary "Jurisdiction Ranking Assessments Update," which we periodically update). We would assign a separate recovery rating to an SED issue rated 'BB+' or lower if there is only one tranche of rated debt or if there are two tranches of rated debt and the senior debt is rated 'BB+' or lower. Recovery ratings do not blend default risk and recovery given default. Instead, they express our opinion of an issue's recovery prospects. Each rating category corresponds to a specific range of recovery values (see table 3 below). Table 3 Recovery Scale--Group A Jurisdiction (For Issues Rated 'BB+' Or Lower) --NOMINAL RECOVERY EXPECTATIONS-- RECOVERY RATING RECOVERY DESCRIPTION GREATER THAN OR EQUAL TO LESS THAN 1+ Highest expectation, full recovery 100% N/A 1 Very high recovery 90% 100% 2 Substantial recovery 70% 90% 3 Meaningful recovery 50% 70% 4 Average recovery 30% 50% 5 Modest recovery 10% 30% 6 Negligible recovery 0% 10% 54. We use the corporate criteria to estimate recovery ranges (see "Recovery Rating Criteria For Speculative-Grade Corporate Issuers"). However, we do not use the recovery estimates when deriving the SED issue credit rating. 55. In cases where there is a full security package over a utility operating company's fixed assets, we use the criteria "Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property") to derive the SED issue credit rating. APPENDIX Assessing The Level Of Debt Restriction Covenants The following examples illustrate how we assess whether an SED could still retain significant value at the point at which its debt restriction covenant would be triggered. Example 1 The underlying assumptions used in this example are: If debt reaches an amount equal to 10x EBITDA, it would breach the debt restriction covenant and a credit remedy period would begin. At this point, the business is still a going concern. The operating company is a European power distribution network operator that qualifies to use the low volatility table given in "Key Credit Factors For The Regulated Utilities Industry." We compare the level at which the debt restriction covenant has been triggered--in this example, when debt to EBITDA is 10x--to the enterprise values that have been achieved upon the sale of European power distribution network operators that have similar level of earnings volatility and were sold under nonstressed conditions. Using available information, we estimate that the achieved enterprise values have been about 10x-18x debt to EBITDA, and the average enterprise value is about 14x debt to EBITDA. If we do not have sufficient regional sale data, we would analyze sale data for similar businesses in other regions. In the example, we would conclude that if the creditors decide to sell the business after the debt restriction covenant has been triggered and during the credit remedy period, they would likely recover nearly all their outstanding debt. The requirements in paragraph 45 would therefore be met and we would allow one notch of uplift above the SACP if all the other structural enhancements are met. Example 2 The underlying assumptions used in this example are: If debt reaches an amount equal to 105% of RCV, it would breach the debt restriction covenant and a credit remedy period would begin. The operating company is a U.K. water utility that is subject to the low volatility table in "Key Credit Factors For The Regulated Utilities Industry." Using available information, we estimate that achieved enterprise values upon the sale of U.K. regulated utilities that have low volatility characteristics range from about 90%-150% of RCV. Because similar businesses have sold for less than the debt restriction covenant level (105% of RCV), we conclude that the SED creditors may not fully recover their outstanding debt if they sell the business during the credit remedy period. The requirements in paragraph 45 would therefore not be met and we would not allow one notch of uplift above the SACP based on the structural enhancements. Glossary Of Terms Cash flow waterfall The order in which cash is paid to different creditors to meet their debt claims on a business-as-usual basis, and their ranking in priority. The typical waterfall is: make payments to maintain operations; then, pay interest and principal on senior debt and make any payments into senior reserve accounts; and finally, pay subordinated interest and principal and make any payments into subordinated reserve accounts. Covenants and trigger events that restrict distributions outside the financing group If these covenants are breached or a trigger event occurs, dividends and other payments to entities outside of the financing group are stopped. The covenants are based on financial ratios such as interest cover ratios and debt to RCV or debt to EBITDA; examples of trigger events include if there is any shortfall in a dedicated liquidity reserve or facility, or if regulatory reviews, government legislation, the modification of or risk of termination of the operating license could adversely affect the business. Credit remedy period (sometimes referred to as a standstill period) Creditors suspend their enforcement claims, apart from the right to sell the shares in the operating subsidiary, during the credit remedy period, but debt service would be uninterrupted because payments due would be made from the dedicated liquidity facility. The credit remedy period automatically begins after a debt restriction covenant is breached. Debt restriction covenants Debt restriction covenants can be financial or nonfinancial (for example, nonpayment of debt or breach of obligations). If triggered, they result in the automatic activation of the credit remedy period. A covenant breach is sometimes referred to in the transaction documentation as an event of default, although it would not lead to debt acceleration until the end of the credit remedy period. Subordinated debt Within an SED structure, subordinated debt means debt which is issued by the financing group, is not provided by shareholders or other controlling parties, accedes to the common transaction documentation, and is structurally or contractually subordinated to senior debt. REVISIONS AND UPDATES This article was originally published on Feb. 24, 2016. These criteria became effective on Feb. 24, 2016. The criteria relate to the more general criteria articles "Principles Of Credit Ratings," published Feb. 16, 2011, and "Corporate Methodology," published Nov. 19, 2013. Changes introduced after original publication: Following our periodic review completed on Feb. 24, 2017, we updated the contact information and criteria references and deleted paragraphs 3, 13, 14, and 15, which were related to the initial publication of the criteria and no longer relevant. Following our periodic review completed on Feb. 23, 2018, we updated criteria references. We also updated table 3 to be consistent with table 1 in "Recovery Rating Criteria For Speculative-Grade Corporate Issuers," published Dec. 7, 2016. On April 15, 2019, we republished this criteria article to make nonmaterial changes. We updated the contact information and criteria references. On April 3, 2020, we republished this criteria article to make nonmaterial changes. We updated a number of criteria references throughout the article and in the "Related Criteria" section. On March 31, 2021, we republished this criteria article to make nonmaterial changes. We updated a number of criteria references throughout the article. In addition, we updated the "Related Publications" section. On Sept. 9, 2021, we republished this criteria article to make nonmaterial changes. We updated the contact information as well as the "Related Publications" section. On Jan. 17, 2023, we republished this criteria article to make nonmaterial changes. We updated a number of criteria references in the article, and we updated the "Related Publications" section. RELATED PUBLICATIONS Related Criteria General Project Finance Rating Methodology, Dec. 14, 2022 Hybrid Capital: Methodology And Assumptions, March 2, 2022 Group Rating Methodology, July 1, 2019 Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019 Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018 Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016 Methodology: Holding Companies That Own Corporate Securitizations And Structurally Enhanced Debt Transactions, Feb. 24, 2016 Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015 Corporate Methodology, Nov. 19, 2013 Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013 Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013 Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013 Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010 Related Research S&P; Global Ratings Definitions, Nov. 10, 2021 Related Guidance Guidance: Corporate Methodology, July 1, 2019