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## Standard & Poor's downgrades Enemalta credit rating to B- over €448 million debt

Enemalta Corporation has had its credit rating downgraded to B- by rating agency Standard and Poor's as the corporation has taken on its most ambitious expansion programme in recent years.



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by **Matthew Vella**

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*Updated with comments by Labour MP Charles Mangion at 10:30am*

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In a statement, the finance ministry said that amongst the reasons cited by S&P for the downgrade from BB+ was a lack of strong 'arrangements' with respect to Enemalta's financial stability.

In October 2010 the agency had warned that risks from Enemalta could put downward pressure on Malta's creditworthiness if plans to reform its business model prove ineffective or if there is a downward revision of property prices.

S&P rates borrowers on a scale from AAA to D. Non-investment grades such as B indicate a financial situation that varies noticeably while CCC means the investment is currently vulnerable and dependent on favorable economic conditions to meet its commitments.

The ministry said that S&P found Enemalta's past tariffs did not reflect the variations in the corporation's expenditure on electricity generation, including the rise in oil prices which were not being entirely covered by government subsidies.

Another shortcoming was that past tariffs did not reflect the recent capital investment, amongst them a €200 million power station expansion that was the subject of an investigation by the National Audit Office.

However, Opposition finance spokesman Charles Mangion dismissed the ministry's allusion to oil prices as an excuse: pointing towards the fact that Government had subsidized Enemalta's expenditure on oil by as much as €80 million a year until 2009.

"To argue that the tariffs did not reflect the true price of oil is irrelevant, considering that the Government made good for the price difference in subsidies," he told MaltaToday.

"It is far likelier that the financial difficulties were caused by inefficiencies and bad management practices over the years, which the Government has been unable to control."

Either way, Enemalta's losses are reflected in the large debt the corporation has accumulated: a cursory look at the NAO's report for 2009 shows the corporation has €448 million in letters of comfort and bank guarantees for loans taken out. In 2008 its debt stood at €300m.

*"This problem was addressed by a change in the methodology for the working of tariffs*  
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• ministry said.

Enemalta still has not presented its latest financial records. The ministry said that Enemalta was working on a long-term plan at refinancing its debt and improve efficiency while curbing its spending.

“The S&P report also shows that proposals by the Opposition to reduce ROCE on its billing, the amount of which represents the cost of recovering the corporation’s investment, would lead to big difficulties for the corporation in financing the extension and electricity interconnector to Sicily,” the ministry said.

In 2005, Standard & Poor's had removed Enemalta Corporation from its Credit Watch and affirmed its BBB+ long-term corporate credit rating. The debt-ridden corporation had been placed on the Credit Watch in 2004. But S&P had also warned that the perceived weakening in the government's support for Enemalta would likely result in a downgrade, particularly if tariffs were not to become fully cost reflective.



Matthew Vella, a freelance journalist at MaltaToday, was formerly executive editor at Malt...

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