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Via email: [OfwatPandO@ofwat.gov.uk](mailto:OfwatPandO@ofwat.gov.uk)

**3 July 2020**

Dear Kate,

### **Water and Sewerage Appointees – Ring-Fencing Framework**

Thank you for providing us with the opportunity to provide comments on your proposal to modify the conditions of undertakers' appointments (licences) which deal with ring-fencing, principally conditions A, I, K and P (in most licences). We agree that this will bring these licences up to the industry-leading standard.

We have reviewed both the consultation document and draft licence modifications for Affinity Water and accept the proposed licence modifications.

We have raised and discussed our concerns with you on the methodology for the Fitch Issuer Default Rating (IDR) caught in limb (a) of the Issuer Credit Rating definition. We accept your suggestion of working together on this separately from the consultation and we look forward to working with you on this in due course.

As discussed, we do not think the Fitch IDR represents the creditworthiness of the company as a whole as it ignores substantial benefits such as recovery uplift from regulated cashflows and protections from having a covenanted structure. This puts Affinity Water Limited at a significant disadvantage when compared to other companies in the sector as Affinity is one of only a few companies that is required to publish a Fitch IDR. Most companies with existing ratings from Fitch are not required to publish the IDR. Due to the IDR rating not reflecting the creditworthiness of the company and the relative disadvantage of the rating we are of the view that the Fitch IDR should not form part of limb (a) of the Issuer Credit Rating definition.

We would also welcome clearer guidance for events that should be notified, to ensure we make the right regulatory notifications and to avoid as far as possible, failing to notify an event when Ofwat would have expected companies to do so.

We support the publication of our response to this consultation on the Ofwat website.



Yours sincerely,



Stève Hervouet  
Director of Regulation and Strategy, Affinity Water

cc:  
Stuart Ledger, CFO, Affinity Water  
Sunita Kaushal, General Counsel and Company Secretary, Affinity Water