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By email

To Company Secretary
Portsmouth Water Limited
PO Box 99
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PO9 1LG

12 August 2020

Water and Sewerage Appointees – Definition of “Issuer Credit Rating”

Dear Company Secretary,

On 14 July 2020, we published a formal [decision document](#) setting out the reasons for the licence modifications we have made as a result of the recent section 13 consultation on the ring-fencing provisions in companies’ licences. These modifications were made on 10 July 2020 and came into effect on 13 July 2020.

Under the updated licence wordings an “Issuer Credit Rating” is defined as:

- (a) an issuer credit rating assigned to the Appointee or any Associated Company which issues corporate debt on its behalf by a Credit Rating Agency;
- (b) a Corporate Family Rating assigned by a Credit Rating Agency to a corporate group of which the Appointee is a member and which has been approved for this purpose by Ofwat; or
- (c) a rating assigned by a Credit Rating Agency to the Appointee or any Associated Company, for so long as Ofwat has determined in writing that this rating sufficiently reflects the creditworthiness of the Appointee.

This letter confirms which of the company’s ratings fall under the licence definition and sets out the reasons for our decision to monitor ratings under limbs (b) and (c).

In an email dated 24 September 2019 you confirmed Portsmouth Water Limited or its financing company holds the following credit ratings from Moody’s and Standard & Poor’s:

AGENCY	TYPE
Moody's	Corporate Family Rating
Standard & Poor's	Long-term issuer rating Class A debt rating

Credit rating that falls under limb (a)

The following rating falls under limb (a) of the licence definition and will therefore be used as a regulatory marker:

- Standard & Poor's long-term issuer rating

Credit rating assessed under limb (b)

We have reviewed the corporate group which is the subject of the Corporate Family Rating. The only operating business is the Appointee, and associates included in the corporate group are limited to entities that serve the Appointee, i.e. holding companies and financing vehicles. We have determined that the corporate group is reflective of the regulated company's position and therefore confirm that the following rating meets the criteria set under limb (b) of the licence definition:

- Moody's Corporate Family Rating

Any approval will fall away in the event that there are changes to the structure of the corporate family group which is the subject of the rating.

Credit ratings assessed under limb (c)

Where available, we consider issuer credit ratings to be a more comprehensive and informative credit rating for regulatory purposes than Class A debt ratings. Accordingly, we have not made a determination under limb (c) about the company's Standard & Poor's Class A rating.

Other clarifications

For the avoidance of doubt, Class B / subordinated debt ratings are not used as regulatory markers for cash lock-up or to assess compliance with the Appointee's

obligation that it must ensure it maintains an appropriate investment grade credit rating at all times.

Please notify us as soon as possible if any additional credit ratings to those listed above are obtained, or if the withdrawal of any of the above credit ratings is requested.

Best regards,

Aileen Armstrong
Senior Director