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By email

To Company Secretary
Dŵr Cymru Cyfyngedig (Welsh Water Limited)
Pentwyn Road
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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 wording 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 your ratings fall under the licence definition and sets out the reasons for our decision to monitor ratings under limbs (b) and (c).

In your correspondence to us, dated 25 June, 6 July and 8 July 2020, you confirmed that Dŵr Cymru Cyfyngedig (Welsh Water Limited), or its financing company, Dŵr

Cymru (Financing) UK Plc, holds the following credit ratings from Fitch, Moody's and Standard & Poor's:

AGENCY	TYPE
Fitch	Class A debt rating Class B debt rating Class C debt rating
Moody's	Corporate Family Rating Class A debt rating Class B debt rating Class C debt rating
Standard & Poor's	Class A debt rating Class B debt rating Class C debt rating

Credit ratings that fall under limb (a)

There are currently no ratings held by Dŵr Cymru Cyfyngedig (Welsh Water Limited), or any associated company, which meet the criteria set under limb (a).

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)

We have also considered whether any of your other ratings meet the requirements of limb (c). We have determined the following credit rating to be sufficiently reflective of the entity's creditworthiness and therefore meets the definition as per limb (c):

- Standard & Poor's Class B issue rating – provided that Dŵr Cymru Cyfyngedig (Welsh Water Limited), or any Associated Company, does not obtain an alternative rating from Standard & Poor's that falls under limb (a) of the licence definition and provided there is no material increase in the proportion of Class C sub-ordinated debt.

We have determined that the following Class A debt credit ratings do not fit the proposed licence definition for Issuer Credit Rating, as the rating reflects the relative creditworthiness of the guarantor and is therefore not sufficiently reflective of the regulated entity's creditworthiness. For this reason, we have determined that the following ratings do not provide a comparable level of protection for customers as other ratings and therefore do not meet the definition under limb (c):

- Fitch Class A Debt Rating
- Moody's Class A Debt Rating
- Standard & Poor's Class A Debt Rating

We have also determined that the following Class B debt credit ratings do not fit the proposed licence definition for Issuer Credit Rating, as the methodology affords a rating uplift to reflect the priority of claim of the senior lenders, over and above the rating of the entity's creditworthiness. Hence, we have determined that the following ratings do not provide an equivalent level of protection for customers as other ratings and therefore do not meet the definition under limb (c):

- Fitch Class B Debt Rating
- Moody's Class B Issue Rating

Other clarifications

For the avoidance of doubt, Class C / 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