

By email

[REDACTED]

Yorkshire Water Services Limited  
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West Yorkshire  
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19 May 2022

Dear [REDACTED],

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

In a [letter dated 12 August 2020<sup>1</sup>](#), we set out which credit ratings we considered fell within the definition of Issuer Credit Rating as defined in Condition A of Yorkshire Water Services Limited's (**Yorkshire Water's**) licence, and accordingly, which ratings would be monitored for licence compliance purposes under Condition P. That letter confirmed that the relevant credit ratings for licence compliance purposes were a corporate family rating (CFR) assigned by Moody's and a Class A rating assigned by Standard and Poor's.

On 12 May 2021 Moody's withdrew Yorkshire Water's CFR, which at the time was Baa2 with a negative outlook. This letter updates and replaces the letter of 12 August 2020, taking account of the withdrawal of the CFR.

Yorkshire Water or its financing company currently holds the following credit ratings from Fitch, Moody's and Standard & Poor's:

AGENCY	TYPE
Fitch	<ul style="list-style-type: none"><li>• Class A Debt</li><li>• Class B Debt</li></ul>
Moody's	<ul style="list-style-type: none"><li>• Class A Debt</li><li>• Class B Debt</li></ul>
Standard & Poor's	<ul style="list-style-type: none"><li>• Class A Debt</li><li>• Class B Debt</li></ul>

The definition of Issuer Credit Rating as set out in Condition A is appended to this letter. This

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<sup>1</sup> [Letter to company secretaries definition of Issuer Credit Ratings – Yorkshire Water](#), 12 August 2020

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 limb (c).

### **Credit ratings that fall under limb (a) of the definition of Issuer Credit Rating**

There are currently no ratings held by Yorkshire Water, or any Associated Company which issues corporate debt on its behalf, which meet the criteria set under limb (a).

### **Credit ratings that fall under limb (b) of the definition of Issuer Credit Rating**

There are currently no ratings held by Yorkshire Water, or any Associated Company which issues corporate debt on its behalf, which meet the criteria set under limb (b).

### **Credit ratings that fall under limb (c) of the definition of Issuer Credit Rating**

We continue to monitor the following rating for regulatory purposes under limb (c) as set out in our letter dated 12 August 2020:

- Standard & Poor's Class A issue rating – provided that Yorkshire Water (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 B subordinated debt.

We have also determined that the following rating is sufficiently reflective of the Appointee's creditworthiness and therefore meets the definition under limb (c):

- Moody's Class A Debt Rating – provided that Yorkshire Water (or any Associated Company) does not obtain an alternative rating from Moody's that falls under limb (a) or (b) of the licence definition, and provided there is no material increase in the proportion of Class B subordinated debt.

Our understanding is that while Moody's general methodology for regulated utilities has not changed, in the case of Yorkshire Water, the rating uplift to reflect the priority of claim of senior lenders was removed in 2020 (see: Yorkshire Water Credit Opinion – 13 March 2020). The reason provided for this is that Moody's considers that the large swap market on Yorkshire Water's balance sheet, which ranks super senior to all other creditors, removes the extra benefit that senior creditors enjoy in other securitised structures.

In light of this we consider that, in the absence of a CFR or a limb (a) Issuer Credit Rating, the Moody's Class A rating without the additional uplift reflecting the priority of claim of the senior lenders is sufficiently reflective of the entity's credit worthiness.

Should Moody's re-instate a Class A rating uplift to reflect the priority of claim of Yorkshire Water's senior lenders, then we will re-consider whether or not the Class A rating is still sufficiently reflective of the Yorkshire Water's creditworthiness.

We have determined that the following Class A debt credit rating does 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 lender, over and above the rating of the entity's creditworthiness. For this reason, we have determined that the following rating does not provide an equivalent level of protection for customers as other ratings and therefore do not meet the definition under limb (c):

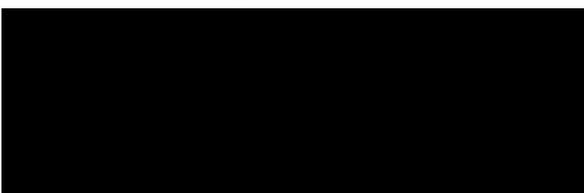
- Fitch Class A Issue Rating

### 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.

The retention of an Issuer Credit Rating which is an Investment Grade Rating remains an important protection for regulatory purposes. Should there be any change to your credit ratings you should notify us in writing as soon as possible. This includes if any additional credit ratings to those listed above are obtained, or if any of the above credit ratings are withdrawn. Please also notify us if there are any upgrades, downgrades or changes in outlook to any ratings held.

Yours sincerely,



CC: 

## Appendix

As set out in licence Condition A, an “Issuer Credit Rating” means:

- (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.