

By email

  
 Chief Financial Officer  
 Hafren Dyfrdwy Cyfyngedig  
 Severn Trent Centre  
 2 St John's Street  
 Coventry  
 CV1 2LZ

5 December 2023

Dear ,

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

In a letter dated 23 August 2022<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 Hafren Dyfrdwy Cyfyngedig's (**Hafren's**) licence, and accordingly, which ratings would be monitored for licence compliance purposes under Condition P<sup>2</sup>. That letter confirmed that the relevant credit rating monitored for licence compliance purposes was a long-term issuer rating assigned by Standard and Poor's.

On 23 May 2023 Fitch Ratings assigned Hafren with a long-term issuer default rating. Subsequently, Hafren withdrew the long-term issuer rating assigned by Standard and Poor's. Hafren therefore now holds the following credit rating:

AGENCY	TYPE
Fitch	<ul style="list-style-type: none"> <li data-bbox="635 1375 1118 1411">• Long-term issuer default rating</li> </ul>

The definition of Issuer Credit Rating as set out in Condition A of Hafren's licence is appended to this letter. This letter confirms we are monitoring the above credit rating under limb (a) of the licence definition.

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<sup>1</sup> [Letter to Hafren Dyfrdwy Cyfyngedig on the definition of Issuer Credit Ratings](#), August 2022

<sup>2</sup> Hafren currently has our agreement to maintain only one Issuer Credit Rating which is an Investment Grade Rating (rather than two as required by the licence) for reasons set out in [a letter dated 17 May 2023](#).

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

The Fitch long-term issuer default rating is automatically monitored as a regulatory marker as it meets the licence definition under limb (a).

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

There are currently no ratings held by Hafren, 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**

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

### **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 appropriate investment grade credit ratings 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 that listed above are obtained, or if the above credit rating is withdrawn. Please also notify us if there are any upgrades, downgrades or changes in outlook to the above rating.

Yours sincerely,

**Helen Campbell**  
**Senior Director, Sector Performance**

cc: [REDACTED], Head of Economic Regulation, Severn Trent

## 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.