

By email

██████████
Regulation & Assurance Director
Northumbrian Water Limited
Northumbria House
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Durham
DH1 5FJ

14 November 2023

Dear ██████████,

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

In a letter dated [12 August 2020](#)¹, we set out which credit ratings we considered fell within the definition of Issuer Credit Rating as defined in Condition A of Northumbrian Water Limited's (Northumbrian Water's) licence, and accordingly, which ratings would be monitored for licence compliance purposes under Condition P². That letter confirmed that the relevant credit ratings for licence compliance purposes were a long-term issuer rating assigned by Moody's as well as a long-term issuer rating assigned by Standard and Poor's.

On 6 October 2023 Fitch Ratings assigned each of Northumbrian Water Limited and Northumbrian Water Finance Plc senior unsecured debt ratings.

Northumbrian Water or its financing company, Northumbrian Water Finance plc, therefore now holds the following credit ratings:

Agency	Type of credit rating
Fitch	Senior unsecured debt rating
Moody's	Long-term issuer rating Senior unsecured debt rating
Standard & Poor's	Long-term issuer rating Senior unsecured debt rating

¹ [Letter to company secretaries definition of Issuer Credit Ratings – Northumbrian Water](#), August 2020

² Including Condition P26 which requires that the Appointee must ensure that it or any Associated Company which issues corporate debt on its behalf maintains, at all times, two Issuer Credit Ratings which are Investment Grade Ratings from two different Credit Rating Agencies, other than where Ofwat provides its written agreement for the Appointee to maintain only one Issuer Credit Rating which is an Investment Grade Rating.

The definition of Issuer Credit Rating as set out in Condition A is appended to this letter. 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 limb (c).

Credit ratings that fall under limb (a)

We continue to monitor the following ratings for regulatory purposes under limb (a). As set out in our letter dated 12 August 2020, these ratings are automatically monitored as regulatory markers as they meet the licence definition under limb (a):

- Moody's long-term issuer rating;
- Standard & Poor's long-term issuer rating.

Credit ratings assessed under limb (b)

There are currently no ratings held by Northumbrian Water or its associated companies, which meet the criteria set under limb (b).

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 Moody's or S&P senior unsecured debt ratings.

However, we have determined that the following ratings are sufficiently reflective of the Appointee's creditworthiness and therefore meets the definition under limb (c):

- Fitch Senior unsecured debt ratings – provided that Northumbrian Water (or any Associated Company) does not obtain an alternative rating from Fitch that falls under limb (a) of the licence definition, and provided there is no Class B subordinated debt.

Other clarifications

We understand that Northumbrian Water does not currently hold any subordinated or Class B debt. Should Northumbrian Water change its capital structure by issuing subordinated debt, we may need to reconsider the ratings that we monitor for licence compliance purposes to ensure they remain appropriate.

That said, for the avoidance of doubt, note that Class B / subordinated debt ratings themselves are not used as regulatory markers for licence compliance purposes. We do not use them to assess compliance with condition P26 of the licence.

The retention of Issuer Credit Ratings which are Investment Grade Ratings 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 the above ratings.

Yours sincerely

Helen Campbell
Senior Director, Sector Performance

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.