Target credit ratings for water companies at PR19

13 February 2018

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13 February 2018

Dear Sirs

Target credit ratings for water companies at PR19

Thank you for appointing Ernst & Young LLP ("EY") to support you on the above assignment. We are very pleased to have been appointed and have enjoyed the opportunity to work with you over the past few weeks.

In accordance with your instructions, we have performed the work set out in our engagement letter dated 23 November 2017 (the "Engagement Letter") to provide support identifying the appropriate target credit rating for water companies at PR19. The nature and scope of the services, including the basis and limitations, are detailed in the Engagement Letter.

I am pleased to attach our draft report ('Draft Report') for discussion. If you have any questions about the report, please contact Anton Krawchenko on 0776 987 2450.

Luke Reeve

Luke Reeve

Partner

For and on behalf of Ernst & Young

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Executive Summary

1 Executive Summary

Overview

Recognising the fundamental importance for customers today, and in the future, of maintaining the financeability of water companies, this paper seeks to explore what is the appropriate credit rating for AWG to target in its PR19 business plan. To explore these issues this report considers a range of factors relevant to the choice of target credit rating. Our key findings are as follows:

1. Regulatory precedent

Ofwat has a primary duty to ensure that water companies are financeable, reflecting the fact that financeability is especially important for water utilities given their significant capex programmes and their extended cycle of negative free cash flow funding needs. Accordingly, in previous price controls, Ofwat has placed significant weight on securing the financeability of water companies and has stated that it considers an “investment grade” or an “A-/A3” credit rating to be consistent with financeability. The Competition and Markets Authority and its predecessors have also targeted credit ratings well within the investment grade envelope when considering appeals by water companies of past Ofwat determinations. These regulatory precedents suggest that unless there has been some material change in the financial position of the sector, it would be appropriate to continue to target similarly strong investment grade credit ratings..

2. Credit ratings consistent with Ofwat’s approach to setting the cost of debt at PR19

The iBoxx A and BBB non-financials indices are proposed to be used by Ofwat to set an allowance for the cost of new debt up-front, from PR19. Currently, the average credit rating of the constituent bonds of the iBoxx A and BBB non-financials indices, weighted by par value of debt outstanding, is A-.

3. Ability to access capital markets during periods of financial market stress at different credit ratings

Water utilities provide critical infrastructure. As privately funded companies, it is very important that they maintain stable capital market access. Corporate ratings maintained in the ‘A’ category buttress market access, underpinning liquidity leading up to refinancing transactions, and sustaining access through times of market stress. Preferential market access for ‘A’ category corporate debt, compared to ‘BBB’ category debt, is illustrated by the historical bond yields of corporates in the iBoxx A and BBB indices, with BBB bond yields spiking well above A bond yields through the credit crisis. However, we note that within the utility sector the degree of market access is unlikely to vary materially between the narrow range of BBB+ and A- ratings.

4. Current utility ratings and metrics

The average water utility credit rating is currently Baa1/BBB+ (Moody’s/S&P). Most water utilities are already in the BBB+/A- rating range. The average electricity and gas distribution company maintains on average a Baa1/BBB+ rating, though with stronger credit metrics. Water utility credit metrics have deteriorated in each of the past three years, putting pressure on existing rating levels. In December 2017, Ofwat announced indicative cost of capital for PR19, and as a result Moody’s announced a change of outlook to negative for the UK water sector (“Regulated water utilities – UK – Outlook”, Moody’s 15 January 2018).

Conclusion

Regulatory guidance, the use of the iBoxx index, market factors and average ratings within the utility sector suggest that ratings in the BBB+ to A- range (Baa1 to A3) would be appropriate for Ofwat to use as a regulatory target based on notional gearing.

Guidance from rating agency methodologies and utility ratings shows that an appropriate target adjusted interest cover ratio at the BBB1/A3 (BBB+/A-) border is 1.6x for Moody’s and Fitch, and FFO/debt percentage of 10% or above for S&P.

1

Introduction

1 Introduction

Introduction

Background

The ability of English & Welsh water companies to finance their functions on reasonable terms is critical to the delivery of value for money water and wastewater services for customers. Ensuring the financeability of water companies is therefore critical to a sustainable water sector, not least given the significant capital requirements of the industry (driven by ongoing capex programmes that cannot be funded out of revenues from customer bills). Accordingly financeability has been a key issue at each periodic price review since the privatisation of the water sector and PR19 will be no different.

Designing a price control to ensure the financeability of the water companies requires consideration of a range of issues. One key issue is the appropriate target credit rating that water companies should be able to achieve as this is a fundamental determinant of their ability to access capital on competitive terms. This may be an even more important issue going forward as the ability to continue to raise debt through European Investment Bank (EIB) loans may be reduced once the UK leaves the European Union (meaning that more debt may have to be raised through bond markets than currently).

In contrast to the approach Ofwat has adopted at previous periodic price reviews (where it aimed to enable water companies to achieve “comfortably” (PR04) or “A-/A3)” (PR09) credit ratings, in its various PR19 methodology papers Ofwat has so far refrained from stating which credit rating it believes that water companies should be able to achieve, instead leaving it to water companies to explain their choices in their PR19 business plans.

In that context, Anglian Water Group (AWG) has commissioned EY to explore the target credit rating that Anglian Water Services (AWS) should target to achieve in its PR19 business plan.

Structure of this report

To explore the appropriate target credit rating for AWS at PR19, we have considered a range of different types of evidence including:

- Regulatory precedent i.e. past statements by Ofwat and the CMA regarding target credit ratings at previous price control reviews;
- The credit rating consistent with Ofwat’s approach to setting the allowed cost of debt, which Ofwat has indicated will be based on iBoxx A and BBB rated bond indices;
- The ability of corporates with different credit ratings to access bond markets during periods of financial market stress (such as the credit crisis);
- The current credit ratings of English & Welsh water companies and other similar regulated utilities, which may – on the assumption that companies have targeted efficient credit ratings – provide an indication of the most appropriate credit rating for the sector to try and achieve.

We consider each of these different types of evidence in the remainder of this report and then seek to conclude on an appropriate target credit rating (or range of credit ratings) for AWS to target at PR19.

Having concluded on an appropriate target credit rating, we then set out evidence on the appropriate financial ratios and threshold tests that AWS’s PR19 business plan would need to be able to satisfy in order to achieve the target credit rating.

2

Regulatory precedent

2 Regulatory precedent

Ofwat’s duties and focus on financeability

Ofwat has a primary duty regarding financeability

Under Section 2 of the Water Industry Act 1991 Ofwat has a number of statutory duties which govern how it carries out its work as the economic regulator of the water sector. These duties include to *secure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory functions*.

The interpretation of this duty has been the subject of much debate over the years. Ofwat has typically interpreted the financing duty as a duty to “ensure that an efficient company can finance its functions”. Water companies have argued that the duty does not include a reference to “efficient” and more weight should be attached to the company’s actual financing and performance when evaluating the financing duty.

For its 2019 price review Ofwat has stated that it:

> *“interpret(s) the financing functions duty as applying to the ring fenced regulated activities of the appointee, such that an efficient company can:*
>
> - *earn a return at least equal to our allowed cost of capital; and*
> - *raise finance on reasonable terms.”*
>
> Source: Ofwat (2017), Delivering Water 2020: Our final methodology for the 2019 price review , p189

Ofwat plans to assess financeability primarily at the appointee level, and proposed to assess efficient financing costs based on a notional efficient capital structure and its view on the allowed cost of capital.

The explicit reference to the Industry Act. At the 2004 price review, Ofwat stated that:

> *Efficient companies must be able to finance their functions. A company which is efficiently managed and financed should be able to earn a return at least equal to the cost of capital and its revenues, profits and cashflows should allow it to raise finance on reasonable terms in the capital markets*
>
> Source: Ofwat (2004), Future water and sewerage charges 2005-10, final determinations

Ofwat’s other primary duties

Under Section 2 of the WIA91 Ofwat must carry out its role of economic regulator in a way it considers will best:

- protect the interests of consumers, wherever appropriate by promoting effective competition;
- secure that the companies properly carry out their functions; and
- secure long-term resilience.

This final primary duty is new at PR19. Ofwat interpret this as resilience in the round, in which they consider all aspects of resilience, that is financial resilience, resilience of corporate structures and operational and systems resilience.

It describes financial resilience as an organisation’s ability to avoid, cope with, and recover from, disruption to its finances and considers that an efficiently structured and operated company should be financially resilient over the longer term

Ofwat’s secondary duties mean it must also consider:

Subject to the primary duties, how to regulate in a way it considers will best:

- promote economy and efficiency by water companies in their work;
- secure that no undue preference or discrimination is shown by water companies in fixing charges;
- secure that no undue preference or discrimination is shown by water companies in relation to the provision of services by themselves or by water supply licensees or sewerage licensees;
- secure that consumers’ interests are protected where water companies sell land;
- ensure that consumers’ interests are protected in relation to any unregulated activities of water companies; and
- contribute to the achievement of sustainable development.

2 Regulatory precedent

What did Ofwat say on financeability and target ratings at PR14

Target credit ratings for PR19

Ofwat has not proposed a target credit rating in its PR19 methodology decision, and instead expects companies to provide "evidence about the credit rating targeted in their plan and the level of each ratio they consider appropriate" (p198).

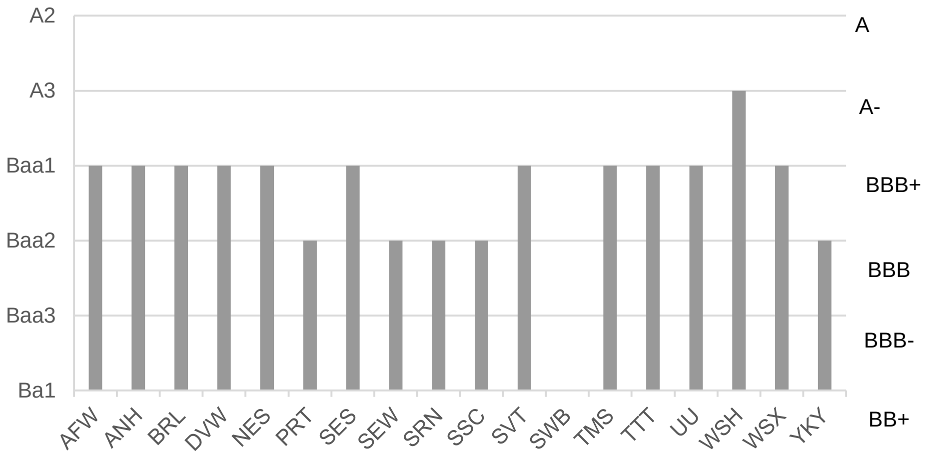
In its 2017 Financial resilience monitoring report (November 2017), Ofwat indicated that all the rated water companies had a credit rating of BBB+, Baa1 or Baa2, except Welsh Water which had an A- / A3 rating. This is illustrated below.

Ofwat's approach at PR14

At PR14, the financeabillity assessment conducted by Ofwat reviewed the projected levels of financial ratios against target levels for both a notional and actual capital structure basis.

At PR14, Ofwat did not define the thresholds it used in its financial ratio tests as it had done in the previous price controls. Ofwat did, however, set out the ratios it had considered and how it had defined them. Ofwat has proposed to use the same measures, with the same definitions, at PR19. Ofwat did not define the thresholds it intends to use at PR19 in its methodology consultation

Current credit ratings reported by Ofwat



2 Regulatory precedent

What Ofwat has said on financeability and target ratings before

Ofwat's approach at PR09

At PR09 Ofwat was more explicit in stating that it targeted financial ratios than it was at PR14 or has done to date during the PR19 consultation process. Ofwat stated that it targeted financial ratios under the notional structure that was consistent with an A-/A3 credit rating, although if based on Ofwat's assessment a particular indicator did not meet its required threshold, it ensured that it met the criteria for a strong BBB+/Baa1 credit rating as a minimum.

The financial metrics that Ofwat used to assess financeability at PR09 are illustrated in the table below.

	Ofwat target credit ratios for WASCs at PR09
Cash interest cover	About 3 times
Adjusted interest cover ratios	About 1.6 times
Funds from operation: debt	About 13%
Retained cash flow : debt	About 8%
Gearing	Below 65%

Source: Ofwat (2009), Future water and sewerage charges 2010-15: final determinations

Ofwat's approach at PR04

At PR04 Ofwat stated it was aiming to enable water companies to achieve financial ratios consistent with being "comfortably investment grade". While Ofwat did not state precisely which credit rating it targeted, Ofwat required more robust credit metrics than it subsequently used at PR09. For example, the FFO: Net debt ratio was required to be greater than 13% at PR04 but about 13% at PR09. This is the core S&P ratio for determining ratings, though Ofwat calculates the ratio in a slightly different way from S&P.

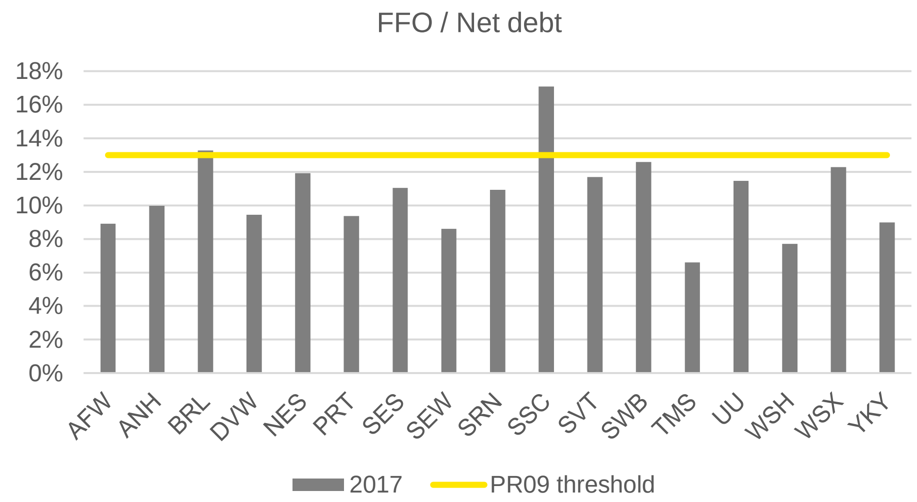
The financial metrics that Ofwat used to assess financeability at PR04 are illustrated in the table below.

	Ofwat target credit ratios for WASCs at PR04
Cash interest cover	Around 3 times
Adjusted interest cover ratios	Around 1.6 times
Funds from operation: debt	Greater than 13%
Retained cash flow : debt	Greater than 7%
Gearing	Below 65%

Source: Ofwat (2004), Future water and sewerage charges 2005-10, final determinations

In the figure below we illustrate the latest company FFO/Net debt ratios compared to the thresholds used at PR09. As illustrated, most companies had projected FFO / Net debt ratios below the target adopted at PR09, where Ofwat applied financeability adjustments (i.e. increased allowed revenues) to enable companies to meet these targets.

2017 FFO/Net debt ratio vs PR09 threshold



2 Regulatory precedent
What the CMA has said previously

CMA approach at PR14

The CMA has previously considered the appropriate target credit rating for water companies during the appeals of PR09 and PR14 by Bristol Water. No other water companies appealed those decisions.

The CMA did not explicitly state which credit rating it targets in Bristol Water's appeal of PR14. However, the CMA used the threshold levels proposed by Bristol Water and those thresholds were stated to be consistent with a Baa1 rating by Bristol Water.

Previously, the CC considered that an investment grade credit rating was appropriate at Bristol Water's appeal of PR09 (and did not comment more specifically on which particular rating would be appropriate within that range, but ensured consistency with the S&P's calculation methodology in its determination, including FFO/net debt).

During the PR14 appeal, the CMA considered the appropriate financial ratios to use when measuring financeability and the thresholds that needed to be satisfied to meet the tests. The CMA had regard to the same ratios used by the credit ratings agencies and had regard to the thresholds used by the agencies, but did not state precisely which thresholds it had used in its own tests for all of the ratios.

In relation to the definitions of the financial ratios to use in the tests, the CMA adjusted some of Ofwat's definitions of the financial ratios to align with the definitions used by the credit rating agencies. Specifically, the CMA stated "FFO/Net Debt has been modified to include the indexation component of index-linked loans in FFO, and based on year end net debt. Net Debt / EBITDA has been added to Ofwat's model using the EBITDA figure and the year end net debt." These adjustments meant that the estimated financial ratios were weaker than those Ofwat had itself calculated.

Past statements by Ofwat and the CMA suggest that PR19 should aim to enable English & Welsh water companies to achieve "comfortably" (PR04) or "A-/A3)" (PR09) credit rating and that stronger ratings in the A-/BBB+ range would be consistent with the approach taken at past price control reviews

3

The credit rating consistent with Ofwat's approach to setting the cost of debt at PR19

3 The credit rating consistent with Ofwat's approach to setting the cost of debt at PR19

Analysis of the iBoxx bond indices Ofwat proposes to use to set the cost of debt at PR19

Ofwat's use of iBoxx

At PR19, Ofwat will set separate allowances for the costs of new and existing (or embedded) debt.

The allowance for the cost of new debt will track an index over time to reduce the risk of forecasting error from its estimation. The index will be made up of 50/50 average of A and BBB rated iBoxx indices for UK non-financial companies with tenors of 10 years plus denominated in pound sterling. Ofwat considers that this reflects the credit profile of the notional company, and the average tenor of debt reflects the borrowing profile of the sector.

The allowance for the cost of existing debt will be fixed over the 2020-25 period, but will also be set by reference to trailing averages of the same iBoxx indices.

The use of iBoxx A and BBB rated bond indices to set both the costs of new and existing debt means that Ofwat's cost of debt allowance should reflect the cost of debt at a credit rating that is somewhere in the A/BBB range, depending on the relative weights of the two indices used.

Ofgem applied a very similar index at RIIO, but to all of the debt, not just new debt. Ofgem has also deflated by breakeven RPI inflation derived from a comparison of gilt and ILG yields, whereas Ofwat proposes to deflate by a forecast of long-term CPIH inflation.

iBoxx index*

Our analysis of the relevant iBoxx indices indicates that they consist of 155 A and BBB rated corporate bonds, with a par value of £87.7bn.

The weighted average rating in the index (across the A and BBB categories), as of 13 November 2017, is A-, as summarised in the table below.

iBoxx	A category bonds	BBB category bonds	Total
Number of constituents	61	94	155
Total Debt	£37.6bn	£50.1bn	£87.7bn
Weighted average rating	A	BBB+	A-

Conclusion

Because Ofwat intends to set a cost of debt allowance benchmarked to a weighted average 'A3'/'A-' index, this suggests an appropriate target credit rating for the water sector would be at or close to 'A3'/'A-'. Furthermore, Ofwat has indicated in its PR19 methodology decision document that it is considering making an adjustment to the estimated cost of debt based on the iBoxx indices to reflect its assessment that water companies have historically been able to raise debt more cheaply than the index. Its early view is that this adjustment would be of the order of 15 basis points. This further pushes the effective iBoxx rating benchmark into the A category.

Ofwat's proposed approach to setting the cost of debt allowance at PR19 is based on an index comprised of bonds rated A-/A3 on a weighted average basis, suggesting that the appropriate target credit rating would be similar to this rating.

*iBoxx £ Non-Financials BBB 10+ and iBoxx £ Non-Financials A 10+

4

Ability to access capital markets at different credit ratings

4 Ability to access capital markets at different credit ratings

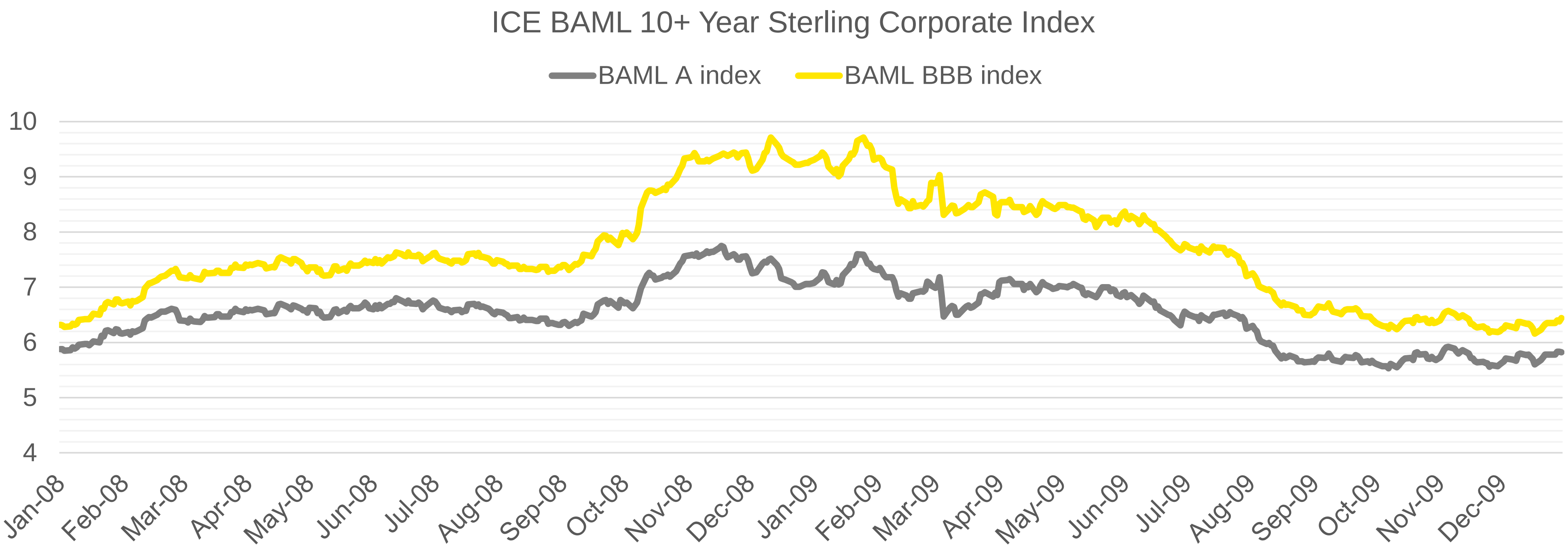
Evidence from bond indices about the ability of companies to access capital markets during periods of financial market stress

Maintaining market access through periods of financial market stress - corporates

One factor that may influence the choice of target credit rating is the ability to continue to raise debt during periods of financial market stress.

To investigate this issue, and noting Ofwat's decision at PR09 to target a stronger credit rating because of the impact of the credit crisis, we have compared the historical yields on both A and BBB rated debt.

The chart below shows historical bond yields from BBB and A category non-financial corporate 10+ year non-callable bonds. At the height of the credit crisis in 2008/09, there was a strong divergence with bond yields for 'BBB' corporate spiking markedly. All else equal, consistent with market experience, this suggests that companies with 'A' category credit ratings may be better placed to maintain stable capital market access through times of financial market stress than those with BBB category credit ratings.



BBB corporate bond yields are materially higher in times of market stress.

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Conclusion & Key Target Credit Ratios

6 Conclusion & Key Target Credit Ratios

Target rating credit metrics

Target rating metrics (Moody's and Fitch)

Moody's and Fitch publish target credit metrics per rating category for water utilities. An average of the 'A' and 'BBB (Baa)' metrics suggests an appropriate mid-range target, illustrated below.

Moody's - Rating Category Key Metrics	A1	A2	A3	Baa1	Baa2	Baa3
a) Net Debt/RCV*	>40% <50%	>50% <60%	>60% <68%	>68% <75%	>75% <85%	
b) Adjusted Interest Cover Ratio*	>2.5x <3.5x	>1.8x <2.5x	>1.6x <1.8x	>1.4x <1.6x	>1.2 <1.4x	

Source: *Moody's Special Comment: Speed of Money Cannot Address Potential Financeability Concerns, 16 May 2013, and Regulated 2018 Regulated water utilities – UK, Outlook, 15 January 2018

Note that Moody's adjusts interest cover metrics by excluding pay-as-you-go (PAYG) support (see "Moody's 2017 Water Sector Conference. PR19 and Beyond", 17 October 2017).

Fitch - Rating Category Key Metrics	AA	A	A/BBB median	BBB	BB (and below)
c) Net debt / asset base	40%	60%	65%	70%	80%
d) Post maintenance interest cover ratio (PMICR)	2.0x	1.75x	1.63x	1.5x	1.1x

Source: Fitch, EMEA regulated network utility SCF report Aug 2012

Based on the Moody's and Fitch methodologies, and actual metrics for Moody's rated companies, an appropriate target adjusted interest cover at the Baa1/A3 level (BBB+/A-) is 1.6x (excluding any PAYG adjustments).

6 Conclusion & Key Target Credit Ratios

Target rating credit metrics

Target credit metrics (S&P)

S&P does not publish explicit metric guidance per rating category. However, S&P does indicate ranges of metrics that apply to different levels of Financial Risk Profiles.

Severn Trent Water Ltd. is a good proxy for an Ofwat notional company (i.e. one with a notional 62.5% level of debt / RCV). Severn Trent has a "Significant" Financial Risk Profile, suggesting that this risk category provides appropriate guidance for a BBB+ target rating. Although S&P publishes a range of core and supplementary ratios, we note that FFO/debt tends to be determinative in deriving ratings: target debt/EBITDA ratios are frequently breached by water utilities; also, we observe that strong interest cover ratios will not be enough to sustain a rating if leverage is materially too high for the rating category. Consequently, we focus on FFO/debt as the most appropriate metric. S&P states that it expects Severn Trent's FFO/debt ratio to average between 9% to 10%, which it considers consistent with a BBB+ rating. Nevertheless, whilst it is consistent, it is near the floor of the 9-13% guidance.

In contrast to Severn Trent, United Utilities Water Ltd is now rated A- by S&P. It too has a "significant" financial risk profile. However, with a lower debt / RCV of about 60%[1], and a FFO/debt forecast to go above 11% in 2018, the company was upgraded from BBB+ to A- on 25 July, 2017. S&P's FFO/debt guidance to United Utilities at the A- level is 11%.

	Core Ratios		Supplementary Coverage Ratios		Supplementary Payback Ratios		
Financial Risk Profile	**FFO/Debt (%)**	**Debt/EBITDA (x)**	**FFO/Cash Interest (x)**	**EBITDA/Interest (x)**	**CFO/Debt (%)**	**FOCF/Debt**	**DCF/Debt**
Minimal	35+	Less than 2	More than 8	More than 13	More than 30	20+	11+
Modest	23-35	2-3	5-8	7-13	20-30	10-20	7-11
Intermediate	13-23	3-4	3-5	4-7	12-20	4-10	3-7
Significant	9-13	4-5	2-3	2.5-4	8-12	0-4	0-3
Aggressive	6-9	5-6	1.5-2	1.5-2.5	5-8	(10)-0	(20)-0
Highly Leveraged	Less than 6	Greater than 6	Less than 1.5	Less than 1.5	Less than 5	Less than (10)	Less than (20)

Source: S&P Credit FAQ: For U.K. Water Utilities, Challenging Cost-Of-Capital Guidance May Bring Rating Stress, 7 Feb 2014

Severn Trent Metrics

Severn Trent Key Metrics	2015 (BBB+)	2016 (BBB+)	2017 (BBB+)
FFO/Net debt	13.89%	13.68%	12.97%
Adjusted Interest Cover Ratio	2.10x	1.80x	1.72x

Source: S&P

[1] Consistent with the notional level assumed by Ofwat for PR19.

Given S&P's range of 9-13% for its core ratio (FFO/ Debt %), a BBB+/A- range of FFO/debt at 60% gearing would be a minimum of 10%.

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Appendix

7 Appendix

Ratings scales

Rating agency	Moody's	Standard & Poor's	Fitch
Investment Grade	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
Speculative Grade	Ba1	BB+	BB+
	Ba2	BB	BB
	Ba3	BB-	BB-
	B1	B+	B+
	B2	B	B
	B3	B-	B-
	Caa1	CCC+	CCC
	Caa2	CCC	
	Caa3	CCC-	
	Ca	CC	CC

7 Appendix
Current water utility corporate ratings

	Moody's	Outlook	S&P	Outlook
Anglian Water Services Ltd	Baa1	Stable	-	-
Bristol Water plc	Baa1	Stable	-	-
Dee Valley Water plc	A3	Negative (from Stable)	BBB+	Stable
Northumbrian Water	Baa1	Negative	BBB+	Stable
Portsmouth Water Limited	Baa1	Negative	BBB	Stable
SES Water	Baa1	Stable	BBB+	Stable
South East Water (Finance) Ltd	Baa2	Stable		-
Southern Water Services Limited	Baa2	Negative	-	-
South Staffordshire Water	Baa2	Stable	BBB+	Stable
Severn Trent Water Limited	A3	Negative	BBB+	Stable
Thames Water Utilities Ltd	Baa1	Stable	-	-
Bazalgette Tunnel	Baa1	Stable	-	-
United Utilities Water Limited	A3 (from Baa1)	Stable	A-	Stable
Dwr Cymru (Financing) Limited (Welsh Water)	A2	Stable	-	-
Wessex Water Services Finance Plc	A3	Stable	BBB+	Stable
Yorkshire Water Services Ltd	Baa2	Negative	-	-
Average rating	**Baa1**		**BBB+**	

Most UK water utilities are rated between Baa1 and A3. Only 4 of 16 rated utilities are rated below this range, at Baa2

7 Appendix

Current gas and power utility corporate ratings

The average Moody's gas and power distribution utility rating is Baa1.

	Moody's
Power distribution	
Eastern Power Networks Plc	Baa1
Electricity North West Limited	Baa1
London Power Networks Plc	Baa1
Northern Powergrid (Northeast) Limited and (Yorkshire) plc	A3
Scottish Hydro Electric Power Distribution	A3
South Eastern Power Networks Plc	Baa1
Southern Electric Power Distribution Plc	A3
SP Distribution Plc and Manweb Plc	Baa1
Western Power Distribution (East Midlands) Plc / (South Wales) Plc / (South West) Plc / (West Midlands) Plc	Baa1
Power distribution average	**strong Baa1**
Gas distribution	
Scotland Gas Networks plc	Baa1
Southern Gas Networks plc	Baa1
Northern Gas Networks Limited	Baa1
Phoenix Natural Gas Limited	Baa2
Gas distribution average	**Baa1**

Gas and power distribution company ratings are, like those for water utilities, concentrated around the Baa1 level