

Yorkshire Forum for Water Customers

Minutes of Meeting

16 August 2018

Colonsay/Islay, Doubletree by Hilton Leeds, 2 Wharf Approach, Leeds, LS1 4BR

Attendees:

Andrea Cook	Chair
Alistair Maltby	The Rivers Trust
Chris Griffin	Citizen's Advice
Dave Merrett	Independent Member
Georgia Klein	Report Writer
James Copeland	National Farmers Union
Janine Shackleton	Consumer Council for Water (CCW)
Keith Bennett	Yorkshire Water
Julia Partridge	Yorkshire Water
Melissa Lockwood	Environment Agency (EA)
Olivia Walton	Yorkshire Water
Rebecca Dovener	Yorkshire Water
Tom Keatley	Natural England
Wendy Kimpton	Yorkshire Water (Head of Regulation)

Apologies:

Pam Warhurst Pennine Prospects

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1) Welcome

- a) The Chair welcomed Forum members to the meeting.
- b) Apologies were received as above.

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2) Final numbers and bill impacts

- a) The company provided an overview of the session with the aim of piecing together the final numbers, providing context to the price review.
- b) There is a £10-£15 bill movement. The Ofwat model is being finalised and currently stands at £13.80. There is a query currently with Ofwat and company advised the bill movement will be somewhere between £12-£14 depending on the outcome of the query in regard to the opening bill.
- c) The final number for PR19 is £4.967bn, compared to £4.225bn in PR14, this is largely due to the WINEP programme. The Forum commented on the difference of the WINEP programme not being the only upward pressure, and the cost of the programme being £600m more than previous. Unit rates were discussed regarding the importance of this to ensure efficiency, as the unit rate can change the WINEP programme. Unit rates have been tested and the company is confident that it is in line with the industry.
- d) The company proceeded to discuss revenues, advising that Ofwat reviews the expenditure which sits under the company, this includes the day to day expenditure and long-term borrowing. WINEP is identified as something new as this is an upward pressure on bills, and customers are charged over the long term rather than on a day-to-day basis.

Revenue is determined from the total expenditure (totex) and weighted average cost (WACC). Ofwat tests against 'real world indicators'. This goes through the company and Ofwat's financial models, ensuring the revenue can finance the company's functions.

- f) There are two financial ratios; notional and standalone. The sharing mechanism for the gearing for outperformance has been set at 70% by Ofwat.

Ofwat notional rate starts at 60%, going up to 63% over the period, due to a large capital programme. On its basis of measuring interest cover, the average is 2.2, similar to funds from operations. The target is 9%, with an average of 9.7%.

The standalone has higher gearing. The company advised it is hitting the targets. In PR14 the company was finding it difficult to do so. The company has carried out work to achieve this, resulting in a reduction in gearing as well as work to reduce the cost of debt. The gearing has reduced as the company has not paid any dividends during this price review.

The Forum advised at the last price review there was a concern regarding financeability and welcomed the steps the company had taken in drafting the business plan.

The company has concluded that the plan is financeable and there are some severe but plausible scenarios, and these are shown within the plan.

- g) The company discussed the dividend policy, which is to:
- Deliver a base dividend recognising the management of economic risks and capital employed.
 - Adjust the base dividend to reflect and recognise company performance, in particular beyond or below that assumed in the determination of price limits and continuing the need for investment of profits in the business and the funding of employee interests. This also covers pension deficits.

The Forum questioned the pension deficits, the company advised the policy was changed in 2013 to ensure it was fair and affordable going forwards, ensuring the pension position remained healthy. It aims to:

- Be transparent in the payment of dividends and clearly justify the payment in relation to the factors outlined above.
- Have sufficient profits available for distribution, and subject to appropriate financial resilience testing, continue to pay dividends consistent with this policy.

- h) The Forum asked about the issues which had been challenged by the Board. The company advised the main areas were the key targets, ensuring the targets are correct as well as the costs being at the right level. The dividend policy had also been the subject of discussion.

The Forum queried the risk of interest rates being increased by the Bank of England. The company advised there is a hedging strategy in the portfolio, where if rates increase there is a minimal impact, as the company has made provision for this.

From a non-household/retail market perspective, the Forum questioned where they fit as a customer. The company advised it is currently testing the wholesale charge with business customers and it has found difficulty engaging with business customers and is reviewing alternative ways of engagement.

Action 1: Company to circulate plan to Forum members

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3) Performance Commitments (PCs) and Outcome Delivery Incentives (ODIs)

- a) The company began with an overview for the session, covering customer support for PCs and ODIs, updates to PCs and ODIs since the last Forum meeting in July 2018 and the final Return on the Regulated Equity (RoRE) range.
- b) There has been extensive testing with customers regarding the PCs, with an aim to shape the package to meet customer's needs and asking customers which service areas are of most importance to them. A number of qualitative focus groups were held with customers, receiving direct feedback which has been a focal point in the price review. Upper quartile plans were created off the back of this.

The customer valuation research has been extensive, focusing on benefits, incentives and targets. 'Deep dives' have also been held with customers, with groups covering 200-1000 customers. These have covered a large number of areas and have been insightful to the building of the business plan. The PCs which did not have strong support from customers have been removed from the plan, aside from those which are considered mandatory by Ofwat.

Consultations have been held regarding the long-term strategy, PCs and ODIs and acceptability testing.

- d) PCs were discussed in greater detail with the Forum, outlining PCs across priorities, outcomes, 'deep dives', consultation, valuations and incentives (where there is a financial incentive linked to a PC).

The Forum asked if the company have a sense of its level of ambition and reach compared to other companies. The company advised it does not formally have a view of this, only the view which is in the public domain.

The Forum noted the difference in research mechanisms across various companies and mentioned that some of the research mechanisms developed by Yorkshire Water have been particularly innovative. .

- e) The company discussed with the Forum the updates to common PCs. At the end of July 2018, a new year of industry data for 2017/18 was released, the company have since updated it's UQ forecasts to account for the new information.

- Leakage and Internal Sewer Flooding comparative targets have remained the same
- Pollution targets have got more stretching by a further 30%
- Supply interruptions profile has been amended – aiming to achieve 2 minutes (as before) but at a more gradual pace
- Asset health measure (Sewer Collapses and Main Bursts) have had 'Outperformance Payment Dead bands' applied at the industry average level (this is to protect customers from paying rewards for performance that is not at least at the industry average level).

- f) The final ODI RoRE range is based on the widest probability of performance range. The potential rewards and penalties have decreased slightly, this is due to the extra year of industry data. The majority of the incentives are based on the water and waste water PCs.

The Forum questioned where the sharing mechanism is on the 2% RoRE potential, the company advised it is at 1.5%. There is a sharing mechanism on totex, and a proposed one on gearing. The company advised the sharing mechanism on PCs is voluntary.

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4) Final outputs of assurance

- a) The company advised the assurance for PR19 has been completed to provide the Board with confidence to sign off of the plan, ensuring that the plan is stretching, consistent, accurate and of high-quality. The assurance addresses two specific risk scenarios:
- Risk 1 the plan fails to achieve at least fast track status
 - Risk 2 the plan achieves fast track but is not deliverable
- b) The assurance has evaluated AMP7 risk from the perspective of Long Term Viability (LTV) to analyse the projected principal risk to 2020 plus movements from PR19 updates to give a PR19 starting plan position. The analysis has also added movement from PC deliverability risk, movements from transformation plan deliverability risk and inferred movement in business risk during AMP7.
- c) The PR19 integrated risk and assurance approach collates information into a PR19 expected monetary value (EMV) risk log. ODI risk, corporate risks, risks for PC assurance statements and risks from data tables are input to the EMV risk log, which will give an output as follows:
1. Validate PR19 data and conduct interviews
 2. Updated LTV risk log and impacts
 3. 'Deep dive' checks for August submission
 4. Final plan
- d) During AMP7 monetised risk scenarios will be measured against the LTV every six months, this data will be used to monitor risk and inform business strategy.
- e) To complete the PR19 assurance programme for the Board the company will:
- Finalise the R1 IAP assurance process - applying assurance actions
 - Apply the R2 risk assessment – the monetised risk
 - Enable the Board to understand the increased risk in adopting the plan, including the PCs and efficiencies

These outputs are formalised in the Board Assurance Statement.

The Forum questioned if there has been any external assurance, the company advised if has used external auditors Deloitte and Halcrow, along with consultants, Economic Insight and First Economics, who have provided economic intelligence towards the delivery of the PR19 plan.

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5) Sharing mechanisms

- a) Ofwat shared a document advising companies how they could benefit from gearing and advised that this should be shared with customers. Ofwat has created a proposal essentially advising if a mechanism goes in and it doesn't benefit customers, they will intervene. Ofwat wants to encourage companies to gear no higher than 70%.
- b) The company advised that its gearing is above 70%, and it proposes the following:
- calculation of deemed outperformance associated with high gearing
 - voluntary mechanism to share outperformance on cost of debt
 - company will take into consideration what has already been shared in this AMP
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The company advised it has so far shared half a billion pounds with customers.

In conclusion, the company advised it is following Ofwat's mechanism for companies with high gearing, and the company are taking into account what has been shared already in this AMP.

Action 2: company to circulate the sharing mechanism document with the Forum

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6) Review of final challenge log and sign off

- a) Challenge log was reviewed and signed off.

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7) Final forum report approved

- a) The Chair advised a final review of the report will be complete by the end of the week and the report will then go to the design agency. The Forum report will be submitted at the same time as the business plan, but independently of it.
- b) The Forum requested some changes to the report at the meeting. Any further comments were requested by 5pm on 19 August 2018.

Action 3: Environmental section of the report to be reviewed and sent to the Chair for final review

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8) AOB and close

- a) The Chair concluded the meeting by thanking all Forum members and the company for their dedication and continued hard work.

Next meeting dates

31 October 2018 – Livingstone House

13 December 2018 – Doubletree by Hilton, Leeds

Actions:

Summary of actions: 7th September 2017

No	Action	Comment
7	The Chair to review all previous minutes and add challenges to the challenge log	Ongoing

Summary of actions: 14th December 2017

No	Action	Comment
5	Company to construct email to Ofwat regarding LORI Post meeting update – (05/04/2018) Company have contacted the relevant department for an update	Ongoing

Summary of actions: 15 February 2018

No	Action	Comment
1	Would the DWI champion a joined-up approach regarding phosphate dosing/lead removal. DWI to respond back to Forum. Post meeting update – (11/06/2018) Company have contacted the DWI on two occasions for an update	Ongoing

Summary of actions and challenges: 14 June 2018

No	Action	Comment
1	Company to review overall performance against the stretching targets set for AMP7 and provide a one-page colour coded overview. Post meeting update – 16 July 2018 Company will create a spreadsheet with a breakdown of each performance commitment showing values and ODI's. This is the same as action 6 from the 16 July meeting. This will be presented at the August Forum	Complete
4	Company to project the level of investment and timescales to display how discolouration will be reviewed to help the Forum understand the plan and resources.	Ongoing
5	Company to share the notes from the workshop with the Forum.	Ongoing
10	Company to circulate document to Forum.	Complete

Summary of actions and challenges: 16 July 2018

No	Action	Comment
1	Company to print copies of previous months minutes to be provided to members at Forum meetings	Noted
2	Company response to Ofwat regarding the freeze/thaw report to be shared with Forum members (response due in September)	Ongoing
5	Company to amend the bill movement profile to display the average WINEP and additional WINEP	Complete
9	All Forum members to review the aide memoire which will be used as an appendix to the Forum report	Complete
10	All Forum members to send any key messages to the report writer to be provided in the report	Complete

No	Challenge	Comment
1	Company to tackle making customers more aware of social issues	Ongoing

Summary of actions: 16 August 2018

No	Action	Comment
1	Company to circulate plan to Forum members	Ongoing
2	Company to share sharing mechanism document with the Forum	Ongoing
3	Environmental section of the report to be complete and sent to the chair for final review	Ongoing