

**Board Assurance Statement
– Yorkshire Water Draft
Determination
Representation**

Yorkshire Water Services Limited Draft Determination Representation Board Assurance Statement

The Yorkshire Water Services Limited Board of Directors (the Board) has carefully considered the draft determination and it has been discussed with the Yorkshire Forum for Water Customers (the Forum). The Company's aim remains to achieve a final determination that allows it to deliver the services and outcomes that customers want, at a price that is acceptable to them.

In responding to the draft determination, the Board has decided to assume an increased position of risk against what was already an ambitious plan. In order to allow the Company to focus on delivering its plan for customers and despite fundamentally disagreeing with Ofwat's position, the Board has partially closed the gap between the Company's view and Ofwat's view of efficient costs by deciding to comply with Ofwat's policy decision regarding funding for improving upper quartile service measures, closing the gap by some £355m. The consequence of this position is an increase of the risk to the Company's delivery plans. Accordingly, in order to deliver what customers want with significantly lower cost allowances, the Board has had to make some changes to operational and capital expenditure delivery plans, in some cases choosing shorter-term solutions, which are a departure from the original plan that the Board recommended for AMP7. The original plan that was submitted for AMP7 fully considered all the threats to resilience in the round. The Board remains of the view that the costs for improving upper quartile service measures should be funded.

The Board has carefully examined whether Yorkshire Water would be able to secure more equity or good quality debt in the face of a large gap between the Company and Ofwat in respect of cost allowances and a sharp decrease in WACC (with the prospect of a further decrease). The Board concluded that it was not possible for the Board to provide assurance to Ofwat that Yorkshire Water would be financeable based on the draft determination package proposed by Ofwat on either a notional or actual basis. The reasons for this conclusion are evidenced in detail in the Company's representation. In summary, there are three key factors leading to this conclusion:

- (i) the cost efficiency challenge which is disproportionate and unsupported by sound evidence;
- (ii) the reduction in the WACC in the draft determination and the indications that Ofwat may impose further reductions for final determination; and
- (iii) the substantial downside skew in the package of ODIs following Ofwat's further interventions at draft determination.

Based on the package presented in the Company's representation and the information available at this point in time, the Board confirms that it is satisfied that actual capital structures will remain financeable over 2020-25. The key financial ratios are at a level that retain sufficient, although reduced, headroom to maintain investment grade ratings to continue to ensure that resilience and customers' interests are maintained in the short and long term. Likewise, the Board can confirm that, on the basis of currently available information, the Company's representation is financially resilient in the long term on an actual basis.

This assessment has been completed on a consistent basis with the September 2018 business plan and the April 2019 IAP response. The long-term financial resilience assessment considers key financial metrics, including gearing. The Board confirms that the Company remains committed to reducing gearing and has taken the opportunity to review the potential of reducing gearing to 70% in light of the draft determination. The Company's representation presents what the Board believes is feasible currently.

The Board has been accountable for the leadership and preparation of this representation, including the quality and transparency of the information provided as well as setting the strategic direction for the response.

The Board has continued to follow the assurance processes in place for the PR19 programme. Assurance completed as part of the draft determination representation has built on the previous assurance obtained as part of the September 2018 Business Plan and as part of the IAP responses.

Given the significant increase in the risk the company is assuming in this representation (when compared with the original business plan and the IAP response) and the short period of time Yorkshire Water has been given to make these representations, this assurance will be under continuing review in the period from now to the Final Determination. Should additional information come to light which affects this statement, the Board will draw this to Ofwat's attention and may need to modify or withdraw this assurance.

The Board is satisfied that its representation meets the expectations of a responsible company. The Board has reviewed and approved this assurance statement and the representation at the meeting of the Yorkshire Water Board on 28 August 2019.

**Yorkshire Water Services Limited
Draft Determination Representation
Board Assurance Statement**

Signed by Yorkshire Water Services Limited Board of Directors



**Anthony Rabin
Independent Chairman**



**Richard Flint
Chief Executive**



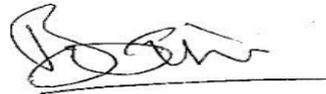
**Liz Barber
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**Nevil Muncaster
Director of Asset Management**



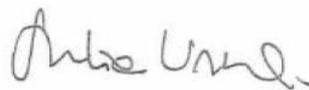
**Andrew Merrick
Independent Non-Executive Director**



**Raymond O'Toole
Independent Non-Executive Director**



**Andrew Wyllie
Independent Non-Executive Director**



**Julia Unwin
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**Scott Auty
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