



Yorkshire Forum for Water Customers

**A SUMMARY OF THE YORKSHIRE FORUM FOR
WATER CUSTOMERS' PR19 ASSURANCE REPORT**

The Forum's comments on Yorkshire Water's
2020-2025 Business Plan submitted to Ofwat



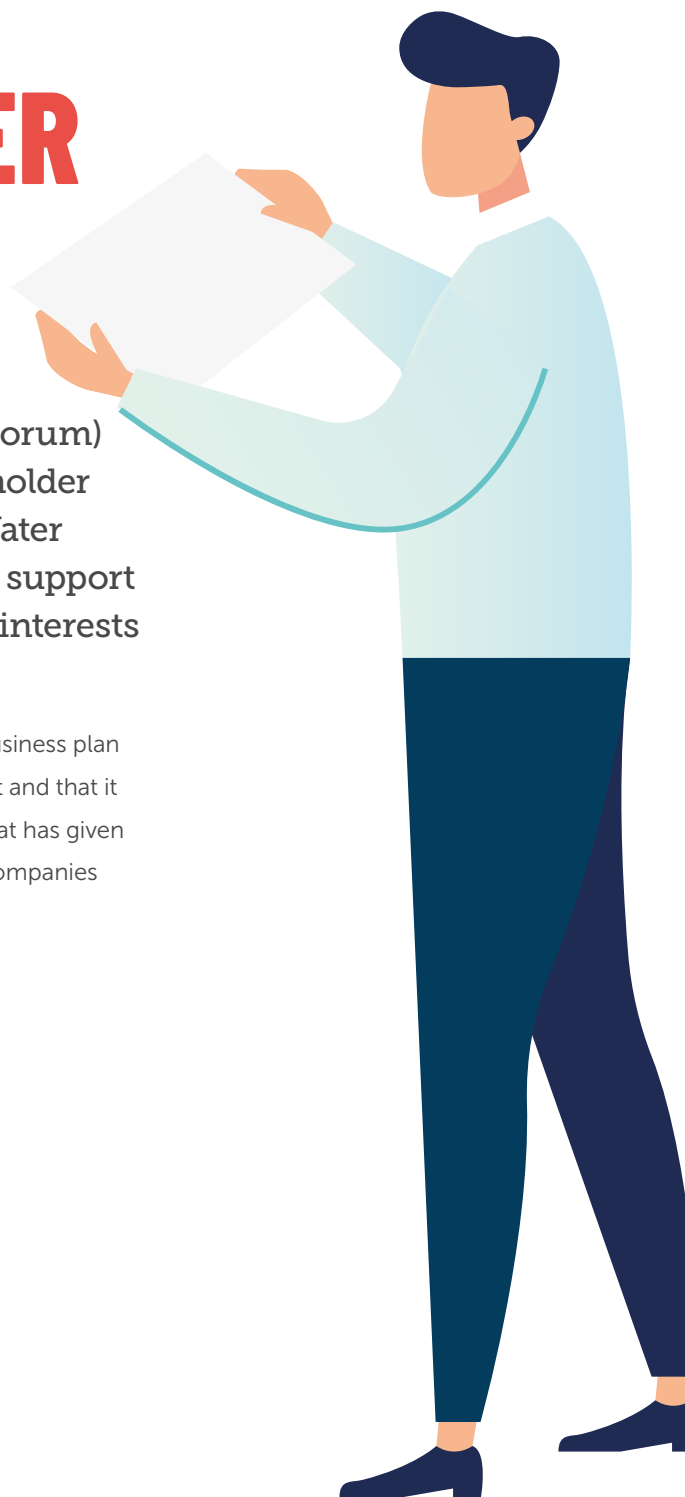
THE ROLE OF THE YORKSHIRE FORUM FOR WATER CUSTOMERS

The Yorkshire Forum for Water Customers (the Forum) is an independent group of customer and stakeholder representatives brought together by Yorkshire Water under the guidance of the Independent Chair to support the company to manage its business in the best interests of its customers.

The Forum challenges Yorkshire Water on behalf of Ofwat to ensure its business plan fairly reflects customers' views gained from quality customer engagement and that it is delivering on its performance commitments. For this Price Review, Ofwat has given the Forum a very clear role. This is to provide independent challenge to companies and independent assurance to Ofwat on:

- the quality of a company's customer engagement; and
- the extent to which the results of this engagement are driving the company's decision making and being reflected in the company's business plan.

The Forum's work to deliver its role is documented in its assurance report which has been submitted alongside the company's business plan to Ofwat on 3 September 2018.



SECURING CUSTOMERS' TRUST AND CONFIDENCE

Customers expect companies to be open and transparent about their performance. This helps build trust and confidence in the company.

As a provider of a public service, it is critical that Yorkshire Water can be held to account for its performance by all key stakeholders. This requires openness about performance, corporate and financial structures, the quality and reach of customer engagement and acceptance of robust, independent challenge.

The Forum can state that it considers Yorkshire Water has achieved this but there will be a continued need for Board leadership to achieve a company-wide culture that puts customers at the heart of the business.

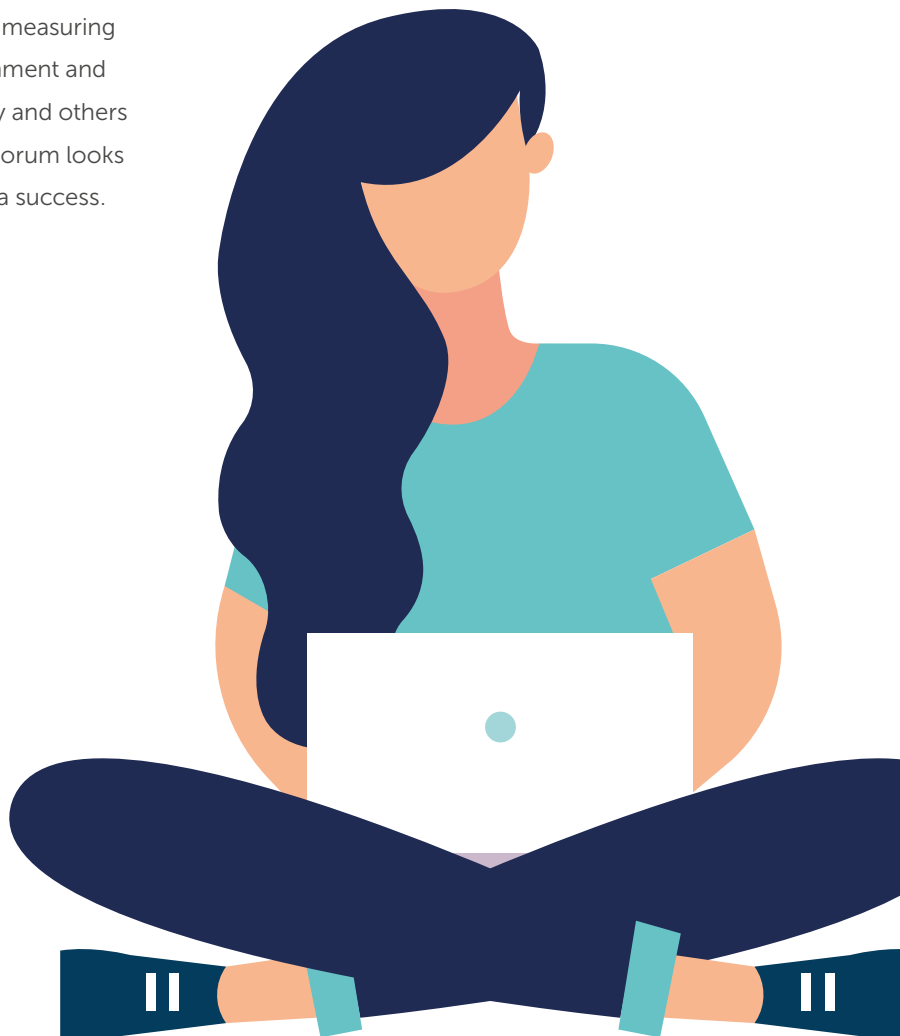


PERFORMANCE COMMITMENTS

Ofwat set companies 14 performance commitments and requires them to make their own commitments in eight areas.

Yorkshire Water has consulted intensively with its customers about these commitments to ensure they are appropriately targeted and sufficiently stretching. The results of this customer engagement led shareholders to make a major contribution to delivering higher standards in customer service and operational delivery in the current AMP period.

Yorkshire Water's innovative work to develop a way of measuring all of its impacts on society, the economy and environment and partnerships is sector leading. It will help the company and others understand how to perform better in the future. The Forum looks forward to working with Yorkshire Water to make this a success.



PERFORMANCE REWARDS AND PENALTIES

Ofwat gives companies a framework within which they can choose the rewards and penalties they allocate to each of their PC targets.

The company used extensive and cutting-edge customer research to ensure there was transparency about current performance and a clear connection between what services customers most value and decisions on the investment programme, PCs and Outcome Delivery Incentives (ODIs).

The Forum has confidence that Yorkshire Water has considered and mitigated against the risks associated with such an ambitious business plan.



MANAGING EXCEPTIONAL COSTS

Yorkshire Water has to keep customers' bills as low as possible. If it plans to spend significant amounts of customer money on exceptional and unavoidable projects, it must secure customer and Ofwat's support.

Customer engagement was used to shape investment priorities and test customer support of the refined list of projects.

The Forum considers the final proposals reflect customers' views. The Forum support the cost adjustment claims proposed for increasing wastewater services because of population growth and to reduce leakage and flood risk.



DELIVERING AFFORDABLE BILLS

Yorkshire Water needs to deliver services that customers want at a price they can afford and find acceptable.

It also needs to deliver additional financial support for those customers who are likely to struggle most to pay their bills alongside meeting environmental obligations.

The company's proposal for an average £3 a year bill increase is supported by customers, but it recognises that it must deliver challenging efficiency savings to achieve this. The range of support measures to help those who may struggle to pay their bills is creative and comprehensive. The challenge will be to raise awareness of their existence and value to all customers.



PROTECTING THE VULNERABLE

Yorkshire Water needs to demonstrate that it offers appropriate services for all of its customers. The company's customer research is already changing how it communicates its services effectively so that the right help reaches the right customers.

The Forum is pleased with how the company has responded to its robust challenge to focus more on non-financial vulnerability. The company's new, inclusive approach to service design should help embed a customer-focussed culture and keep customers 'safe, well and free from worry'.

The focus on partnership working and the appointment of a Safeguarding Officer – a first for the industry – are both welcomed. The Forum will work closely with the company going forward to see that its partnership work delivers for customers.



PROTECTING FUTURE CUSTOMERS

Ofwat and the Drinking Water Inspectorate (DWI) require companies to demonstrate they can continue to provide services and protect the environment in the face of challenges such as population growth and climate change.

Yorkshire Water's financial resilience and previous approach to managing environmental challenges has been commended by Ofwat. The Forum welcomes the company's recognition of the benefits of consulting with the Forum on these matters in the future.

Customers' have been fully engaged on the bill uncertainties arising from mandatory environmental work. Their views are reflected in plans for quality drinking water which have now been approved by the Drinking Water Inspectorate.



OFWAT'S RULES

1. Ofwat has welcomed CCG's (or in this case the Forum's) involvement in the review and challenge of their company's ongoing performance. It has committed to reviewing their role beyond PR19.

To complement this, Ofwat should also encourage Yorkshire Water's approach to innovative and continuous customer engagement to be used across the sector. This requires it to be more flexible about research requirements at the next price review.

Together this would:

- Help CCGs shape the research and understand what customers and stakeholders truly value.
- Result in more manageable timescales for the production of business plans.
- Help customers to receive the services they want and would value most.

2. Ofwat's ambition for companies to achieve bill reductions does not take into consideration the different costs of their environmental obligations. This should be a consideration when assessing business plans.

Ofwat should avoid over-ambitious efficiency savings as a means of achieving this, which risks weakening companies' financial resilience.

3. The Forum recommends to Ofwat that it ensures its mandatory performance commitments and penalty/reward framework is supported by robust customer research.

Ofwat should also avoid driving service standards beyond what customers want and placing companies at financial risk as a result.

4. The Forum recommends that Ofwat reviews how cost claims are considered within the new suite of price controls.

Where a change in reporting requirements may lead to deterioration in performance, an adjustment should be made for all companies to reflect this change in reporting requirements.

5. The Forum has concluded that Ofwat's ambition for companies to reduce bills should not result in efficiency savings which cannot be delivered and which disregard customers' views.

Ofwat should consider permitting companies to spread the costs of a wider range of environmental improvements to help reduce the possibility of undesirable significant bill increases for customers. This may go some way to achieving the competing objectives of lower bills and resilience set by Ofwat.

6. In order to deliver the level of assistance needed to help those who are most vulnerable, the Forum considers a nationally - funded social tariff is needed as promoted by CCWater.

Ofwat should revisit this with Government and consider whether guidance can be drafted to support companies to collaborate to manage such a scheme for themselves.

7. The Forum hopes that Ofwat can make representations to Government to seek changes to the Urban Wastewater Directive (which is currently under review by the EU) and the way it is implemented so that lower cost, and more effective solutions, to environmental challenges can be used. (e.g. along the lines of Yorkshire Water's "Catchment Sense" document). It also hopes that Ofwat will add its weight in pressing legislative authorities to address current barriers.

8. There are a number of areas where the Forum will be actively involved going forward, for example: monitoring of the PCs and ODIs; discussions on dividend policy and gearing; reviewing progress on the annual review of every customers account on an annual basis to ensure they are on the correct tariff to avoid them falling into debt; and a review of the partner organisations delivering a range of initiatives.

