

# PR19 Business Plan Presentation Pro-forma – August 2018 update

## Briefing for Ofwat Non-Executive Directors and senior leadership

As indicated in our final methodology for the 2019 price review (PR19) published in December, this pro-forma draws together high level information and key metrics from the business plan and explains the drivers behind the business plan, the key benefits for customers and the impact on customer bills.

The pro-forma has been developed to support discussion at the PR19 business plan presentations taking place during September-October 2018, and to ensure a consistent approach across companies to briefing Ofwat board members for these. The pro-forma will be provided to Ofwat Board members and senior leadership ahead of these presentations. These presentations will not form part of our initial assessment of business plans process, nor are a substitute in any way for business plans.

The presentations are scheduled for an hour, with a presentation of 15 minutes followed by up to 45 minutes for questions and discussion. These presentations provide an opportunity for companies to set out their business plans to Ofwat, including Ofwat Board members. **We do not expect companies to use this pro-forma as the basis for the presentation itself.**

For PR19, we expect companies to deliver an ambitious business plan that delivers on our four key themes of innovation, great customer service, affordability and increased resilience. We are expecting companies to challenge themselves in these areas, and this pro-forma and the business plan presentations provide an opportunity for companies to demonstrate how they are meeting this challenge.

## Guidance on completing the pro-forma

To support companies in completing this pro-forma, we have published guidance tables which include references to the relevant PR19 business plan tables to draw the information requested from. Where the information requested is not held in PR19 business plan tables, we have indicated where this should be drawn from by companies (for example, the PR14 final determination). The PR19 bill movement model has also been published in order to complete the bill movement waterfall chart (table 2.1).

## **Submission of pro-forma to Ofwat**

We expect companies to submit the completed pro-forma, guidance tables and PR19 bill movement model to Ofwat along with PR19 Business Plans by 5pm Monday 3 September 2018.

## **Publication of the completed pro-forma**

As outlined in our final methodology, to improve transparency we want companies to make their business plans available to us, companies, customers, stakeholders and other regulators. We therefore expect them to publish the whole of their business plans at the same time as they submit their plans to us in September 2018. We ask that companies publish their completed pro-forma, guidance tables and PR19 bill movement model alongside their business plans as well as submitting these to us on 3 September 2018.

If a company considers some information should not be published – because it is commercially sensitive information, for example – then the company will need to provide its stakeholders and us with strong, robust reasons that are specific to the information concerned.

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# 1. Background

## 1.1 Company pen pic

Yorkshire Water Services Limited is a water and wastewater company located in Yorkshire, with our headquarters in Bradford.

Please provide a short summary of the ownership structure of the company, including whether there have been any changes to this since 2014 [max. 150 words].

Currently, Yorkshire Water Services Limited (YWSL), the Licence Holder, ultimately is owned by several infrastructure funds. These funds hold 100% of YWSL's parent company Kelda Holdings Limited: Pan - European Infrastructure Fund (23.37%); Gateway Infrastructure Investments L.P., Gateway UK Water L.P., and Gateway UK Water II L.P. (managed by Corsair Infrastructure Partners L.P) (30.32%), GIC (33.56%) and SAS Trustee Corporation (12.75%).

Since 2014, there has been one change in shareholding. On 17 May 2017 when Prudential sold its circa 10% stake in the company to GIC (as to 7.24% rounded up) and SAS (as to 2.75% rounded up). For details of the company structure, please see Section 6 of the [Annual Performance Report](#).

## 1.2 List of attendees

Please provide the names and job titles of attendees for the business plan presentation meeting. Please note there is an opportunity to provide more detailed attendee biographies in Appendix 1.

1. Anthony Rabin - Independent Chairman, Chair of Nomination Committee & Interim Chair of Board Audit Committee
2. Richard Flint - Chief Executive, Chair of Social Value Committee.
3. Elizabeth Barber (Liz) - Director of Finance, Regulation and Markets.
4. Andrea Cook (OBE) – Independent Chair of the Yorkshire Forum for Water Customers (the Forum).
5. Wendy Kimpton – Head of Regulation

## 2. Key business plan metrics

### PR19 key themes

Please set out here how you consider the approach you have taken to your business plan is consistent with the key themes for PR19 of innovation, great customer service, affordability and increased resilience. Where relevant, you may wish to additionally link this to information included elsewhere in this pro-forma [max. 300 words].

We are delivering strong results in PR14, but it is essential that we listen to our customers feedback to improve our service.

Our long-term strategy will meet customers' growing expectations and the complex long-term challenges we face. The strategy has five big goals that place customers at the heart of everything that we do, showing our commitment towards transformation. We are delighted at the customer response, with c95% acceptance of the big goals.

Our PR19 plan is based on almost 30,000 meaningful conversations with customers, and has benefited from support and challenge from the Forum.

Our plan delivers:

- Digitally enabled service, tailored to our customers' lifestyles – as with other modern services;
- Use of new data analysis tools to proactively contact customers we believe would benefit from being on a different tariff;
- Additional support for vulnerable customers, improving our approach to financial vulnerability and increasing company funding towards our social tariff<sup>1</sup>;
- Transformational operational performance targets moving from lower to upper quartile in leakage<sup>2</sup>, internal sewer flooding and pollution;

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<sup>1</sup> Table 4.1 PR14 Performance Commitments.

<sup>2</sup> Table 2.2 Leakage Targets

- We have embraced the potential of new markets and technologies aiming to move our Bio-resources control<sup>3</sup> from lower-quartile to upper-quartile efficiency;
- Upper-quartile cost efficiency, achieved by delivering c£800m of efficiency initiatives;
- A cutting-edge resilience assessment framework to assess our past, current and future company-wide resilience<sup>4</sup>;
- Our largest ever environmental programme (WINEP), delivering a broad range of improvements with particular focus on the removal of phosphorous.

Our customers strongly support our PC and ODI package<sup>5</sup>, with 86% of customers supporting our plan and the bill. We continue to be an efficient company, while delivering improved services and managing climate change.

**Table 2.1: Waterfall chart<sup>6</sup>**

This chart provides an overview of what is driving changes to bills between 2019-20 and 2024-25. The inputs to the waterfall chart are in price base 2017-18 year average CPIH deflated. We have published the [PR19 bill movement model](#) in order for companies to develop the waterfall chart.

<b>Inputs to bill movement chart</b>	
<b>Inputs</b>	<b>£ per customer</b>
<b>2019-20 Bill</b>	<b>379.56</b>
Changes between 2019/20 and 2024/25	
Change in RCV	22
Change in RCV run-off	17
Change in WACC	-15
Change in customer numbers	-14
Change in totex	-3

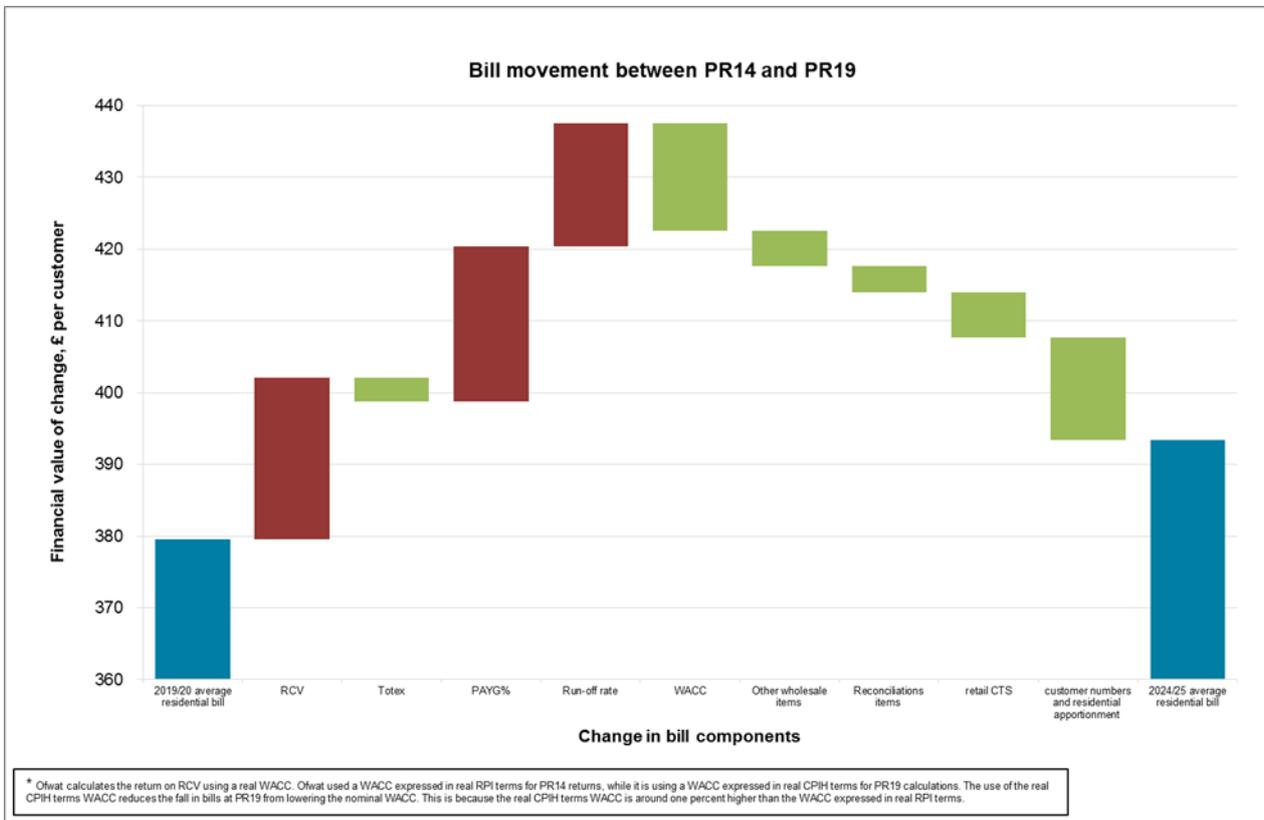
<sup>3</sup> Table 6.1 Bioresources Price Control

<sup>4</sup> Table 2.2: Key Business Plan Metrics

<sup>5</sup> Table 5.1: Forecast and proposed PC and ODI

<sup>6</sup> The waterfall chart takes into account the updates published on 28 August 2018

<b>Inputs to bill movement chart</b>	
<b>Inputs</b>	<b>£ per customer</b>
Change in PAYG rate	22
Change in other wholesale items	-5
Change in retail CTS	-6
Change in reconciliation items	-4
<b>2024-25 Bill</b>	<b>393</b>



### Explanation of movement in customers' bills

Please set out the key factors that are driving the movement in customers' bills from PR14 to PR19 [max. 200 words].

We are proposing that customers' bills will be £393 by 2024/25, which equates to a £14 increase over the AMP7 period.

The chart compares bills for 2019/20 versus 2024/25 which over-emphasizes a number of items, in particular the cost recovery change in comparison to the movement experienced on average.

In terms of cost drivers the key upward pressures are:

- WINEP programme – Environmental improvements required by the Environment Agency increases bills by £23. The support from our customers to this expenditure has been overwhelmingly favorable with 86% customer acceptability.
- Cost pressures – Increased operating costs, including a shift of some expenditure from capex to opex increases bills by £7.

Without WINEP we would have seen a bill reduction of £9 and without the cost pressures, a reduction of £16.

This is broadly equivalent to the reduction in WACC of £15 shown above (£19 on average over the period).

There are a number of offsetting items including:

- Additional totex to drive upper quartile service is offset by transformation and innovation efficiencies (not shown above).
- Reversion to natural cost recovery rates broadly offset by an increase in customer numbers and PR14 reconciliation items.

## **Customer Expectations**

**Please provide a brief summary of your understanding of your customers' expectations and preferences for your business plan. [max 300 words].**

Our customers have a high degree of trust in us (around 85%) and customer satisfaction is consistently high (over 90%). Important areas of service to our customers include supply of clean and safe water, reliable water network and wastewater services.

86% of customers support our plan and the the Forum also confirmed its support. Each of our big goals has over 92% customer support.

When we shared comparative performance data with our customers, the feedback was to improve our relative performance, accordingly this is a key focus in our plan. Overall, our customers key immediate priorities for our plan include:

- Provision of safe drinking water that tastes good and can meet current and future demands;
- Prevention of leaks, internal sewer flooding and pollution incidents;
- Capacity for dealing with flood events and prevention of interruptions.

Long-term priorities include:

- Managing and reducing waste (water and wastewater);
- Ensuring robust plans are in place to serve a growing population while meeting the demands of climate change;
- Implementing flood management and defenses;
- Achieving compliance and protecting drinking water quality.

Our engagement programme, alongside our interactions with customers and stakeholders, provides a great insight into the changing needs of the diverse community we serve. The collaboration has informed the development of our long-term strategy and our PR19 submission.

As a leading company we encourage customers to use less water, alongside the development of a sustainable and eco-friendly service delivery strategy. We are actively seeking to apply innovative solutions such as Catchment Sense as these provide the most cost effective and sustainable solutions. Stakeholders have a vision for the company to develop as a regional leader, to work in partnership with them and be more visible and vocal in the region. This expectation is being met through initiatives such as Living with Water.

**Table 2.2: Key business plan metrics**

<b>Metric</b>	<b>PR14 (2019-20) 31 March 2020 estimate</b>	<b>PR19 (2024-25) 31 March 2025 estimate</b>	<b>2019-20 to 2024-25 % change (leakage and PCC)</b>
Number of residential water only customers (000s)	107.494	113.879	
Number of residential wastewater only customers (000s)	110.658	113.084	
Number of residential water and wastewater customers (000s)	1976.608	2075.799	
Total leakage (MI per day) Based on PR19 definition, annual average	234.63	175.04	-25.40
Leakage (cubic metres per km of main per day) Based on PR19 definition, annual average	7.4	5.4	-27.0
Leakage (litres per property per day) Based on PR19 definition, annual average	99.4	71.0	-28.6
Per Capita Consumption (PCC) (litres per property per day) Based on PR19 definition, annual average	131.20	119.30	-9.07
ODI RoRE range (%)	1.60	4.05	
Appointee WACC (% real RPI)	3.54	2.40	
Appointee WACC (% real CPIH)	4.56	3.40	
Credit rating – actual financial structure	Baa3	Baa2	
<b>Metric</b>	<b>PR14 (2015-2020 Average)</b>	<b>PR19 (2020-25 Average)</b>	
Adjusted interest cover notional	1.46	2.25	
FFO net debt notional	0.12	0.10	
<b>Metric</b>	<b>2017-18 Actual</b>	<b>PR19 (2020-25 Average)</b>	
Actual gearing (%)	74.32	79.01	
Adjusted interest cover actual	1.88	2.03	
FFO net debt actual	0.09	0.08	

## Commitment to financial resilience

Please set out here how you will maintain commitment to financial resilience [max. 150 words].

Financial resilience is a primary objective of Yorkshire Water along with service, operational and corporate resilience.

Our commitment to financial resilience is evidenced through:

- the work we have undertaken this AMP to considerably enhance our financial resilience:
  - We have severely restricted shareholder dividends and sold several group companies, reinvesting the proceeds into Yorkshire Water.
  - We have undertaken a comprehensive review and restructuring of our hedging portfolio, which will reduce our annual net interest cost across AMP7 by c£50m.
- Our future commitment to:
  - Maintain sufficient headroom within our financial ratios to cover day to day shocks and also severe but plausible scenarios.
  - Implement a new dividend policy that explicitly states distributions will be made only after the appropriate financial resilience analysis has been undertaken.
  - Enhance our Long Term Viability analysis by extending it to a 10 year rolling period and performing it on a bi-annual basis.

**Table 2.3: RCV**

<b>Control</b>	<b>1 April 2020 (£m) Opening RCV 2017-18 FYA (CPIH deflated)</b>	<b>30 March 2025 (£m) Closing RCV 2017-18 FYA (CPIH deflated)</b>	<b>% growth</b>
Water resources RCV	554.283	526.330	-5%
Water network Plus RCV	2,207.694	2,400.277	9%
Wastewater network Plus RCV	3,461.583	4,183.647	21%
Bioresources RCV	292.588	308.226	5%

**Table 2.4: Dividends**

<b>Metric £m</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>		
<i>Outturn (nominal prices)</i>					
Dividends (based on PR14 actual company structure)	90.137	135.839	88.856		
<i>Outturn (nominal prices)</i>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>
Dividends (based on PR19 actual company structure)	80.1	81.7	83.3	85.0	86.7

**Dividend Policy**

Please provide a short statement here on your company's dividend policy [max. 150 words].

We have undertaken a review of our dividend policy to ensure it aligns with our overall strategic aims, in particular our approach to financial resilience, and also that it is as transparent as possible.

Our policy is to:

- Deliver a base dividend recognising the management of economic risks and capital employed.
  - Our base dividend has been calculated using Ofwat's recommended yield of 5.0%
- Adjust the base dividend to reflect and recognise:

- company performance and benefit sharing from service and efficiency performance;
- the continuing need for investment of profits in the business;
- the funding of employee interests
- Be transparent in the payment of dividends and to clearly justify the payment in relation to the factors outlined above.
- Where it is foreseeable that we will have sufficient profits available for distribution, and subject to appropriate financial resilience testing, to continue to pay dividends consistent with this policy.

### **3. Appendices**

## Appendix 1: Company presentation attendee biographies

Please include biographies for all company presentation attendees, including the Customer Challenge Group Chair (if attending).

[Max. 100 words per attendee]

### **Anthony Rabin**



Anthony was appointed as interim (in June 2016) and subsequently permanent Chairman on 9 September 2016. He was appointed to the Board as a non-executive director with effect from 1 August 2013 and to the role of Senior Independent Director on 25 March 2015. He was also appointed as an independent non-executive director to the Kelda Holdings Board in July 2012 and Chairman of this Board from September 2016.

Anthony was Group CFO and Deputy CEO of Balfour Beatty PLC. He has held several previous roles within Coopers & Lybrand, Morgan Grenfell & Co and Arthur Andersen & Co.

### **Richard Flint**



Richard was appointed Chief Executive of Yorkshire Water in April 2010 and Group Chief Executive to the Board, Kelda Holdings Limited from April 2010. He was appointed as Chief Operating Officer in September 2008 and prior to this was Director of the company Water Business Unit from 2003.

Richard chairs the Business in the Community (BITC) Advisory Board for Yorkshire and the Humber and is a member of the BITC Water Taskforce and a Board member of the water industry trade body, Water UK. Richard was also appointed to the Board of Trustees of Marie Curie early in 2017.

### **Elizabeth (Liz) Barber**



Liz was appointed as Director of Finance and Regulation to Yorkshire Water and Group Finance and Regulation Director to the Board of Kelda Holdings Limited in November 2010.

Liz has held senior partner roles at Ernst & Young LLP, including leading the firm's national water team and the assurance practice across the North Region.

Liz is a lay member and trustee of the University of Leeds, and is a non-executive director and Chair of the Audit Committee at KCom plc. She is a member of HRH Prince Charles Accounting for Sustainability CFO Network, which she has chaired for two years.

### **Andrea Cook (OBE)**



Andrea's background is in consumer representation and regulation, particularly in the needs of low-income, other vulnerable people and issues of affordability. She has experience as a non-executive director in public and private sectors and has served on Government committees, including the UK Round Table on Sustainable Development and the Renewable Energy Advisory Committee.

She has been a member of numerous international delegations on energy, the environment, poverty and employment, including the 1997 Climate Change negotiations in Kyoto. She is also currently an independent lay judge for the Parole Board, chairing oral hearings for life sentence prisoners seeking parole or progression.

### **Wendy Kimpton**



Wendy was appointed Head of Regulation for Yorkshire Water in 2016. Wendy led the team working on the development of the PR19 Business Plan and was also the lead interface with the Forum. She was one of the lead authors of the new long-term strategy “Not Just Water”.

Prior to leading the Regulation Team, Wendy worked for Yorkshire Water for 12 years, fulfilling several operational management roles including Flood Strategy Manager and Head of Waste Water. Wendy also has over a decade of prior experience in the water industry, working for a leading engineering contractor, delivering engagements for multiple clients.

## Appendix 2: Business plan executive summary

Please provide a copy (in file formats that can be opened in word) of the executive summary for your business plan.

### Introduction

We believe that this plan represents a step change for both our customers and our company, and it has been shaped by our customers. In building our PR19 plan our Board has been actively listening to what our customers want and expect. We believe that this plan builds on what we do well and is driving the company to deliver exceptional improvements in service while keeping bills low, now and into the future. In this chapter you will see how we have:

- Significantly moved the nature of our conversations with our customers to make sure we really understand what they want and expect and make sure we deliver against it.
- Significantly improved our performance in key areas that impact on our customers with ambitious future targets that our customers support.
- Built on our strong efficiency track record to produce our biggest ever programme of efficiencies, delivered using innovation, markets and sustainable thinking to ensure that our service continues to improve and we offer good value for money now and into the future.
- Significantly strengthened our already leading approach to supporting customers who need extra help.

Our delivery during the current period has continued to be very strong. We have been able to generate some £230 million of capital efficiency savings, a substantial part of which we have already begun to reinvest to benefit our customers. We are projected to meet or exceed almost all of our 26 PR14 performance commitments. Our customers and stakeholders have told us that there is still more to do and we must improve not only what we deliver for customers but also how we deliver for the Yorkshire region as a whole.

Over the course of the last two years, we have completely changed the nature of our conversations with our customers. Rather than the traditional approach of talking to them about what we do as a company, our focus has been on understanding individual lifestyles and how they shape what customers want, need and expect from their water company. With the help, support and challenge from the Yorkshire Forum for Water Customers (the Forum) and our new online community Your Water, we

have been able to develop a much richer understanding of the diversity of Yorkshire's people, their individual needs and how best we meet these now and into the future.

Continuous customer, stakeholder and colleague engagement informs our day-to-day service delivery and this participation has been crucial to the development of our long-term strategy and our PR19 plan. Since 2015, the scale of our engagement has become the largest and most continuous we have ever undertaken; we have conversed meaningfully with almost 30,000 customers while developing and refining our PR19 plan.

We have also made sure that we understand the wider impact of what we do. We are examining our impact like never before, to shed new light on where we are doing well and where we need to improve.

We have developed and published our Total Impact and Value Assessment, identifying our impacts on our customers, Yorkshire's economy and environment. To help us ensure the affordability and resilience of our essential public services for both current and future generations, we have embedded a multi-dimensional scorecard within our business planning, called the six capitals. This directly looks at our impact on natural capital - the materials and services that we rely on from the environment - and social capital - our impact on society and our customers' trust in us.

Using all of these innovations and insights, we have revised our long-term strategy for the next 25 years. Responding to our customers' feedback, we will change the way we work to meet both customers' expectations and the complex long-term challenges that we face. Our strategy is based around five big goals. Feedback from our customers and the Forum has been extremely positive, with strong recognition that these 5 Big Goals place customers at the heart of our business and show our commitment to working in new ways.

We tested our big goals, alongside a summary of what we will deliver under each big goal with our customers. Below is the percentage of customers who either strongly supported or supported our big goals:

Customer big goal – 94%

Water Big goal – 96%

Environmental big goal – 95%

Transparency big goal – 92%

Bill big goal – 95%

### **Our industry leading approach to resilience**

Our customers do not have a choice in who provides their water services. We provide an essential public service and we must demonstrate that we are a dependable and resilient company. Ofwat quite rightly made resilience one of the key PR19 themes, recognising both that challenges from population growth and climate change are increasing, and the huge disruption caused by any loss of service. We are already a resilient company, with a proven track record for managing extreme events such as the harsh winter and dry summer in 2018. Our previous investments mean that we are one of the most drought resilient companies.

To ensure that we continue to maintain this strength, we have developed an industry leading approach to understanding our whole company resilience. Ofwat challenged companies to consider resilience in the round, emphasising the important role of financial and corporate resilience. Our approach builds on these elements, covering 16 different resilience systems across our assets and operations, as well as the corporate and financial elements highlighted by Ofwat.

The new framework gives us a thorough understanding of the internal and external environments where we operate and how they are changing. Consistent with areas of emphasis elsewhere in our plan, there is strong focus on working better with customers to become more water efficient, or to reduce the misuse of sewers.

Overall, our governance structure, processes and programmes ensure a coherent and integrated approach to managing resilience risks and our PR19 plan continues to strengthen our resilience across the business.

### **Delivering upper-quartile cost efficiency and upper-quartile service delivery**

Our track record in cost efficiency is very strong. Over a number of price control periods, we have consistently been assessed as a leader in cost efficiency. This is one of the main reasons why we have been able to deliver one of the lowest bills in the industry for our customers.

A key challenge in our PR19 plan has been to maintain our excellence in cost efficiency, while simultaneously delivering a step change in the services that matter most to our customers. We have achieved this using money saved through working efficiently (outperformance) and embracing innovation and new markets.

Ofwat have challenged companies to deliver upper quartile performance in each year. We have used our current cost outperformance to start the necessary work immediately. With the agreement of both the Forum and our Board, we have reinvested some £230 million to kick start our PR19 plan for leakage, supply interruptions, internal sewer flooding and pollution incidents. We are on track to meet or exceed our PR14 targets for all four of these measures, but we have started a programme of activities designed to achieve upper quartile performance as soon as possible.

The activities we have identified are not one off adjustments or more of the same, they represent a fundamental change in how we deliver our services, ensuring these become business as usual and the efficiency gains identified are sustainable now and into the future. For example, we are the first water company to adopt an open data policy, publishing all our performance data and carrying out “hackathons” to encourage expert data analysis and external ideas for specific improvements. This has already helped us identify new approaches to ‘data visualisation of sound’ which is being used to help us detect leaks for efficiently.

Cost efficiency is also a key focus for our PR19 plan. We are particularly pleased that by embracing the potential of new markets, we have been able to address our one area of historic weakness relating to bioresources costs. As the needs of our industrial customers have changed, we have been able to invest in new technology to reduce costs and increase the energy output from our bioresources assets. We have also anticipated the potential of the new market by undertaking a major market testing exercise. By combining the results of the market testing and the new technology, we will be able to reduce our bioresources costs by 23%.

Our efforts on PR19 costs have by no means been limited to bioresources. We have started a programme of transformation and innovation to ensure that we continue to deliver great value for money. We have benchmarked ourselves against peers and other industries, and the net result is that we will deliver efficiencies of around 14% across our wholesale Network Plus price controls and 10% on our Residential Retail price control. In total, we have some £800 million of efficiencies that we will deliver for our customers during the PR19 period.

### **Delivering a step change in key performance areas**

We are significantly improving our performance in key service areas that are most important to our customers:

- Our leakage will reduce by 40% between 2018-25, reducing our impact on the environment and increasing our resilience.

- We will reduce internal sewer flooding by 70% between 2018-25, reducing our impact on customers.
- We will reduce pollution incidents by more than 50% between 2018-25, reducing our impact on the environment.
- We will reduce interruptions to supply from 7 minutes to 2 minutes or less, reducing our impact on customers.

These service improvements have already begun, funded by reinvestment of outperformance approved by our Board and the Forum. Our ambition is not limited to these four areas. We are already close to the frontier on per capita consumption (a key measure for long term resilience), but our target is to push the frontier with a further 9% reduction. As part of our response on leakage, we are going to increase the number of supply pipe repairs by over 30%. And on doubtful debt in retail, despite the high levels of deprivation in Yorkshire, we are targeting a further 6% reduction, strengthening our position as one of the industry leaders.

To complete the picture on our package of performance commitments, where it is possible to improve substantially, for almost two thirds of the performance commitments not already mentioned, we are targeting at least a double-digit percentage improvement, with an average improvement of 24%.

The Forum and the Board have been involved at every step of the development of our performance commitments and outcome delivery incentives, challenging and strengthening them to ensure they reflect what our customers want.

Our customers strongly support our performance commitment and outcome delivery incentive package, with 86% finding the performance levels, incentives and bill profile acceptable. Our customers recognise that we have worked hard to understand what they want, and that we will deliver it as soon as possible. They have had the ultimate say on which performance commitments are included and where financial out and underperformance payments are appropriate.

We have heard the message that it is not just what services we deliver, but how we go about it. Customers feel there is more they can do to contribute too, either by making small changes to their behaviour or by getting more involved in the wider activities offered by us and our partners. We also recognise that we need to develop our skills supporting customers to get involved.

## **Our environmental programme**

We know that improving the environment is important to our customers, and our plan includes our largest ever environmental programme to meet the obligations that we are given under the water industry national environment programme. The

programme represents almost 20% of our proposed totex and is some three times larger than at PR14. It will deliver a broad range of environmental improvements, with particular focus on the removal of phosphorus from river water. We will be aligned to the obligations defined by the Environment Agency and will need to deliver by 2025 (subject to our ongoing conversations with Defra). To meet the new standards we will need to invest at 80 of our wastewater treatment works.

The scale and timing of the environmental programme is still somewhat uncertain. Final decisions on designation of rivers to be improved, and the timings to be followed will be taken by the end of 2019. We are working hard with the Environment Agency and Ofwat to make sure that the programme we are required to deliver can achieve the largest possible benefits, at the lowest possible cost for our customers. If timings allow, we plan to use innovative new ecological approaches to phosphorus removal which will use natural catchment based solutions that deliver wider benefits. If the scale of programme is reduced, we will apply the unit cost adjustment mechanism as soon as possible to ensure that our customers pay no more than necessary.

### **Great service for all our customers, and specific help for those who need it**

We take our societal responsibilities seriously; most of our customers cannot choose their water supplier so it is essential that our bills are fair. We use our data to ensure we are proactively supporting customers who need our help. Our residential retail plan demonstrates how we are using data and technology to tailor the services we provide, to give choice in how and when people contact us and minimise customer effort to contact us. We have already added flexibility to the ways customers can get in touch, for example web chats and call backs.

In our PR19 plan we are going significantly further by harnessing technology from other industries to allow our customers to contact us when and how they want. We will improve our digital offering so that customers can access our services, select convenient appointment slots, track progress of jobs and inform us of any specific needs via their mobile devices – just like they can with various other delivery services.

We know a lot of customers want to adopt more digital ways to contact us. Our aim is to have at least 50% of customers' contacts via digital channels by 2025, but we will of course retain a telephone service, as some customers prefer this.

To help all our customers, we will ensure they are on the best tariff for their lifestyle. We will use our new data and analytic approaches to review customer accounts every year, proactively contacting customers who we believe would benefit from being on a different tariff.

Enhanced data analysis is also the key to helping those who are struggling to pay. We are leading the way in the water industry in how we use data to proactively identify customers who may find it difficult to pay their water bill. We are doubling the amount of money we contribute to social tariff support, and we are working with Rotherham Citizens Advice to create a way to help people with debt to get back on their feet, this will be extended across the region. This initiative covers not just their water bill, but also other debts they may have, helping them regain control.

We interact with our customers every day; we visit their properties, speak with them on the phone and interact through digital channels. We see that some customers can be in situations where they cannot look after themselves or they may be at risk of harm in some way. We are taking a broader role in society to ensure that, where we have engaged with our customers they are safe and free from harm. We are the first water company to recruit a safeguarding lead to support all customers and help keep them safe. To identify at risk customers early, we have partnered with West Yorkshire Police and Yorkshire Fire and Rescue. Through this partnership we receive staff training to help identify those at risk and how to refer them to the right organisations.

## **Explaining our average bill profile**

There are five key factors that have shaped the projected bill:

1. The reduction in the allowed cost of capital by Ofwat and change of inflation measure to the more accurate consumer price measure, together reduce bills by around £19.
2. We are expecting to outperform a number of our PR14 targets and the resulting outperformance payments will increase bills by £5.
3. There are several upward pressures on costs arising from our drive to deliver upper quartile service delivery, the continued growth of the population in Yorkshire and external costs such as energy and chemicals. Taken together, these would increase bills by about £14 if it were not possible to offset them.
4. We have started a programme of transformation and innovation which has more than offset these upward pressures, this reduces bills by £15.
5. We are also facing several opex cost pressures that we have been unable to offset. These cover changes to how we account for software licences, increased expenditure on cyber-security, costs arising from the impact of the traffic management act – for when we undertake roadworks, and recent increases in business rates. These costs amount to some £100 million and increase bills by £7.

Based on this we would have been on track to deliver our customers a bill reduction of about £8. However, the sixth factor, the scale of the water industry national environmental programme (WINEP) means that this is no longer possible. If the scale of the WINEP does not alter, even after we have applied specific targeted efficiencies, we believe the impact will equate to some £23 on bills. As a result, our overall bill impact is expected to be an increase of around £14<sup>7</sup>. Our customers support our plan and find the proposed bill acceptable.

We understand that affordability is a key concern and that bill increases are never welcome. If the scope of the WINEP can be reduced, this will be passed on to our customers.

To make sure our customers can accept our proposed bill, our PR19 plan and costs have been shared with customers. A great number of residential customers, 86%, find the bill costs acceptable. Customers feel that while the WINEP is undoubtedly large, they are comfortable to pay for the improvements to the environment.

## **Concluding Thoughts**

The Forum has played a vital role in the creation of our PR19 plan. We would like to thank the Forum and its sub groups for their commitment, expert advice and challenge, both in our day-to-day business and in the creation of this plan.

Our Board has been integral to the development of the PR19 plan and own the delivery of the plan. They have overseen a comprehensive programme of assurance to provide confidence in the quality and deliverability of the plan, and this is reflected in their assurance statement. We can also confirm that we have complied with Ofwat's new requirements regarding dividend policy, performance related pay and sharing of financial outperformance, and that the plan is financeable.

We have also considered our plan carefully from a regulatory perspective. As a result, it is strongly aligned with each of Ofwat's themes and it delivers a fundamental shift in our performance, efficiency and use of innovation.

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<sup>7</sup> Over the five-year period

Most importantly, the plan is based on a strong understanding of the needs and wants of customers and stakeholders, the duties and responsibilities we must meet, and our impact on Yorkshire in the widest sense. The plan is designed with our customers and stakeholders at its heart, and it makes sure we are sustainably delivering value for money, protecting the environment and keeping bills affordable.

## Appendix 3: CCG report executive summary

Please provide a copy (in file formats that can be opened in word) of the executive summary from the CCG report on your company.

### Statement from the Chair of the Yorkshire Forum for Water Customers

There has been a marked shift in company culture during the preparation of this business plan to being more transparent and to engaging in meaningful consultation with the Yorkshire Forum for Water Customers (the Forum) and customers. This runs from Board level right throughout the company. Whilst there is work to be done to embed this consistently across the company - and for the Forum to become an integral part of the process of future business decision-making - the impact on the business plan is clear. The Forum has held discussions with Yorkshire Water on gearing and dividend policy and supports proposals on how a Sharing Mechanism will be developed going forward.

The level of innovation and the extent and reach of the customer research programme is commendable and has meant that Yorkshire Water now has an expanded depth of understanding about its customers to shape its services around their preferences. There is also a new level of ambition to deliver excellent customer service at an affordable cost. Yorkshire Water has a long-established reputation of leading on the provision of services to customers in vulnerable circumstances, but it has responded to the challenge to go even further, not only by being the first in the industry to appoint a safeguarding officer, but also with increased financial contributions from the company to support those most in need and who are excluded from mainstream services.

There is an increasing focus on working with others to deliver what is best for customers. This partnership approach can be witnessed in the company's innovative work to support its staff to identify and refer the most vulnerable of its customers to other agencies and to publish open source data to facilitate the development of more sustainable solutions to environmental challenges. This, together with changes to how the company is structured, will help increase the already high level of trust and confidence in Yorkshire Water.

Ofwat has made clear it expects companies to deliver improved services at a lower cost. This would have been achievable had it not been for the significant environmental obligations which the company faces. This is likely to lead to a small annual increase in bills, which customers do support. The company has set itself challenging efficiency savings and is using these to fund the service improvements which have been identified by its customers. The Forum has explored the environmental programme in detail and shares Yorkshire Water's view that the

requirements arising from the European Union's (EU's) Urban Waste Water Directive and the likely designation of a number of Yorkshire rivers could be addressed in ways that are better for the environment, and at lower cost to its customers. The Forum would like to see the UK Government and the EU recognise this in future legislation and hopes that Ofwat will be supportive of this.

The management of any bill increase and the provision of a carefully designed package of meaningful financial support measures receives the overall support of the Forum. The net result after the Water Industry National Environment Programme (WINEP) is a bill increase of approximately £3 a year. Of the £4,967<sup>8</sup> million investment, £900 million relates to the WINEP programme.

The Forum has commented on individual building 'blocks' of the plan along the way, however the demands of the 2019 Periodic Review (PR19) timescale are such that the final pieces of the jigsaw puzzle have largely been put in place towards the end of the process, although it is commendable that there were 'no surprises'. This price review has been even more demanding than others in terms of methodology, technical complexity, customer engagement and innovation.

There are a number of areas where the company is seeking to be innovative or to demonstrate that it is leading the sector, for example river restoration, water recycling, sustainable demand management led solutions, flood risk reduction and bio-resources. This is in recognition of Yorkshire Water's role in providing a public service within a corporate entity and in which the company seeks to deliver a community good through clear leadership.

Every customer account will be reviewed annually to make sure they are on the correct tariff and bills will be kept low through innovative operational practices and an understanding of customer choice and preferences. An annual review by the Forum and leading charities will identify practices to assist customers from falling into debt and the company will develop the role of "dementia friends" within the business. Behaviours with adverse impacts such as sewer blockages and water efficiency will also be prioritised.

I would like to thank all of my colleagues for their scrutiny of the company proposal and for their diligence and good humour. We have been fortunate in the commitment shown by company representatives and in their willingness to respond to the

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<sup>8</sup> The numbers quoted are in real terms and are consistent with the tabulated data supplied by Yorkshire Water.

challenges they have been set. Our appetite for delivering what customers want at a price they can afford will now follow through to monitoring the achievement of Performance Commitments and Outcome Delivery Incentives, ensuring that the customer voice is listened to.

Andrea Cook OBE

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

### **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 plans fairly reflect 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 plans 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 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 bespoke 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 financial contribution to delivering the highest standards in customer service and operational delivery in the current price control period.

Yorkshire Water's innovative work to develop a way of measuring all of its impacts on society, the economy, the 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 for 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 it offers appropriate services for all 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 the Forum's 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 appointment of a Safeguarding Officer – a first for the industry – are both welcome. 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 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 CCGs (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, the Forum believes that 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 are 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 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.

## Appendix 4: Current operational performance

**Table 4.1: PR14 Performance Commitments**

Please indicate in the table below which PR14 performance commitments have been met and which have not been met over the PR14 period. This table is not for Service Incentive Mechanism (SIM) data, for which table 4.2 has been provided. For financial ODIs please also indicate total forecast outperformance payment or underperformance penalty for the PR14 period.

No	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>9</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
1	PR14YKYWSW_WA1	WA1: Drinking water quality	No	Yes	No	No	No	0	0
2	PR14YKYWSW_WA2	WA2: Significant drinking water events which require corrective action	Yes	Yes	Yes	Yes	Yes	0	0
3	PR14YKYWSW_WA3	WA3: Drinking water contacts	Yes	No	No	No	No	-6.5736	-7.8672

<sup>9</sup>PCL met? - if the performance commitment level (PCL) for the reporting year was met, or is forecast to be met, enter 'Yes'. If the PCL for the reporting year was not met, or is forecast not to be met, enter 'No'. If a PCL has not been set for the reporting year enter "-" (hyphen).

No	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>9</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
4	PR14YKYWSW_WA4	WA4: Water quality stability and reliability factor					Yes	0	0
5	PR14YKYWSW_WB1	WB1: Leakage	Yes	Yes	No	Yes	Yes	0	1.9698
6	PR14YKYWSW_WB2	WB2: Water supply interruptions	Yes	Yes	Yes	Yes	Yes	16.0185	20.4536
7	PR14YKYWSW_WB3	WB3: Water use	Yes	Yes	Yes	Yes	Yes	0	0
8	WB4: Water network stability and reliability factor	WB4: Water network stability and reliability factor					Yes	0	0
9	PR14YKYWSW_WC1	WC1: Length of river improved (note: PC is part of a total commitment at Appointee level - see also SB4)					Yes	0	0.2646
10	PR14YKYWSW_WC2	WC2: Solutions delivered by working with others (note: PC is part of a total commitment at Appointee level - see also SB3)	Yes	Yes	Yes	Yes	Yes	0.0549	0.0722
11	PR14YKYWSW_WC3	WC3: Amount of land conserved and enhanced (total cumulative area) (note: PC is part of a total commitment at Appointee level - see also SB5)					No	0	0
12	PR14YKYWSW_WC4	WC4: Recreational visitor satisfaction	Yes	Yes	Yes	Yes	Yes	0	0
13	PR14YKYWSW_WD1	WD1: Proportion of energy use generated by renewable technology (note: PC is part of a total commitment at Appointee level - see also SC1 and RC1)	No	No	No	Yes	Yes	0	0

No	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>9</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
14	PR14YKYWSW_WD2	WD2: Proportion of waste diverted from landfill (re-used and recycled) (note: PC is part of a total commitment at Appointee level - see also SC2 and RC2)	Yes	Yes	Yes	Yes	Yes	0	0
15	PR14YKYWSWW_SA1	SA1: Internal sewer flooding incidents	Yes	Yes	Yes	Yes	Yes	9.4870	9.7170
16	PR14YKYWSWW_SA2	SA2: External sewer flooding incidents	Yes	Yes	Yes	Yes	Yes	0	0
17	PR14YKYWSWW_SA3a	SA3a: Pollution incidents - category 1 and 2	Yes	Yes	Yes	Yes	No	0	0
18	PR14YKYWSWW_SA3b	SA3b: Pollution incidents - category 3	Yes	Yes	Yes	Yes	Yes	0	0
19	PR14YKYWSWW_SA4	SA4: Sewer network stability and reliability factor					Yes	0	0
20	PR14YKYWSWW_SB1	SB1: Number of Yorkshire's designated bathing waters that exceed the required quality standard	Yes	Yes	Yes	Yes	Yes	0	0
21	PR14YKYWSWW_SB2	SB2: Wastewater quality stability and reliability factor					Yes	0	0
22	PR14YKYWSWW_SB3	SB3: Solutions delivered by working with others (note: PC is part of a total commitment at Appointee level - see also WC2)	Yes	Yes	Yes	Yes	Yes	0.0369	0.0075
23	PR14YKYWSWW_SB4	SB4: Length of river improved (against WFD component measures) (note: PC is part of a total commitment at Appointee level - see also WC1)					Yes	0	0.0767

No	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>9</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
24	PR14YKYWSWW_SB5	SB5: Amount of land conserved and enhanced (total cumulative area) (note: PC is part of a total commitment at Appointee level - see also WC3)					No	0	0
25	PR14YKYWSWW_SC1	SC1: Proportion of energy use generated by renewable technology (note: PC is part of a total commitment at Appointee level - see also WD1 and RC1)	No	No	No	Yes	Yes	0	0
26	PR14YKYWSWW_SC2	SC2: Proportion of waste diverted from landfill (re-used and recycled) (note: PC is part of a total commitment at Appointee level - see also WD2 and RC2)	Yes	Yes	Yes	Yes	Yes	0	0
27	PR14YKYHHR_RA2	RA2: Service commitment failures					Yes	0	0
28	PR14YKYHHR_RA3	RA3: Overall customer satisfaction (CCWater annual tracking survey)					Yes	0	0
29	PR14YKYHHR_RB1	RB1: Cost of bad debt to customers (expressed as proportion of bill)	Yes	Yes	Yes	Yes	Yes	0	0
30	PR14YKYHHR_RB2	RB2: Number of people who we help to pay their bill				Yes	Yes	0	0
31	PR14YKYHHR_RB3	RB3: Value for money (CCWater annual tracking survey)					Yes	0	0
32	PR14YKYHHR_RC1	RC1: Proportion of energy use generated by renewable technology (note: PC is part of a	No	No	No	Yes	Yes	0	0

No	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>9</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
		total commitment at Appointee level - see also WD1 and SC1)							
33	PR14YKYHHR_RC2	RC2: Proportion of waste diverted from landfill (re-used and recycled) (note: PC is part of a total commitment at Appointee level - see also WD2 and SC2)	Yes	Yes	Yes	Yes	Yes	0	0
<b>Total cumulative financial ODI</b>								<b>27.1697</b>	<b>40.8008</b>

**Table 4.2: PR14 Service Incentive Mechanism (SIM) Performance**

SIM Performance	2015-16	2016-17	2017-18
Total annual SIM score (out of 100)	83	83	84

## Appendix 5: PR19 proposed performance commitments

Table 5.1: Common Performance Commitments

No.	Common performance commitment <sup>10</sup>	ID (eg W-A1)	2019-20 forecast performance level (where relevant)	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change (leakage and PCC PCs)
1	<b>Water quality compliance</b> – the DWI's Compliance Risk Index (CRI), a score greater than or equal to zero, where zero is least risk	20	3.51	0	Under	In period	
2	<b>Water supply interruptions</b> – average supply interruption greater than 3 hours (minutes per property)	21	00:04:00	00:02:00	Out & Under	In period	
3	<b>Mains bursts</b> – number of water mains bursts per 1,000 kilometres of total length of mains	24	264.8	220.1	Out & Under	In period	
4	<b>Unplanned outage</b> – proportion of unplanned outage of the total company production capacity (%)	23	8	7.25	NFI	N/A	
5	<b>Leakage</b> – megalitres per day (MI/d), three-year average	22	234.6	175	Out & Under	In period	-25.40

<sup>8</sup>This table includes all PR19 common performance commitments with the exception of C-Mex and D-Mex, as the design of these is different.

No.	Common performance commitment <sup>10</sup>	ID (eg W-A1)	2019-20 forecast performance level (where relevant)	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change (leakage and PCC PCs)
6	<b>Per capita consumption</b> – average amount of water used by each person that lives in a household property (litres per person per day), three-year average	25	131.2	119.3	Out & Under	In period	-9.07
7	<b>Risk of severe restrictions in a drought</b> – percentage of the population the company serves that would experience severe supply restrictions (e.g. standpipes or rota cuts) in a 1-in-200 year drought	38	0	0	NFI	N/A	
8	<b>Treatment works compliance</b> – % compliance with environmental permits at water and wastewater treatment works (EA's Environmental Performance Assessment definition)	32	98.09	98.72	Out & Under	In period	
9	<b>Internal sewer flooding</b> – number of incidents per year (sewerage companies only)	31	582	345	Out & Under	In period	
10	<b>Sewer collapses</b> – number per 1,000 kilometres of sewer (sewerage companies only)	33	26.3	25.04	Out & Under	In period	
11	<b>Pollution incidents</b> – category 1-3 pollution incidents per 1,000km of sewerage network, as reported to the Environment Agency and Natural Resources Wales (sewerage companies only)	30	174	116	Out & Under	In period	

No.	Common performance commitment <sup>10</sup>	ID (eg W-A1)	2019-20 forecast performance level (where relevant)	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change (leakage and PCC PCs)
12	<b>Risk of sewer flooding in a storm</b> – percentage of population at risk of sewer flooding in a 1-in-50 year storm (sewerage companies only)	34	26.3	27.2	NFI	N/A	

## Appendix 6: Expenditure

**Table 6.1: Totex**

Total expenditure	Price Base	PR14 final determination 2015-2020	Proposed for PR19 2020-2025
Water network plus (£m)	2017-18 FYA (CPIH deflated)	1727.281	1797.607
Water resources (£m)	2017-18 FYA (CPIH deflated)		226.401
Wastewater network plus (£m)	2017-18 FYA (CPIH deflated)	2210.467	2512.297
Bio resources (£m)	2017-18 FYA (CPIH deflated)		380.267
Residential retail costs	Outturn (nominal prices)	283.652	262.414

**Table 6.2: Direct Procurement for Customers (DPC) proposals**

No.	Project name	Total project cost (£m) 2019-20 to 2049-50 2017-18 FYA (CPIH deflated)
	No suitable projects have been identified	

We support the principle and methodology of DPC. Despite undertaking a detailed review for possible projects, we have concluded that currently we do not have qualifying schemes. This partly reflects the fact that our water networks are already highly resilient due to previous investments in our water grid, and also the fact that we do not need additional water resources for the next 15 years.

We have embraced the opportunities provided by new markets to greatly improve the efficiency of our Bio-resources business. However, these are excluded from the DPC qualifying projects.

We have developed a robust assessment methodology and intend to use this to actively monitor the future qualifying opportunities.

## Appendix 7: Trust, confidence and assurance

Please explain how the company's full Board has demonstrated that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term.

Please explain how the company's full Board has assured themselves that the business plan will enable trust and confidence, including how the company's Board has taken account of the decisions Ofwat set out in its decisions for PR19 business plans to put the sector in balance.

[max. 400 words]

The Board aims to produce a high-quality business plan that meets the expectations of the customers to deliver current and future services at an affordable price. The Board has demonstrated strong leadership and governance over the development of the plan. A series of eight strategy workshops have been used to set a clear strategic direction, establish performance targets and implementing stretching cost efficiencies.

These strategy development days have also been used to ensure long-term service, financial and corporate resilience. To satisfy itself on the balance of strategic ambition with the acceptable level of risk, the Board has challenged management to demonstrate that:

- all elements of the plan are stretching and will drive innovation to benefit customers;
- Yorkshire Water will remain an efficient company when compared with others within and beyond the sector;
- management understands the risk in the plan and has robust processes to ensure the risk can be managed to an acceptable level;
- the Company remains financially viable if a series of 19 severe but plausible risk scenarios manifest.

Robust assurance was critical to the effective identification and management of risks in the development of the plan. The assurance is timely, proportionate to the level of risk identified, asks the right questions and assesses the quality of evidence to support the statements made within the plan. This best practice assurance approach, which is risk based and uses the 'three levels of assurance' framework, is set out in Yorkshire Water's published Assurance Plan for 2018-19. The Board has received appropriate internal assurance as well as independent assurance from its external technical auditors (Jacobs) and financial auditors (Deloitte).

Our core financial strategy is to secure an overall risk and return package which is attractive enough to raise the necessary capital, to fund our future investment and deliver an acceptable price for our customers. We have examined our plan and its resilience to changes in circumstances, the operating environment and inherent uncertainty. The Board has reviewed the impact of 19 severe but plausible risk scenarios which could manifest over the seven years to 2025, against the Company's key financial health indicators to satisfy long-term viability.

The Board has considered management assessment of the AMP7 risk, against its current risk appetite across the Company's six risk criteria: Health and safety, Value, Service, Reputation, Compliance and People to ensure the plan is stretching but resilient.