

COMPETITION COMPLIANCE CODE (CONDITION R)

APRIL 2018

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01. COMPLIANCE STATEMENT

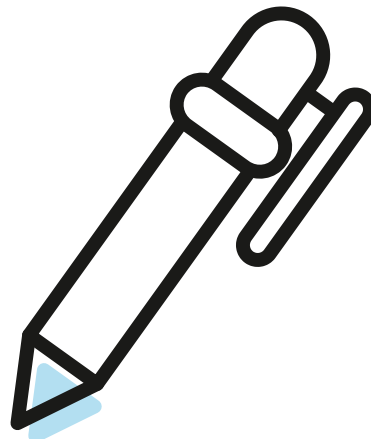
Yorkshire Water Services Limited (YWS) provides water and waste water services to both household and non household customers in Yorkshire. In providing this vertically integrated service, we fully recognise our regulatory and statutory obligations under Competition Law.

YWS supports competition in the Water Industry and is fully committed to complying with its obligations. We commit to protecting the sensitive information we receive from and in relation to retailers as a wholesale provider of service.

Appropriate levels of separation between wholesale and retail are in place and the incumbent retailer, Yorkshire Water Business Services (YWBS) and the associated Licensee, Three Sixty operates separately from YWS wholesale.

As a wholesale provider of services, we treat all of our customers fairly and this extends to retailers. This code will demonstrate how we conduct our business in the water retail market and fulfil our obligations under Condition R of our Instrument of Appointment.

This code is published on our website and is available to all employees to support their understanding of our obligations, and emphasises the importance of compliance. The Board of Yorkshire Water have signed this Compliance Statement to demonstrate their commitment to compliance with this code.





Anthony Rabin
Chairman



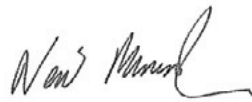
Richard Flint
Chief Executive



Liz Barber
Director of Finance, Regulation &
Markets



Pamela Doherty
Director of Service Delivery



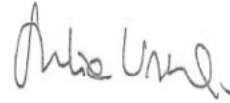
Nevil Muncaster
Director of Asset Management



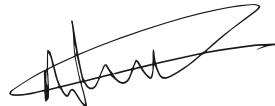
Ray O'Toole
Senior Non-Executive Director



Teresa Robson-Capps
Non-Executive Director



Julia Unwin
Non-Executive Director



Mark Amsden
Company Secretary



Andrew Wyllie
Non-Executive Director



Michael Osborne
Director



Scott Auty
Director



Andrew Dench
Director

02. PURPOSE OF THIS CODE



THIS CONDITION R COMPLIANCE CODE WILL DEMONSTRATE HOW YORKSHIRE WATER

- maintains compliance with confidentiality obligations under licence condition R and protect commercially sensitive information that we receive from, or in relation to retailers
- transacts with YWBS and Three Sixty at arm's length
- ensures relevant employees understand our obligations under our licence Condition R and under Competition Law and
- operates fairly and without discrimination against customers and retailers.

03. GROUP STRUCTURE

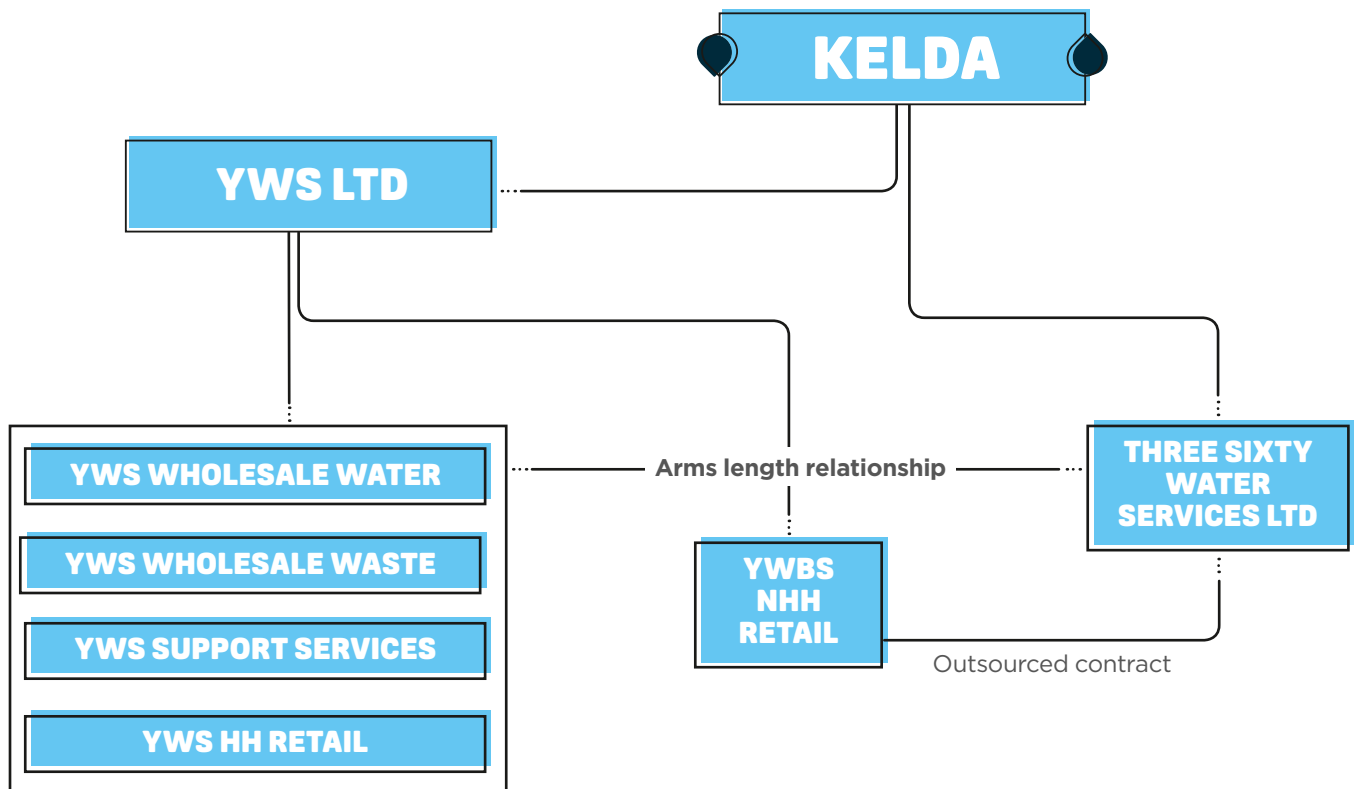
YWS is part of the Kelda Group. The Kelda Group is made up of many companies, including YWS and Three Sixty. YWS provides wholesale services to many retailers operating within Yorkshire, and is under an obligation to ensure all retailers are treated fairly and receive an equitable level of service.

YWS has a retail function that serves non household customers and trades under the brand of Yorkshire Water Business Services (YWBS). Although part of a vertically integrated company, YWBS operates as a standalone business separate from the rest of YWS. YWBS outsources non household customer activity to Three Sixty through an outsourced contract.

Three Sixty also operates as a water and wastewater supply licensee, providing retail services to non household customers across England and Wales. Three Sixty operates independently of YWS under its own Licence and competes with other retailers in the water retail market.

Levels of separation are in place between the group's wholesale and retail functions as shown in diagram A.

DIAGRAM A. KELDA GROUP STRUCTURE ILLUSTRATING SEPARATION AT MARCH 2018



BACKGROUND

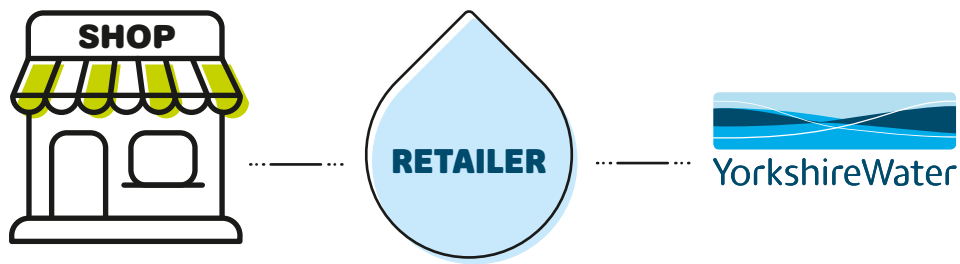
In April 2017, competition in the water industry opened up for non household customers. This means that these customers have an option to choose their retail provider for the water and waste water services they receive.

YWS as a wholesaler will still provide water to these customers through its network and will take away the waste water to be treated, before it is returned safely to the environment.

Retailers will monitor customers usage, issue customers’ bills and deal with customers queries.

To ensure the market operates effectively and fairly YWS will deal with all retailers including YWBS and Three Sixty equitably.

04. WORKING WITH RETAILERS



The introduction of Retail Competition into the non household market in April 2017 means YWS enters contractual relationships with retailers providing water and waste water services to their non household customers.

YWS is committed to ensuring that its wholesale-retail relationships are successful and support the principles and spirit of the Market Codes, by driving efficiency and service improvements in a compliant and competitive market.

Before engaging with a retailer YWS will enter into a confidentiality agreement to ensure that any confidential or sensitive information is disclosed to those individuals who need it for the specific purpose of dealing with the retailer fairly and promptly.

As a vertically integrated company, YWS has a written agreement with YWBS and Three Sixty which acts as a contract.

Once a retailer enters into a contract with YWS, it will act in full accordance with the terms of the contract, the Wholesale Retail Code and the Market Arrangements Code.

YWS conducts all of its business with the incumbent retailer (YWBS) and Three Sixty on an arm's length basis.

The retail associates of YWS are located in separate buildings, they operate using their own systems and processes and report into a separate non household retail sub committee. Support Services such as HR, Finance and Legal are provided and charged to YWBS and Three Sixty under Service Agreements.

YWS HAVE A MARKET SERVICES TEAM MADE UP OF THE

<p>COMPLIANCE TEAM</p> <p>Monitoring and managing compliance against:</p> <ul style="list-style-type: none"> • Competition Law • Market Arrangements Code • Wholesale-Retail Code 	<p>MARKET OPERATIONS TEAM</p> <p>Accountable for:</p> <ul style="list-style-type: none"> • Market/financial data • Wholesale contracts with retailers • Billing and collection of wholesale revenue 	<p>WHOLESALE SERVICE DESK</p> <ul style="list-style-type: none"> • Process operational service requests • Day to day operational support to retailers • Incident management support
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05. TRAINING

YWS is committed to making sure that all employees have the level of competition law training proportionate and relevant to the role they undertake. We have embedded a tiered training approach (Diagram B) into the Compliance Framework to ensure all colleagues including key contractors of YWS have the appropriate training and awareness required. It is important that employees understand our obligations in relation to competitive markets and can identify and recognise anti-competitive behaviour as this drives a culture shift for business separation, compliance and operating a level playing field.

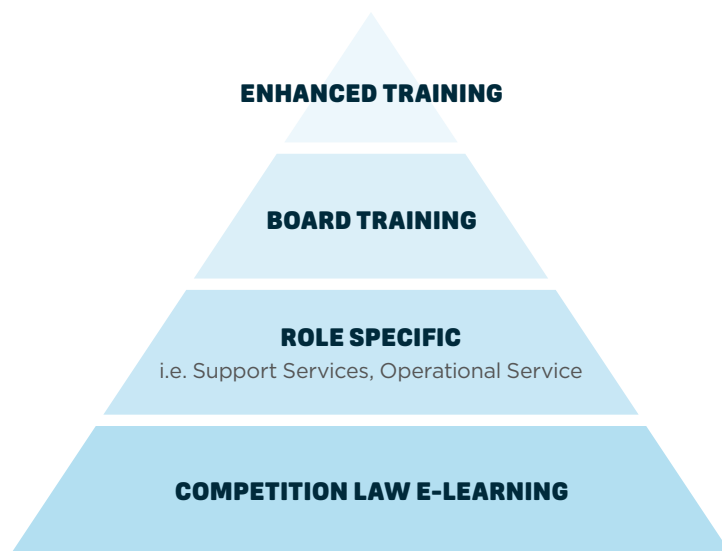


DIAGRAM B. YWS TRAINING STRATEGY FOR RETAIL COMPETITION

Our tiered approach to training means that dependant on the levels of risk a role is exposed to in relation to compliance obligations, every employee of Kelda is required to complete a mandatory E-Learning course. Further bespoke training has been to employees who provide a group support service such as IT, HR and Finance.

The company’s compliance policy and manual sets out the standards expected to maintain a level playing field.

Training records are monitored by the Compliance Team and are regularly reviewed to capture new employees.

06. **MONITORING**

A three line of defence assurance model is used to ensure adequate controls are in place and monitored. Appendix A details the controls and monitoring that is in position to mitigate the risks the company face.

YWS have a dedicated Compliance Team that monitor and test the controls against its obligations under Competition Law, Market Arrangements Code and the Wholesale Retail Code.



07. DISCIPLINARY PROCEDURES



YWS takes non-compliance with any group policy very seriously, and this is the case in relation to actual or potential breaches of competition law or the Instrument of Appointment.

Any failure to comply with the terms of this Code will lead to investigation and corrective action, which may include disciplinary action against the individual or individuals concerned, up to and including the ultimate sanction of dismissal.

We would also seek to learn from any breaches of the Code, to ensure that other employees do not make the same mistakes in the future and that controls are reviewed and strengthened.

08. **APPENDIX A** **RISK AND** **CONTROLS MAP**

		CONTROLS		
Risk	Could result in..	Level 1	Level 2	Level 3
YWS discloses commercially sensitive information about retailers	<ul style="list-style-type: none"> • A Competition Act investigation/breach • A DPA breach • Fines of up to 10% of group turnover • Reputational damage 	<ul style="list-style-type: none"> • Information security policy • Data protection policy • Documented processes for handling information in relation to retailers • Secure locked storage • Limited number of colleagues with access to information • Training 	<ul style="list-style-type: none"> • Management oversight • Disciplinary procedures • Risk based compliance reviews 	<ul style="list-style-type: none"> • Risk based audits (Internal and external)
YWS provides YWBS and or Three Sixty with the ability to transact with them through internal processes that are unavailable to other retailers outside of the group	<ul style="list-style-type: none"> • A Competition Act investigation/breach • Fines of up to 10% of group turnover • Reputational damage 	<ul style="list-style-type: none"> • Compliance policy and manual • Documented processes in line with the Wholesale Retail Codes • Training • Associated retailer on different server and systems • Associated retailer located in different building • All services requests come into to Wholesale Service Desk and are managed through contracted SLA's • Support Services provided by the group are supplied and charged to associated retailers under service agreements 	<ul style="list-style-type: none"> • Management oversight • Disciplinary procedures • Risk based compliance reviews • Separate sub committee for associated retailer 	<ul style="list-style-type: none"> • Risk based audits (Internal and external)
Employees of Yorkshire Water do not understand its obligations under Competition Law	<ul style="list-style-type: none"> • A Competition Act investigation/breach • Fines of up to 10% of group turnover • Reputational damage 	<ul style="list-style-type: none"> • Mandatory E-Learning provided to all employees and understanding tested • Enhanced training for the limited number of individuals who have dual responsibilities • Compliance manual published on the Hive • Risk based face to face training 	<ul style="list-style-type: none"> • Management oversight • Disciplinary procedures • Risk based compliance reviews • Board training • Enhanced training for the limited number of individuals who have dual responsibilities 	<ul style="list-style-type: none"> • Risk based audits (Internal and external)
YWS treat Retailers and non household customers unfairly	<ul style="list-style-type: none"> • A Competition Act investigation/breach • A DPA breach • Fines of up to 10% of group turnover • Reputational damage 	<ul style="list-style-type: none"> • Compliance policy and manual • Documented processes for operation • Training • Service level agreements for all wholesale service requests 	<ul style="list-style-type: none"> • Management oversight • Disciplinary procedures • Risk based compliance reviews 	<ul style="list-style-type: none"> • Risk based audits (Internal and external)

09. **GLOSSARY**

Term	Definition
Arms Length	As if the parties are unrelated independent entities and any arrangements between them are negotiated on the basis of normal commercial terms
Associated Retailer	A retailer which is linked to another company
Competition Law	The Competition Act 1998, the Enterprise Act 2002 and other related legislation
Compliance Code	The Compliance Code for wholesale/retail interactions
Confidential Information	All negotiations with, and any information received from or about, a retailer, and their non household customer, in relation to the provision of a water supply
Incumbent Retailer	The retail part of the Company
Instrument of Appointment (IOA)	The Licence appointing YWS as a water undertaker under the Water Act
Level Playing Field	An environment where all retailers are treated equally and none are given a competitive advantage
Market Services Team	The team within YWS wholesale that are responsible for the relationship and interface with retailers
Non-Household Customer	The owner or occupier of eligible non household premises
Retail Services	Customer services, customer billing, revenue collection, operational /billing queries, complaints and debt management
Retailer	A company granted a licence by Ofwat to provide retail services to non household customers
Three Sixty	Three Sixty Water Limited (retailer)
Vertically Integrated	A process where YWS owns the retail business that it supplies with Wholesale services
Water Sewerage and Supply Licence	The Water Supply and Sewerage Licence granted by the Secretary of State to retailers under the Water Industry Act 1991 as amended
Wholesale Business	The business functions of YWS responsible for providing wholesale services
Wholesale Retail Code	The Wholesale Retail Code is the statutory code that sets out the processes that will govern the retail market for the supply of water and sewerage services to non household customers made under the Water Industry Act
Wholesale Services	The provision of water through our network to premises and the removal of waste water to treat and return to the environment safely
Wholesale Supply	A supply made by YWS to a retailer
YWBS	Yorkshire Water Business Services (retailer)
YWS	Yorkshire Water Services Limited

YORKSHIREWATER.COM

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