

25 February 2016

Regulatory Compliance Department
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Dear Sir or Madam

Consultation on how companies should demonstrate long-term financial resilience

Thank you for the opportunity to respond to the above consultation.

We welcome the proposal for a financial monitoring framework and associated report, and agree with the aims of the financial monitoring framework. That is, to:

- Monitor the financial stability of regulated businesses;
- Identify financial or structural risks that may impact on the companies' abilities to deliver for customers; and
- Determine when the Regulator needs to intervene to protect the interests of customers, using the regulatory tools available.

Furthermore, we are pleased and encouraged that Ofwat has listened and acted upon the feedback received from companies during the initial consultation.

In summary, we agree with the approach proposed by Ofwat in this consultation. Our responses to the specific questions posed within the consultation are attached to this letter.

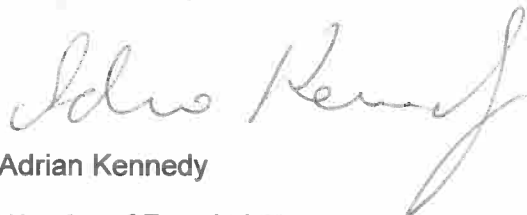
We also take this opportunity to re-iterate our view on the scope of monitoring. That is to say a more effective method to achieve the aims of the monitoring framework is to take a two stage approach.

- Stage 1 is routine monitoring of the ring fenced regulated entities. This, in conjunction with existing assurance statements and transparency required in other reporting areas, will enable the identification of "trigger" levels and events that could necessitate the Regulator to look outside the regulated ring fence.
- Stage 2 would only occur in exceptional circumstances, should a trigger or event give the Regulator the need to consider companies outside of the regulated ring fence.

This approach, whilst achieving the objectives of the monitoring framework, has the additional benefits of preventing regulatory creep and limiting the regulatory burden, both important aims in themselves.

We trust you find this feedback useful and we look forward to working with you over the coming year.

Yours sincerely

A handwritten signature in cursive script, appearing to read "Adrian Kennedy". The signature is written in dark ink and is positioned above the printed name and title.

Adrian Kennedy

Director of Regulation

Q1 Do you agree that the proposed approach to companies demonstrating their financial resilience will provide an appropriate level of assurance about each company's long term financial viability?

We agree that the approach proposed by Ofwat will provide the appropriate level of assurance with regards to long term financial viability, namely:

- The use of an appropriate suite of sensitivities, to be determined by individual companies, on financial plans to satisfy Board members that the company will be a going concern;
- A long term viability statement to be included in both the statutory and regulatory accounts from the 2015-16 financial year and each year subsequently;
- Appropriate third party assurance.

Q2 Is there anything else that we should be recommending that companies explicitly include in their statement on long term financial viability?

No further comment

Q3 Are there alternative approaches to companies demonstrating their long term financial resilience that Ofwat should be considering?

No further comment