

The Yorkshire Forum for Water Customers: Response to Ofwat's Draft Determination (DD) for Yorkshire Water

1.1 The Yorkshire Forum for Water Customers (the Forum) is an independent group of customer and stakeholder representatives brought together under an Independent Chair to challenge the company in developing its business plan for the PR19 Price review. In particular the Forum has challenged Yorkshire Water to ensure its business plan fairly reflects its customer views gained from high quality research and engagement, provides high quality services and that it delivers on its performance commitments (PCs).

1.2 Members of the Forum are drawn from: Citizens Advice; the Consumer Council for Water; the Environment Agency (EA); the National Farmers Union; Natural England; Pennine Prospects; and The Rivers Trust, together with independent experts on the environment, local government and affordability/vulnerability issues.

1.3 Ofwat has reviewed the business plans of all of the companies and in January 2019 published its initial assessment, with companies being placed in one of four categories: exceptional; fast track; slow track; and significant scrutiny. Yorkshire Water, like the majority of companies, was placed in 'slow track', which means that some parts of the plan were assessed as high quality but other areas needed to be revisited. No company was considered to have submitted an exceptional plan.

1.4 In March 2019 the Forum submitted a response to the Initial Assessment of Plan (IAP) by Ofwat. Following the production of the IAP the Forum met on a number of occasions and has also met twice since the publication of the Draft Determination (DD). There have also been meetings of the Environment sub-group during this period.

1.5 Throughout the engagement process, the Forum has concluded that it should comment on all areas highlighted by Ofwat in the IAP and DD as they all have a bearing on customer bills, and that it should not restrict itself to commenting solely on the quality and influence of customer engagement. It is nevertheless clear to the Forum that the company provided high quality and innovative customer research to underpin the production of the business plan which was subsequently strengthened by additional research following the IAP. The survey work was extensive, thorough and comprehensively audited and, in the opinion of Forum members, fully captured the attitudes and opinions of Yorkshire Water customers.

1.6 In its response to the IAP, Yorkshire Water advised the Forum that it would:

- * address those areas where it accepted Ofwat was correct, or where the original plan could have been clearer;
- * provide a targeted response, where other companies had made more fully developed or innovative proposals and where the company would adopt the position of "fast learner";
- * identify areas where the company's plans could be strengthened, for example support for customers struggling to pay their bills;

* provide a strong defence where it did not share Ofwat's evaluation but where additional evidence was required.

1.7 The Forum has studied Ofwat's aspirations as set out in the Overview of companies draft determinations, and specifically its objective 'to provide high quality, reliable and resilient services that are affordable to everyone which protect and enhance the environment, meet the needs of the communities they serve and plan for future generations'.

1.8 The DDs demonstrate that for most companies Ofwat's position on costs remains the same. The total cost gap for Yorkshire Water (wholesale and retail) is £801m. The gap between the company's plan and Ofwat's view on wholesale base costs is 14%; and on wholesale enhancement costs it is 30%.

1.9 On water the gap of £237m primarily relates to leakage and interruptions to supply upper quartile (UQ) performance commitments (PCs); on waste water the gap is £621m. Around half of this relates to WINEP. Yorkshire Water's response to the DD will reduce the total gap to around £450m; nearly £300m of this remaining gap relates to the WINEP programme.

1.10 The Forum welcomes Ofwat's interventions to increase the targets in the PCs of internal sewer flooding, pollution incidents, sewer collapses and water supply interruptions, to avoid the company being an outlier as compared with other companies. The Forum notes that Yorkshire Water is asking Ofwat to reduce the unfunded leakage target to 15% in line with the original challenge from Ofwat.

1.11 However, overall the Forum believes that the DD as proposed will result in:

* constrained investment in infrastructure and resilience, thereby compromising levels of service for future generations of customers;

* a lower bill profile in year 1, when customers asked for stable bills.

The performance or otherwise of the innovation fund proposed by Ofwat could potentially have an impact on innovation. The Forum is willing to support lower bills for customers, but not if the high priority customer-supported schemes are compromised because of financial constraints.

1.12 In preparing this response the Forum has looked closely at Yorkshire Water's response to the DD, noting the company's willingness to move nearer to Ofwat's assessment of efficient costs in an attempt to be pragmatic and 'bridge the gap' and address customers' expectations. The result is a reduction in overall costs of circa £350m and a bill reduction for customers of circa £6 a year based on the average bill.

1.13 However the Forum has concluded that the resources to be made available to the company appear insufficient to deliver the high level of service proposed by Ofwat and would place Yorkshire Water and its customers at an increased – and inappropriate – degree of risk. It is not convinced that the plan proposed by Ofwat is financeable and deliverable, and believes there would be a significantly increased risk of penalty payments and a potential negative impact on bills in the next AMP.

1.14 The Forum recognises that Yorkshire Water has sought to reduce the size of the gap between the company's view of efficient costs and that of Ofwat, but it believes a significant shift from Ofwat is needed in the Final Determination to protect Yorkshire Water customers and the environment, reduce risk and enhance services. Forum members feel strongly that the high levels of service which Ofwat proposes, and which it otherwise endorses, cannot be achieved within the costs allowed in the DD.

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