

Annex A: Question relating to your Board’s support for the development of effective markets.

- 1. Please provide a description of how your Board engages in and discusses plans for the company’s work to support the development of markets. For example, is there a designated Board Committee, is there a designated part of the agenda for regular Board meetings dedicated to discuss this? How does the Board ensure that staff have the time they need to be able to raise any issues, get the support and resources they need for work concerning the development of markets?**

Effective markets are fundamental to our Board’s approach to meeting the challenges we face and remain central to the delivery of our long-term strategy. The Board’s engagement on market matters is a continuous process which takes place through several mechanisms, some formal and regular, others more general or on the basis of a specific need.

Board committees and groups

To ensure we could effectively manage the development of the non-household retail market and demonstrably meet our level playing field obligations, the Board created the Non-household Retail Committee in April 2016, for which terms of reference are attached in appendix a1. Chaired by our Chief Executive, the committee has enabled independent focus on developing our retail offering, while the development of wholesale market services has been discussed by the Board. The committee schedules monthly meetings and reports to the Board as necessary.

Members of the Board and the committee received specialist competition and markets training to ensure their complete understanding of wholesale and retail fiduciary duties and the importance of providing a level playing field to support an effective market. This approach has proved effective in achieving entirely independently run wholesale and retail businesses, both of which remain leading performers by most market measures.

In November 2019, the committee will propose to the Board that it is replaced by a Competition and Markets Committee, for which draft terms of reference are attached in appendix a2. The proposed committee will be chaired by a Board Director and provide a dedicated forum for wider market development matters. The committee will continue to monitor the effectiveness of our wholesale engagement in the non-household retail market while supporting the effective development and use of the developer services, new appointments and variations (NAV), bioresources and water bidding markets.

The Yorkshire Water leadership team (YWLT), previously titled Kelda management team, and Board investment committee are both long established Board committees with executive membership across the business. More easily accessed by colleagues across the business, they allow for the development of market strategies and specific market opportunities to be discussed and developed as they are prepared for the Board. These committees have been greatly influential in our approach to developing and maximising opportunities in the bioresources market and approving the necessary investment. Our 2019-20 wholesale business plan for the non-household retail market was presented to and signed off by YWLT. We have provided an extract of the minutes of the meeting in appendix a3. In appendix a4 we provide extracts of a presentation discussed at YWLT concerning the development of our approach to the bioresources market. YWLT has discussed several further papers and presentations on bioresources, the latest in May 2019.

Led by a Board Director, the water bidding market steering group is responsible for overseeing the overall management and direction of our approach to the water bidding market. In July 2019 we held an internal launch event to engage senior managers and subject matter experts in our plans to manage and maximise

customer and environmental benefit from the market. Hosting the event, our Board Director lead was able to convey the change required and Board's appetite to make the market a success.

Considering wider markets, in January 2019 we launched our sustainable finance framework, through which the Board was pleased to successfully list the first sustainability bond by a UK corporate issuer on the London Stock Exchange. Listing the £350m 22-year bond in April 2019, our Director of Finance and Regulation announced the bond as the first step in our plans to progressively move our debt portfolio into the framework, showing our commitment to embed sustainability across all our operations.

Our PR19 business plan

Market engagement and development is a central theme of our PR19 business plan. Our Board has been extensively engaged during plan development, such as through our regular Board strategy days. Through this process, significant focus has been placed on opportunities to both engage and develop markets. In appendix a5 we highlight specific agenda items dedicated to discussing and developing our markets strategy. The Board has been instrumental in developing our market engagement strategy and fully supports our aims.

Compliance and issue management

We have a dedicated compliance team that oversees the non-household retail market. The team monitors and tests controls throughout the business to ensure compliance with obligations related to the market codes and competition law. The team reports monthly to senior management and annually to the Board on compliance performance across the company. The team acts as an advisory body and delivers training to the business to ensure employees understand the policies and processes in place to work effectively in the non-household retail market. Employees are encouraged to raise any competition or markets concerns to the compliance team and there is a clear escalation route to the Board and framework for investigation. In appendix a6 we provide a copy of the 2019 compliance report which summarises this activity.

The scope of compliance team is currently being reviewed, with a proposal to broaden its role to cover compliance across the NAV, developer services and other developing markets.

Summary

The development of effective markets is central to meeting the challenges we face. In this response we hope to have demonstrated that our Board provides effective engagement and support on this matter. We recognise, however, that our approach could benefit through greater consistency across all markets, hence our plans to transform the non-household retail committee into a wider markets committee. As our approach to markets continues to mature, we know that our Board engagement and support mechanisms must continue to develop as well.