

This is the Yorkshire Forum for Water Customers

PR24 Draft Determination Response Statement





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Introduction

The Yorkshire Forum for Water Customers (Forum), under the guidance of its Independent Chair, Andrea Cook OBE, until she passed away in June, has continued to support and challenge Yorkshire Water in the further development of its business plan since we submitted our PR24 statement ([yfwc-pr24-statement.pdf](#) ([yorkshirewater.com](#))). The Forum's role is to:

- represent Yorkshire Water's customers interests as evidenced through market research undertaken by the company, the independent Consumer Council for Water (CCW) and the water industry more generally.

To do this effectively the Forum seeks to understand the challenges Yorkshire Water faces when providing services within the economic framework and regulations set by Ofwat, the water industry regulator, alongside other bodies such as the Drinking Water Inspectorate (DWI), the Environment Agency (EA) and Defra.

The Forum has access to and influence over the Company's customer research from gestation through execution, as well as to its senior staff and managers responsible for both operations and investment programmes and their delivery. We seek to act as a champion of Yorkshire Water's customers as well as a critical and independent friend to the Company.

The Forum is not able to provide full assurance about the content of the draft PR24 business plan, particularly the environmental programme, for a number of reasons including the Company's inability to support the previous Forum sub-committees following the Competition and Markets Authority (CMA) review of the PR19 determination. We are pleased to say the Company has re-established both the Environment and Affordability & Vulnerability sub-committees, albeit only this calendar year, and we have had some opportunity to undertake deeper dives into the further development of the Company's revised business plan and its response to Ofwat's draft determination.

Overview

Yorkshire Forum for Water Customers, as Yorkshire Water (YW), appreciate Ofwat's challenge to the Company and recognise that Ofwat has an extremely difficult balance to strike in its determination decisions between plan extent and the impact on customer bills at a time of financial stringency. However, we are concerned that the focus has been too much on keeping customer bills lower in the short term, at the expense of future generations, long-term resilience and customer service, despite the research evidence of a high level of customer support for what YW proposed in its draft business plan (despite the large bill increases). There is also the need to improve asset health measures to tackle climate change, to continue to improve Yorkshire's beaches, and to undertake the necessary investigatory work for future price reviews including installing better monitoring of waste water treatment works (WWTP) discharges and Greenhouse Gas (GHG) emissions.

We also have an overall concern about risk and deliverability, balanced with the challenge of performance over the last 5 years, and whilst being extremely concerned at YW's poor performance in some areas, consider that this is in part due to historical under-investment as a result of past determinations which limited investment. We do not see that then setting some extremely stretching PCs in some of the poor performance areas at the same time as so tightly restricting the catch-up investment is a sensible or realistic approach for customers, and would ask Ofwat to consider the balance they've struck further in the areas we identify below.

Our concern is both that high penalties imperil the overall financeability of the plan by raising levels of risk, but also that some are disproportionately targeted at areas which customers have told us are of lesser importance. We risk a perverse situation, where the Company focuses on reducing their penalties at the risk of performance in other areas which customers value more highly.

Detailed comments

1. CAC: Mains repair

This issue is important for YW's customers - YW recently tested this specific Cost Adjustment Claim (CAC) with customers including its bill impact up to 2050 - 82% of customers supported it on the basis that it was seen as proactive activity which would strengthen resilience longer term and minimise water loss and disruption overall. Resilience sits within customers' no. 1 priority – providing reliable safe drinking water, anything which enhances this is important.

We have challenged the Company on its proposed response to Ofwat's Draft Determination (DD) cost efficiency challenge and use of actual AMP7 outturn costs by partners, which YW says gives them what they considered to be an efficient unit rate. They say that when compared to other companies, based on the data supplied by Ofwat, YW is in the middle of the pack. They note that AMP8 rates could go higher due to the saturation of renewal work across the UK and a finite resource able to deliver this. Hence YW's approach to efficiency has been to modify the way they deliver renewal schemes in AMP8. They intend to drive economies of scale through promoting longer lengths of renewal in discreet areas (whilst trying to maintain their investment in the highest risk assets). Renewal of longer lengths in discreet areas, known as YW's 'sub-DMA' approach will drive efficiencies through lower site set-up costs. They have made a 2 year programme of work visible to their partners in order for them to be able to plan better and in the expectation that a more visible longer term plan of work will enable resource planning to be more effective and the batching of work into areas will drive cost efficiency e.g. working proactively with local councils could provide further efficiencies as programmes of work can be agreed by area, rather than having an 'ad hoc' approach like they have in AMP7.

YW say they have also included an annual frontier shift efficiency improvement of 0.7% per year which applies on top, across the overall plan. This reflects the ability of even the most efficient firms in the sector to increase their efficiency over time, producing more output for a given volume of inputs.

Whilst we are not technically competent to judge this massive gap against the draft determination, it puts a question on the latter's credibility in our minds.

The Forum supports YW's argument to include APR24 in Ofwat's Final Determination models (using APR24 data in the models increases cost allowances for the industry - the models are backwards looking and as we understand that all companies have overspent this period it would help reflect the actual costs the Company needs). YW tested this CAC in isolation with customers. 76% supported the claim on the basis that they understand investments must be made into water company infrastructure and leaving this any longer poses more risk and potentially higher future costs. We note the Company's more recent March 2024 qualitative research showed increasing customer support for tackling leakage since the business case submission.

We share the Company's concern that the base funding allowed by Ofwat for the water network plus price control will be insufficient to enable YW to make the long-term investment needed to maintain the health and performance of critical long-life assets and that a step change in investment in this AMP is the fairest way to address this risk for current and future customers. YW say that if they cannot make this strategic change, the reactive cost to maintain service and compliance will continue to grow, creating further pressure on base funding and starving other areas of required investment. Further, that customer service would inevitably decline over time as a result and the costs of rectification may increase significantly. The Forum has long standing concerns on this issue and are mindful of the recent significant incident around the mains burst in Goole and the major negative impacts it had on local customers and businesses, albeit not helped by the Company's very poor response to the burst. Hence, our key message is that it is essential to get the balance right here which needs a significant investment now, and not increasing burdening future generations, as YW's customers have recognised in the market research.

We also note that regarding the Company's revised Chellow case, 78% of customers found YW's original business plan to be acceptable including this specific 'optional' enhancement investment mentioned as part of the wider plan. This was despite the additional impact on bills. Support was granted by customers because the investment was seen as increasing resilience of the network and securing an additional supply of water for up to 135,000 customers in the Bradford area at risk of an outage.

2. Net Zero / WW Operational GHG

We strongly support the Company resubmitting its case for Net Zero given customers encouraged the Company to place this 'optional investment' within the original submitted plan by supporting it in initial testing. This was reinforced by the 78% who found the original plan to be acceptable including this specific enhancement investment which was highlighted as part of the wider plan in Ofwat's prescribed Affordability & Acceptability Testing. Wider research tells us that YW's customers expect the Company to drive this forward with lessening the impact on the climate being the main driver. Alongside this, the Yorkshire Leaders Board's letter of support for YW's October business plan specifically mentioned the Net Zero programme as important to their endorsement. We strongly oppose the removal of this by Ofwat.

We see it as beneficial for Ofwat to amend their position on this, as YW's intention was aligned to other companies with successful enhancement cases and for selected methane projects (which is an especially powerful driver of climate change), arguing that this would not be removed by IED and would not be commercially beneficial. We also encourage Ofwat to reconsider setting a base target of 2.5% pa reduction in GHG emissions when achievement of the statutory 2050 net zero target, and the intermediate targets of a 57% reduction compared to

1990 levels by 2030, require more rapid progress (leave aside the higher ambition of limiting climate change to 1.5 degrees as set in the Paris agreement). This is even more important when many of the proposed business plan investments involve high embodied carbon in new facilities and additional carbon effects operationally - as they have in the current AMP, which is reflected in the higher base starting position.

Furthermore, the Company challenges that Ofwat has cut out the monies for installing methane emission monitoring. Even if Ofwat is unwilling to set a more ambitious reduction target, we would ask that the methane monitoring investment is approved to allow early identification of problems and any urgent action, and to inform the future AMP9 programme.

Customers place the onus on companies to reduce operational greenhouse gases. They expect companies to not drop the ball on this while the world is distracted with crisis after crisis – climate change is beginning to feel very real at home and more obvious across the world. Whilst a lower priority, YW customers still supported the inclusion of the ‘optional’ Net Zero investment in YW’s plan. This demonstrates commitment to foot some of the bill with regards to helping YW to reduce its emissions and achieve its, and the country’s, Net Zero ambitions. We do not support the Company having its targets reduced, but to allow them to deliver them requires Ofwat allowing the Company’s additional investment.

3. CAC: Combined sewers

The Forum is supportive of YW’s points about the significance of Yorkshire’s higher numbers of combined sewers given customer research undertaken more recently found that 78% of YW customers supported the inclusion of this CAC within YW’s plan. It is seen by customers as an important thing to do and good value for money, especially when presented with the bill impact. In fact, customers mentioned they would pay more than what was presented to further tackle this challenge.

4. Storm overflows (SOs)

We understand that Ofwat needs to ensure companies make progress towards meeting storm overflow spill reduction targets, while also prioritising those that impact on environmentally sensitive areas.

However, we are concerned that this is impacting on the Company’s plans to improve coastal discharges pushing them into the next AMP, and right up against the 2035 statutory deadline. Pollution of Yorkshire coastal waters and beaches is a matter of considerable regional public concern with potential implications for the economically important local tourist industry. Given the number of locations to be tackled and the generally much higher costs of measures for compliance also brings attendant risks. We further note that inland and coastal pollution were the new Secretary of State’s No. 1 of his 5 top priorities for the environment (1st August).

YW’s previous customer research evidence shows that storm overflows are one of YW’s customers’ top priorities (Qa Research, Valuing Water, Apr 2022). More recent

research undertaken by YW on Cost Adjustment Claims (CACs) and Enhancement Cases (ECs) showed high levels of support for the storm overflows EC specifically (90% of household customers & 100% of future customers support this investment). However, in latest customer research testing (Acceptability & Affordability Testing of the plan at representation), seen days before submitting their representation, we learned that customers supported YW's wider river water improvement focus but they also supported further additional 'optional' enhancement to coastal overflow spend over and above the cost of the plan at representation and bringing this forward into AMP8. The Yorkshire Leaders Board letter of support for YW's October business plan specifically mentioned the coastal overflow programme as a rationale for their endorsement of YW's plan. Both current and future customers would prefer to start now and spread the cost across AMPs rather than push the costs to future AMPs.

We note the Company's plan to switch investment to inland storm overflows and achieving the no more than 20 incidents a year target but note Yorkshire Water's proposed program heavily backloads this. We challenged YW on this backloading issue, and whether the supply chain can manage this without overheating costs, through the Forum's Environment sub-committee. We were given assurances that YW had had extensive discussions with the supply chain and were confident of delivering the full program, and economically, in AMP8.

We are aware that the Company is looking to see if alternate funding is possible, which we commend, but also to potentially developing a case to Ofwat to address coastal bathing waters ahead of the WINEP plan through AMP9 transition funding. We urge Ofwat to support the sentiments of the majority of Yorkshire Water customers, as evidenced in the latest customer research (52% in favour of paying a little extra to fund coastal overflows on top of the bill presented in the representation, and a further 23% 'don't mind' supporting the funding, only 20% are against it, plus 6% who 'don't know') in supporting the Company's proposal to still invest in improving coastal bathing waters, even if this is secured through additional funding routes.

5. WW Investigations

We share the Company's concerns about Ofwat's substantial rate reductions for complex investigations and proposing an April 2027 absolute completion date. The evidence the Company have supplied us with regarding their work with the Environment Agency (EA) on the Environment Act INV4 guidance alongside UU and Severn Trent, and the evidence from their supply chain supports increased rates compared to the framework rates used in the business plan. This is due to market rate inflation, driven by the demand for modelling resource on the back on the Environment Act. RPS are requesting approx. 30%, Atkins 51% and m2 84% on the prices submitted in the business plan. Therefore, the Company considers a reduction on the costs rate would be unachievable. A compressed timetable reinforces the supply chain problem.

Although not directly tested with customers, "investigations" were included in both YW's storm overflow and WINEP enhancement cases (ECs) presented to customers in recent YW research. 90% of YW customers support the activity outlined in the Storm Overflow EC and 88% support the activity outlined in the WINEP EC. This is because customers understand that if they want an improved environment, it needs investigations and investment. We would like to see the previous allowance for installing better monitoring of WWTP discharges reinstated so a clear picture of what needs to be done urgently or in AMP9 is obtained.

6. Living with Water (LWW)

The Living with Water scheme in Hull, is part of the vitally important cross-agency plan to improve the flood protection for a substantial part of the city after the devastating 2007 flood event there that saw over 7k residential properties alone flooded. We are therefore very disappointed that funding for this long term project has been cut significantly.

This scheme has strong support across the region from both the Yorkshire Leaders Board and the public. Customers supported the inclusion of this 'optional investment' within the plan by endorsing it in initial testing, and in Ofwat's Affordability & Acceptability Testing of the original plan 78% found YW's plan to be acceptable including this specific enhancement investment highlighted as part of the wider plan. Furthermore, when tested in the context of YW's Long Term Delivery Strategy (LTDS), 92% of customers supported the inclusion of LWW in YW's core pathway for an entire 25 years. Delivering the LWW scheme is also a crucial test of YW's and the regulator's commitment to partnership working.

The Forum has taken a deep dive look at the reasons for the delays to the AMP7 LWW commitment and cost variations through its Environment sub-committee and appreciate that YW has had to amend its original proposals to find a publicly acceptable means of delivering parts of its sustainable drainage scheme proposals in dense terraced areas, albeit at extra cost. We support the flexibility of approach the Company has shown to delivering the scheme's objectives while listening to the feedback of residents. We are satisfied by their assurances that the AMP7 commitments will be fully achieved albeit beyond the end of AMP7. We also challenged the Company's AMP8 proposals in the light of Ofwat's rejection and are satisfied that they do not duplicate or double count, and that there is an added cumulative benefit from the separate measures in the two AMPs and beyond that is required to deliver the overall LWW plan.

7. Industrial Emissions Directive (IED)

We note that Ofwat has assessed each WASC's IED allowance but allocated only £13m of £72m modelled costs to YW on the grounds that YW were already compensated via the CMA cost share mechanism in PR19. We further understand that the cost share only recovers 75% of costs for YW, whereas other WASCs who

deferred their schemes from PR19 to PR24 are receiving 100% of their IED costs. We do not understand why Yorkshire Water should be penalised in this way.

8. Land Bank & other TOTEX Risks

We share the Company's concerns about other uncertainties from external decision impacts in the next AMP. These include the notified item for bioresources which the Company considers does not adequately protect against land bank risk for non-statutory reasons, and materiality at an appointee level (IDoK threshold) means it is unlikely to be triggered. We would support the Company's argument for having stronger protection against loss of land bank for sludge. Lane rentals is another area where there is an additional cost uncertainty and a protection mechanism would be appropriate.

9. Internal Sewer Flooding (ISF) Penalties

Resolving internal flooding from sewers has consistently been one of the customer's top priorities. The Forum are very disappointed by YW's current performance on preventing sewer flooding and want to see a marked improvement.

Yorkshire has more cellared properties than other regions and therefore common targets are incredibly challenging and expensive to achieve.

Quantitative research undertaken by the Company in May 2024 shows that 77% of customers are supportive of the proposal being made to Ofwat to adjust targets for internal and external sewer flooding to be company specific. Support is higher in younger age groups. Those who are supportive considered a more tailored approach to targeting is fairer. 67% say Ofwat should be willing to adjust common PC targets if this is supported by strong assuring evidence, with a further 20% unsure. 62% feel it would be fair for Ofwat to adjust the targets based on the process that has been followed. We further note the minority of non-supporters of a tailored approach are concerned about YW evading doing the right thing. We are concerned however that the research did not lay out the implications in terms of how long it will take to eliminate the ISF problem in Yorkshire at the Company's proposed rates. We continue to be of the view that still having 291 properties liable to internally sewer flooding in 2050 is not acceptable. The Forum therefore strongly supports Ofwat setting an ambitious improvement target but recognising the different regional property position and the high costs of addressing this issue.

10. C-MeX

On the whole, the Forum has mainly taken the approach of not challenging areas of potential penalty applied to Yorkshire Water, as we do not believe it is in the interest of the customer. On C-MeX however we have decided to raise concerns. Firstly, we would keenly support measures to improve levels of customer satisfaction at Yorkshire Water, in particular around complaint handling.

1. Yorkshire Water has a concerning number of complaints – the third highest in the industry (102.81 per 10,000 connections) – CCW Household Complaint Report 2023
2. We note the excoriating report by CCW, endorsed by Ofwat, regarding Yorkshire Water’s performance in their response to the 2023 Goole supply interruption – CCW Research into incident response Yorkshire Water supply problems in Goole (April 2024)
3. Although having improved in the last reports, we note that historically the measure of complaint handling has also been variable in annual CCW Household Complaint Reports

Where we take issue, is that we do not believe that the Company would be incentivised to focus on these critical areas of development, and might instead focus on areas that research has shown is of marginal importance to customers.

By coupling C-MeX to UKCSI and introducing a disproportionate performance penalty, the Forum is concerned that this could result in the Company chasing arbitrary macro satisfaction numbers to reduce their exposure, rather than solving more complex issues which has resulted in mixed reports on complaint handling.

“Good customer service” is rated the customer’s lowest priority by both Ofwat (Ofwat Preferences Research April 2022) and Yorkshire Water research (Qa Research, Valuing Water Customer Priorities Research Final Report August 2022).

11. Social Tariff

The Forum strongly supports increasing the level of support given to customers struggling to afford their bills.

The Yorkshire Forum for Water Customers has challenged YW throughout the last AMP, and also through the original research completed before submitting their business plan. In our opinion, it represented low ambition, of trying to support 3% of customers, and came off the back of similarly low support in AMP7 of 2%. This is far behind the rest of the industry, and represented an interpretation of customers’ willingness to pay that our Forum expertise did not recognise as indicative of our region.

We were pleased with YW’s openness and proactiveness in solving issues with their original research, and with their robust re-run of the research. The new figure of 7% puts the Company far closer to industry average. The new willingness to pay moving to £55m from £30m represents a figure that seems far more equitable and realistic – particularly given the heightened pressures on households both through inflationary pressures, and by dramatically rising water bills.

It is concerning sign of the pressures households are currently under, that in YW’s latest Affordability and Acceptability testing of Yorkshire Water’s plan at

representation only 25% - 41% of the panel believe that it will not be difficult to afford water bills in the next price period. There has never been a more important time for proportional and well targeted support for those struggling the most.

We have been well informed during the planning for the Company's renewal of social tariffs, and have been pleased with the levels of information, access and influence we've had throughout the planning process. We believe the measures which Yorkshire Water are drafting represent a critical level of support for customers who will be facing significantly larger water bills alongside the ongoing fundamental challenges to household budgets.

12. Mains Repair Penalties

The Forum is very concerned at YW's poor performance in this area, but equally we do not see that then setting an extremely stretching PC at the same time as so tightly restricting the catch-up investment is a sensible or realistic approach to solving historic under-investment in this area. As we have indicated in past submissions, we consider that this problem is in part due to Ofwat's past determinations squeezing investment down, and as we covered earlier the massive reduction in YW's ask on mains CAC will compound the problem.

YW recently undertook research obtaining customers views on this as mentioned earlier in the paper - 82% of household of customers are supportive of the funding for mains repair/replacement to ensure higher levels of repair/replacement (0.66%pa) above what YW have historically done. This work is believed to increase resilience and improve reliability of supply – YW's customers' no. 1 priority.

We note the Company comment that the low unit rate presents a significant efficiency challenge to deliver a mains CAC of 0.66% pa. As touched on in section 1 above, YW's evidence-based approach using AMP7 actual costs and a new approach to achieve programme efficiency, and for frontier challenge appears robust. We are sympathetic to the Company's ask that the unit rate (£ per metre) for mains renewal needs to be increased. We also are sympathetic to their view that the requirement to only replace condition grade 4 & 5 reduces their ability to drive efficiency in delivery, and ask Ofwat to consider modifying this to allow flexibility where clearly justified in VFM whole-life costing terms.

13. Per Capita Consumption

The Forum share the Company's concerns that the Ofwat targets don't match the WRMP19 & 24 plans. The 2024 plan is supported by customers with the LTDS core pathway supported by customers (97%) and 84% supportive of the metering aspect.

The early results from YW's latest WRMP customer research shows overwhelming support for the WRMP itself (81% support, 93% including neutrals). In terms of the

Company's PCC target, 62% additionally agree that it is achievable and 64% agree that the target is ambitious.

14. Funding and Bills

The Forum agrees with the Company in supporting Ofwat's indexation True-ups but asking Ofwat to widen its coverage to chemicals and other materials and water industry specific costs where appropriate. We also agree with the Company's ask that True-ups should be applied as soon as possible after the uncertainty occurs to protect cash flow, and to avoid significant end-of-period adjustments that could lead to bill pressures at PR29, which are already likely to be substantial due to further WINEP, storm drainage investment and bill increase pressures as it is. We understand YW's customers would prefer to spread the cost of investment across current and future generations rather than pushing investment to the future.

We also welcome Ofwat's introduction of a storm overflow risk mechanism and endorse the Company's suggestion it be extended to new investigative obligations.

We also support Ofwat's ask of the Company to reduce its gearing further to reduce the debt financing burden element of customers' bills and the vulnerability of the Company and its services to customers to financial system shocks, as we did at PR19.

We also note customers' concerns about the Company's senior executive remuneration, bonuses and shareholder returns at a time when the Company's performance in key areas is under criticism. We welcome the Government and Ofwat taking steps to address the former. Customers and the Forum would look to shareholders making a greater contribution to rectifying the areas of poor performance so the cost does not entirely fall on customers.

Conclusion

Regardless of the level of investment authorised after Ofwat's Final Determination, the plan will represent a significant step-change of investment into our water infrastructure in Yorkshire.

We welcome efforts to challenge the Company, and hold performance to account; particularly in areas such as internal sewer flooding which for some years now has been unsatisfactory.

The new investment into the WINEP programme, and in particular to storm overflows, is driving unprecedented bill increases that many customers will struggle to afford. YW customers have shown through both the original plan research, and against this draft determination research, support for an ambitious investment programme and consequently higher bills to address challenges round SOs, internal sewer flooding and to avoid unfair burdens on future generations. We would ask that Ofwat's Final Determination properly recognises this, at the same time increasing the protection and support for vulnerable, and the most financially challenged, customers.

This must be a joint endeavour. If customers are being asked to dig deeper, the Company must too. Although a relatively small amount compared against a large five-year investment programme, we endorse Ofwat's call for greater transparency regarding executive remuneration. Targets to achieve bonuses must be clearer, and customers should be able to find this information easily and endorse the targets that have been set. Continuing the theme of joint endeavour, customers expect to see much improved performance regarding pollution incidents - it is distressing to see the Environment Agency labelling performance as "well below expectations" in their latest annual appraisal of YW's work in this area.

Conversely, we are pleased that the Company has committed to a profit sharing scheme to bolster the social tariff work that Yorkshire Water will propose in their response to the Draft Determination.

The next five years bring significant challenges. Customers have accepted the need for higher bills to solve fundamental environmental problems across Yorkshire. The level of investment will be unprecedented, and although we are pleased to see this increased investment, we know that the coming years will present significant difficulty with scaling infrastructure projects, and competition against other water companies for expertise and delivery when many other regions will be seeing similar rises in investment.

We make this intervention as the Yorkshire Forum for Water Customers but wish to note that several of our members have requested to abstain from this response at the request of their attached body; Fiona Morris from the Environment Agency and Tom Keatley from Natural England. In addition, Steve Grebby from CCW will instead be part of CCW's own submission to Ofwat.