

Yorkshire Water Services – Final Business Plan

Reporter's Report to the Director General

SMC has examined the information used by Yorkshire Water in the preparation of its Draft Business Plan, the processes followed and the tables and commentary submitted to the Director General. In carrying out the review we have been supported by Ernst and Young in financial areas. The review has focused on those areas of expenditure having the largest impact on future prices.

SMC has formed the following conclusions on the final business plan:

Customer preference and investment priorities: we have reviewed YWS' approach to researching customer preferences and believe that the methodology is sophisticated and that its implementation has been undertaken with considerable care. We believe that the results take genuine account of YWS' customers' views.

Maintenance of existing assets: Yorkshire Water has implemented LEADA – their new system for prioritising maintenance work based on risk. Through their LEADA methodology the Company has produced quantitative outputs that are sufficiently detailed to be used in the development of a true cost benefit approach to planning. We consider this an important development and that LEADA can be viewed as achieving the ideal of integrating customer benefits with most elements of the Company's plan. It will be important to be able to prioritise and track changes in risks. We have reviewed it and are able to endorse the new system

Enhanced standards: Yorkshire Water has estimated the cost of meeting enhanced standards in the company preferred plan and Ofwat's two reference plans. The schemes proposed address anticipated quality obligations and reduce the number of incidents of "area flooding" and property flooding from sewers. We have reviewed this information and in our opinion they have applied the cost information consistently to their proposed schemes.

Overall costs and efficiencies: the company has set itself efficiency targets, which appear to be challenging, to maintain its position as an efficient company in the UK water industry.

Overall quality of the plan

We consider YWS has produced a comprehensive and balanced draft business plan submission.

We have received comprehensive responses to the challenges we have made during the production of the plan and issues have for the most part been resolved to our satisfaction – a small number of minor issues are shown in our Part B summaries in this Overview. We have challenged the Company extensively throughout the production of the plan both in terms of the overall strategy and approach, and in follow-up to establish consistency at a more detailed level. So far as we are able to establish from our review YWS has maintained a consistent and methodical approach which, we believe, delivers a robust and well balanced plan.

We have concluded that YWS has sought to adopt a balanced approach to regulation and succeeded in delivering a plan which Ofwat might consider accepting in its entirety. The strategy and figures presented in the public domain document are consistent with the other parts of the business plan.

Our report is for the attention of the Director General of Water Services and the directors of Yorkshire Water Services Limited only. It is private and confidential, however we agree that copies of this summary may be placed in the public domain in accordance with the requirements of the Director General. Unless stated otherwise, all matters and issues referred to in our report arise from our work on the Business Plan for the Periodic Review 2004. Our report should not be used or relied upon for any other purpose or by any third party.

