



YorkshireWater

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By email

22 May 2013

Dear Stephen,

Setting Price Controls for 2015-20 – Business Planning Consultation

Thank you for the opportunity to respond to the above consultation. Yorkshire Water supports the direction and intent of the proposals for setting controls for the next regulatory period and is keen to ensure that our business plan is a high quality plan which meets the needs of our customers, regulators and stakeholders.

Our vision is 'Taking responsibility for the water environment for good'. The successful implementation of our vision in both the short and longer term relies on the balance of our Business Plans for the benefit for all. The Price Review process and the reforms present us with the opportunity to achieve this, and our response is made in the context of ensuring we deliver the best possible plan for 2015-20.

We welcome the publication of this consultation as it gives us further clarity on the process for agreement of business plans to allow price setting for the next five year period.

We commend Ofwat's proposals to address the recommendations of the Gray Review, particularly in the return of ownership of business plans to companies, by making company boards visibly accountable for their plans. In respect of the outcomes for the Price review, we would endorse further application of Gray's recommendation for Ofwat to continue to be more transparent in its decision making, and in particular the need for companies to be able to predict Ofwat's decisions with a reasonable degree of confidence. For instance, as Ofwat develops its detailed methodologies and assessment methods for the risk based review and for totex assessment models, it would be advantageous for companies to be engaged with and informed of the outcomes and processes.

We are committed to ensuring that the price review process goes smoothly and is successful for customers, the industry and regulators as a whole. In the light of this we have reprogrammed our activities and are now driving for a submission to Ofwat on 2 December 2013 as outlined in this consultation. We draw your attention to our previous suggestions that, to ensure a successful process, it is imperative to develop a transparent and open plan, with planned and frequent engagement between ourselves throughout 2013 and 2014. We consider that this becomes more necessary in the light of the proposals to implement incentives based on assessment of high quality plan submissions. We agree that companies should be encouraged to develop their best plans which contain accurate and efficient projections, as Yorkshire Water has done at PR04 and PR09, and we would hope that companies would not be penalised as a result of the programme challenge presented by regulatory reforms.

We welcome the clarity provided in regard to treatment of the company plans as four distinct business plans (elements). We have considered and accept the proposals to give companies an overall assessment for their plan as a whole, and we absolutely support derivation of plans which focus on customers' and society's needs and wants. We note that the proposals give equal weighting to each element of the plan. We would suggest however that weighting is considered in terms of the assessment of plans to the size of the customer bill, the complexity of the plan and the depth of the risk and return assessment required of the wholesale elements of the plan.

In summary we consider that the arrangements set out in the consultation are helpful, reasonable and provide companies with sufficient clarity to progress assembly of business plans during 2013.

We look forward to working closely with Ofwat over the coming months.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Liz Barber". The signature is fluid and cursive, with the first name "Liz" written in a smaller, more compact script than the last name "Barber".

Liz Barber

Director of Finance and Regulation

Yorkshire Water's response to Ofwat's Business Planning Expectations Consultation questions

An incentives-based price review process

Q1 Do you agree with our definition of a high-quality business plan? Is anything missing? Is there anything you think we should change?

Yes we agree.

Q2 Do you agree that our preferred package of reputational, procedural and financial incentives will incentivise high-quality business plans? If not, what do you think we should add to the package, or change?

We agree that the package will incentivise high-quality business plans. In particular, we agree that the reputational incentive will drive focus on provision of high quality plans. However we have comments in regard to the incentivisation by use of classification.

The financial incentive should drive this objective in principle. However, without information concerning the quantum of the reward, and in the absence of indicators about the boundary between standard and enhanced assessments, we note that companies can only, and will, make their best plan, and cannot specifically be incentivised to drive for an enhanced plan status.

It is uncertain whether the procedural incentive will incentivise companies to drive for enhanced status as there is an element of risk associated with missing out the steps defined for standard companies in 2014; missing sight of the menu and or baselines and the ability to make a choice before determination could be disadvantageous. To address this uncertainty Ofwat could make guarantees that companies will not be disadvantaged by procedural arrangements, (in a similar way to Ofgem's approach to fast-tracking for RIIO).

Q3 Which of the options (elements earn procedural and financial rewards; two-category approach; two-process approach for retail; later decisions on resubmissions) do you think we should use, if any? Why?

To address the imbalance between the weighting of the elements, it may be appropriate to consider elements carrying the specific rewards, rather than the company plan as a whole. We consider that this is possible for the reputational and financial incentives, but is unlikely to be possible for a procedural incentive, due to the overall plan balance.

Q4 Do you think that our proposals will be effective in meeting our objective of handing back ownership of the business plans to company Boards?

Yorkshire Water is proud to have owned its business plan and submitted high quality plans in the previous AMPs. We agree that the change of emphasis in the proposals reinforces the responsibility resting with our Board as we plan our next five years of operations in the context of providing long term resilient and sustainable water and sewerage services to our customers.

The risk-based review in detail

Q5 Do you agree with the four high-level groups of tests (outcomes, costs, risk and reward, affordability and financeability) are the right ones? If not, what do you think we should add or remove?

We agree that the high level tests will give Ofwat a reasonable means to review the business plans against the stated definition of a high quality plan.

With regard to cost assessment, we recognise the challenge of the initial design and implementation of totex models for the industry, and understand Ofwat's decision not to share these models in advance. However we propose that Ofwat should be considerate of the companies' blindness to the model construction when seeking to understand differences between proposals and modelled ranges. Companies should not be penalised for omission of information required to allow fair comparison with modelled data.

Q6 Do you think we have set out the right tests in each group? If not, what do you think we should add or remove?

We have comments on tests for costs.

For wholesale costs:

We consider that the process would be enhanced by a further, or explicit, comparison with Ofwat's historic cost and efficiency assessments; i.e. the capex and opex efficiency bandings and performance against CIS.

For retail costs

As we explained in our response to the Framework and Approach Consultation, we agree with the principle of average cost comparison (ACTS), but are strongly of the view that the use of unique customer numbers produces an erroneous result. In our response commentary we illustrated the issue and proposed an alternative approach, which we believe to be more representative. We would welcome the opportunity to explain and explore this matter further.

We do not consider that there should be adjustments to the industry ACTS beyond a formalised process for adjustments for meter penetration. This negates the requirement for the company to provide evidence for adjustments particular to individual companies.

Q7 Do you think our proposals for business plan assurance will be effective in meeting our objective of handing back ownership of business plans to company Boards?

Please refer to our response to Q4, above.

Delivering focused information requirements

Q8 Our objective in specifying the data tables (and the August submission) is to ask for all of the information we need, but no more than we need. Do you think that we have achieved this? Is there any information that you think we might not need? Is there any information that you think we will need but we have not included in the data tables?

The tables, as provided, only give line titles. In many cases we can infer what this relates to, however, in the absence of line and cell definitions, we are unable to be clear on the requirements of many lines (especially ones marked NEW). Therefore, this response is based on our current understanding of the table requirements, which may be wrong.

We are sending our queries and omission notes directly to business.plantables@ofwat as we find them.

The main omission noted thus far is that there are no lines for Sewerage serviceability (Water serviceability is specified in August T2 L17-18 and December W4 L17-18). We would expect to see four lines for this: infra and non infra for the pre-private sewers transfer network, and the same for the newly transferred network. This is consistent with agreement made at the Private Sewers Transfer working group (Mark Worsfold), that

the newly adopted sewer network should have its serviceability assessed separately until companies consider it is in line with the original network's serviceability.

We also wonder whether Ofwat requires Average pumping head (August T2 L1 and December W2 L1), as we do not use this information internally and we believe other companies also do not use this information in business operations.

Q9 We aim to collect data on a consistent basis from all companies. Are the data tables clear and well specified? Are there any areas where we need to look again at the way we have asked for the data to remove any ambiguities in the request?

Please note our comments in Q8 regarding the need for line and cell definitions. We will be able to answer this question when definitions are published. We urge Ofwat to publish definitions as soon as possible so that companies can be sure of their activities in 2013.

We suggest that Ofwat employs the well established June Return processes to ensure that companies have fair access to responses and queries on the lines and cells, and to avoid duplication of requests to Ofwat. Additionally this process will help define any necessary revisions to definitions as time progresses.

Application to small companies

We consider that Ofwat should establish controls and incentives for small companies which ensure that their customers have similar levels of protection and similar access to information when compared to customers of larger companies. This is to ensure that they can understand and compare the performance of their companies.

Ofwat should consider whether the application of different controls and incentives for small companies may present a barrier to future growth of small companies as they reach the defined boundary between treatments.

We have not answered the specific questions relating to small companies as our response is in principle, in the spirit of level playing fields for companies and customers.