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Our reference  
Your reference

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Dear Sir or Mdam,

**'Revenue forecasting incentive mechanism for AMP6' consultation**

**A response from Yorkshire Water**

Thank you for the opportunity to provide our comments in response to this consultation. We have answered the questions posed in the consultation and provide them in attachment to this letter.

Yours sincerely,

Adrian Kennedy

Head of Regulation  
Yorkshire Water

## **Responses to specific questions**

### **Q1. Do you agree with the need for a revenue forecasting incentive in AMP6?**

We are unconvinced that there is a need for a revenue forecasting incentive. The future revenue control regime is fundamentally different to the past and the level of variance is therefore untested and un-quantified.

However, neither are we opposed to the introduction of a modest forecasting incentive as long as it is not mechanistically applied. We strongly believe mitigating and exceptional factor should be taken into account e.g. extreme weather, macro economic conditions and price deferrals are taken into account.

### **Q2 Do you have any comments on our proposed approach to the wholesale revenue forecasting incentive mechanism (WRFIM)?**

No

### **Q3 Do you agree with a revenue flexibility threshold of +2%/-2% of adjusted allowed revenue for the wholesale water and wastewater controls? Please provide supporting evidence and analysis should you wish to propose a different level of flexibility.**

The threshold you propose seems a sensible limit for forecasting inaccuracy. However we reiterate that this should not be a mechanistic application.

### **Q4 Do you agree with a penalty rate of 3%? Please provide supporting evidence and analysis should you wish to propose a different penalty rate.**

We agree that the 3% threshold is a sensible penalty rate

### **Q5 Do you agree with the use of a separate revenue forecasting incentive mechanism in**

**the retail control? If so, do you agree with the use of an equivalent mechanism as in the wholesale control, with the same parameters?**

No, the amounts are negligible compared to the regulatory burden required.

**Q6 Do you agree with the proposed cap and collar mechanism as a trigger to further investigation to provide additional safeguards to customers?**

We do not have any major disagreements to this proposal.

**Q7 Do you agree we could additionally use the WRFIM to incentivise accurate projections of**

**revenues for 2014-15 in our final determinations?**

No we do not agree. Application to revenue projections for 2014-15 equates to a retrospective change in the regulatory framework which is contrary to our view of better regulation. Further the WRFIM is intended to deal with variances under the new revenue control framework which is not applicable until 2015-16 on.

We agree that a correction for 2014-15 should take place as per the interactive process but that application of a penalty, if appropriate, should be for 2015-16 onwards only.

**Q8 Do you have any comments in relation to the details and mechanics of the iteration process?**

Under the proviso that there is not a significant additional information requirement to administer the mechanism (subject to significant variances) we are in broad agreement the proposed iteration process.