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Dear Giles Stevens

Consultation on the PR14 reconciliation rulebook

Yorkshire Water welcomes the opportunity to respond to Ofwat's consultation on the PR14 reconciliation rulebook.

We also commend Ofwat's decision to clarify the PR14 reconciliation process at this early stage of the current regulatory period and to support this with the publication of accompanying spreadsheets.

We support the principles and basis on which Ofwat has set out the assessment framework used in reaching its conclusions. Generally we agree with the majority of the approaches proposed by Ofwat to those issues covered in the consultation and supporting documentation.

In a few instances we propose alternative approaches. These have been appended to this letter. The table below follows the structure of the summary table (2) contained in the consultation document (p6-7). Additionally we have included specific comments with regard to some areas and these can also be found appended to this letter.

There is one area, however, that we make special comment on and that is CIS indexation for the period 2010-15 as determined at PR14. Ofwat has followed good process overall and in doing so has arrived at the right balance and outcome for all stakeholders. Yorkshire Water has itself played a role in arriving at the balanced package by making several significant concessions from our original company proposals, including voluntarily not taking K in 2014-15.

Yorkshire Water accepted the Final Determination in the round and considers that it is the right package for all stakeholders as it stands, and, do not see a need to reopen that package. In fact, there are considerable risks in re-opening the package and the precedent it sets that, ultimately, are not in the interests of customers. These points are expanded on in the body of our response to the consultation.

We trust you find this feedback useful and we look forward to working with you over the coming year.

Yours sincerely

Adrian Kennedy

Director of Regulation

Issue	YW response
Outcome Delivery Incentives	
Indexation	No further comment
Time value of money	No further comment
Taxation	No further comment
Aggregate cap and collar	No further comment
Scheme ODIs	No further comment
Asset health ODIs	No further comment
Wholesale – totex	
Definition of totex for menu sharing	No further comment
Indexation	No further comment
Allocation of totex out and under performance to revenue and RCV	No further comment
Time value of money	No further comment
Taxation	No further comment
Wholesale – WRFIM	
In period ODIs	No further comment
Taxation	No further comment
Blind year	No further comment
General	In reviewing the WRFIM approach and model there is no reference to the truing up of allowed revenue using average RPI against the billed revenue using November RPI + k. Would this be taken account of in a different model or will this be built in to the WRFIM at a later stage?
Water trading incentives	
Export incentive	We support water trading incentives to encourage the efficient use of water to deliver the objectives to reduce cost, increase resilience and reduce pressure on the environment. The development of the incentives needs to be integrated into to existing Environment Agency Regulation that seeks to address similar and overlapping objectives and in particular the Restoring Sustainable

	<p>Abstraction (RSA) programme, Water Resource Management Planning (WRMP). The Abstraction Incentive Mechanism (AIM) and abstraction licence reform also have similar objectives.</p> <p>We would welcome consideration and guidance on how such integration can be achieved so that we do not have potentially conflicting regulatory processes and that potential exports and imports undergo the same extensive cost, environmental and social assessment.</p>
PR09 reconciliation	
Indexation in the CIS RCV	<p>This is not a response on the merits of the 'correct' indexation methodology to use going forward. This response is in relation to considering the PR14 package (or any future package) in the round and a decision to explicitly revisit and revise a specific element of the PR14 package in isolation from the rest of that package.</p> <p><i>Duties of the Regulator</i> We are mindful of the duties of the regulator, in particular, the duty to protect consumers and securing the ability of companies to finance their functions. We are also mindful of Ofwat's processes both in terms providing stakeholders adequate time to make representations on issues of importance and ensuring it follows good regulatory practice.</p> <p>With these duties in mind a long standing principle of the regulatory contract is that Final Determinations are considered and proposed by the regulator as a whole package and are then accepted by the company as a whole package, subject to limited and clearly signalled re-openers.</p> <p><i>Benefits to customers</i> This principle provides clear benefits to consumers. It allows companies the certainty to plan ahead to deliver the promises it has made to its customers. Also, it gives investors the predictability and stability they require to continue to invest in the water industry for efficient and low levels of return.</p> <p>This, in turn, guarantees the efficient delivery of services and provides for low and efficient financing of the investment required; thereby leading to low customer bills and value for money.</p> <p>These benefits are important and should not be put at risk.</p> <p><i>Process</i> We consider that Ofwat followed the correct process on this particular issue. An information notice and methodology was published in 2012 and stakeholders were able to agree or challenge the approach that was being proposed with ample time for consideration before the submission of company business plans.</p> <p><i>Concessions to the overall package</i> We agree with Ofwat that the PR14 package represented a fair and balanced settlement for the coming 5 years.</p>

	<p>When we considered the PR14 package we recognised that, like other packages, not everything was to our liking. Indeed, after carefully studying the Draft Determination there were a number of areas where we were not in full agreement with Ofwat. However, we took a balanced view, limiting our representations to a small number of critical and material items relating to drinking water Measures of Success and customer bills.</p> <p>There were many other areas in the Draft Determination that we did not represent on and many other areas in the Final Determination that we accepted as part of taking PR14 in the round as these were in the interests of customers. These included:</p> <ul style="list-style-type: none"> • ODI values. • Adjustments to performance commitments. • Serviceability shortfall assessment. • Reduced mitigation of Notified item for rates. <p>In addition, Yorkshire Water made significant concessions during 2010-15 in order to keep customer bills low in response to the affordability debate. Most notably:</p> <ul style="list-style-type: none"> • The absorption of costs incurred with the adoption of private sewers. • CRC. • Foregoing a real price increase in 2014-15. <p><i>In summary</i></p> <p>We agree that there are a number of indexation methods for the CIS true-up. If changes are made to the method of indexation they should be prospective in the sense that they apply to the indexation incurred in the 2015-20 period for application to the reconciliation mechanisms to be applied at PR19.</p> <p>We believe that Ofwat followed good process and practice in reaching its Final Determinations for PR14 and fundamentally disagree with the proposal to re-open the method for calculation of the CIS adjustment that underpins PR14. This is an unnecessary retrospective change that does not treat PR14 or future reviews in the round, does not take account of the needs and views of all stakeholders and ultimately is not in the long term interest of customers.</p>
COPI	<p>We believe that none of the three options tabled are suitable.</p> <p>We feel a more suitable approach would be to leave the first three years of AMP5 closed as these were calculated using firm and published indexations. With regards to the final two years we would propose the application of inflation from the new published indexation assumption when it becomes final and published.</p> <p>This would allow the first three years of the CIS adjustment to remain at the agreed FD14 position and would allow the final two years to be assessed using published data.</p>
Blind year	No further comment

Household retail	
Reconciliation	No further comment
Time value of money	We believe the proposed approach is inconsistent with the approach taken to the time value of money in other aspects of the reconciliation rulebook. This has a cash flow impact and should be adjusted for the time value of money.
Taxation	No further comment

