



YorkshireWater

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10 August 2015

Dear Sir/Madam

PR14 reconciliation rulebook policy document – Wholesale Revenue Forecast Incentive Mechanism (WRFIM)

Yorkshire Water welcomes Ofwat’s updated position with regard to the PR14 reconciliation rulebook and the progress achieved so far in setting out the decisions made.

We also welcome the opportunity to consult further on the options presented to address the issue of the consistency between the WRFIM formula and the licence.

Please find below our views on the areas referenced in Appendix 7 of ‘The PR14 reconciliation rulebook policy document’ (23rd July 2015).

Potential drafting for a licence modification to allow the licence to be consistent with the original WRFIM formula

Recognising that the licence modification is, at this stage, for illustrative purposes only Yorkshire Water is content the current wording achieves practically what it is seeking to achieve.

Prior to any final modification to the licence Yorkshire Water would request the opportunity to review the proposed final wording of the licence modification.

Yorkshire Water support of a licence modification

In principle, subject to a review of the final wording, Yorkshire Water would support the modification of the existing licence, until the end of this price control period, to accommodate the original formula within the WRFIM.

Such an approach would provide consistency with the Final Determination and would avoid the potential for any unnecessary pressure on customer bills during the next price control.

We are however mindful of the ongoing licence modifications as part of the **Licensing and policy issues in relation to the opening of the non-household retail market** (June 2015). We would appreciate further dialogue on Ofwat’s proposed approach to handling the two proposals concurrently.

In response to the three available options described, we make the following comments:

1. Use the revised formula for all companies

Yorkshire Water would not support the blanket use of the revised WRFIM formula for all companies, primarily for those reasons already cited:

- *it would create asymmetric incentives;*
- *it would create an unnecessary additional pressure on customer bills at the next price control; and*
- *it was inconsistent with the final determinations.*¹

2. Allow companies to choose between a licence amendment (and the original WRFIM formula) or no change to the licence (and use the revised WRFIM formula)

This option would be Yorkshire Water's preferred approach.

In the event that a consensus on approach cannot be agreed across all companies this would provide the flexibility to choose whether or not to accept an amendment to the licence and apply the relevant formula during the price control period.

3. Only introduce a sector wide licence modification if all companies agree to the proposed change

In principle Yorkshire Water would support sector wide modifications to licences as this avoids the concerns raised under option 1. Furthermore, as proposed, a sector wide licence modification should have the agreement of all companies in place prior to introduction.

We trust you find this feedback useful and look forward to working with you further.

Yours sincerely



Leonie Mackenzie

Head of Regulation

¹ page 50 – The PR14 reconciliation rulebook policy document