

August 2014

**Setting price controls for 2015-20**  
**Draft price control determination notice:**  
**company-specific appendix – Yorkshire Water**



**OFWAT**

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## Overview

This appendix sets out the details of the draft determination of price controls that are specific to Yorkshire Water. Our draft determination is based on Yorkshire Water's business plan as submitted by 27 June and its responses to our subsequent queries.

The revisions that Yorkshire Water made to its business plan have many strengths. The company addressed in the main the concerns that were identified in the risk-based review around its National Environment Programme expenditure and the pressures that its business faces due to input prices. Overall the differences between the company's view of the allowed expenditure it needs and our view is closely aligned. We do however have a number of targeted concerns. These mainly relate to the decision that the company took to not pass on to customers today the benefits of the lower cost of capital. Although these benefits will still be delivered to customers over time, we are concerned that the company took this decision without adequate customer engagement. We have therefore intervened in the company's plan in this area. There are further interventions in the plan designed to safeguard customers' interests in common with other companies around outcomes and the associated delivery incentives.

It should be noted that in order for the price controls to protect the interests of consumers, we consider that – in accordance with their licence obligations – companies must act in an economic and efficient manner in all circumstances. For the avoidance of doubt, this obligation overrides any individual incentive element.

This draft determination sets out the draft allowed revenues and K factors for Yorkshire Water, along with what they mean for average customer bills. We have summarised this information in the 'draft determination at a glance section'. The draft determination also sets out:

- the outcomes we expect the company to deliver under each price control;
- the costs we are assuming the company will incur and, where appropriate, the assumptions we have made to arrive at the allowed revenue for each price control;
- the adjustments we are making to the wholesale water and wastewater price controls to reflect the company's performance in 2010-15; and
- our assumptions on risk and reward, including the uncertainty mechanisms that form part of each price control.

As part of this price review, we stated in '[Setting price controls for 2015-20 – final methodology and expectations for companies' business plans](#)' (our 'final methodology statement') that we would be setting separate price controls for wholesale and retail elements of the appointee business. We explained that these separate controls would be binding, confirmed through the modifications made to the price setting elements of companies' licence conditions.

This means that the companies cannot recover more revenue than allowed under each specific price control. The revenue allowance for each price control is determined by the costs specific to that particular price control. This means that companies cannot cross-subsidise between controls in terms of costs or revenues, which gives important benefits for providing more effective incentives. It also supports the development of the relevant markets and in particular those provided for by the Water Act 2014.

We have made this draft determination in accordance with our final methodology statement and our statutory duties. We have also had regard to relevant guidance from the UK Government, and where appropriate Welsh Government, and the principles of best regulatory practice to be transparent, accountable, proportionate, consistent and targeted.

This draft determination is structured on an element-by-element basis and is separated into:

- wholesale water;
- wholesale wastewater;
- household retail; and
- non-household retail.

In each area, we have set out the relevant information after our interventions – that is, our draft determination. In those areas in which we have intervened, we discuss the difference between our view and the company view further in the specific annexes where appropriate.

At the appointee level, this draft determination sets out our view of the company's financeability over the period 2015-20.

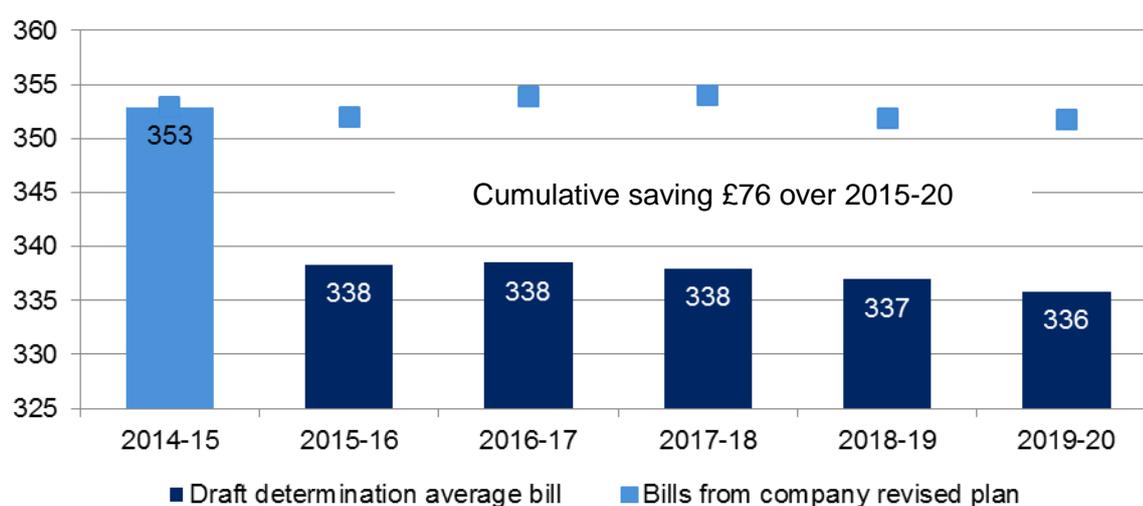
Annexes 1 to 4 form part of the draft price control determination.

## A1. Draft determination – at a glance

In this section we set out what the draft determination means:

- for customers, with respect to the average bills they will pay and the outcomes that the company will deliver in return; and
- for the company, with respect to the allowed costs/expenditure, return on regulatory equity (RoRE) range; financial ratios (under the notional structure) and the interventions we made to the company's revised plan.

### Combined average household bill (£)



**Note.** The 'bills from company revised plan' is based on the data submitted by the company in its business plan but projected using our financial model, thereby ensuring consistency with the draft determination projection. As a consequence the company's proposed bills illustrated above may not necessarily be the same as those described in the revised business plan.

### Outcomes

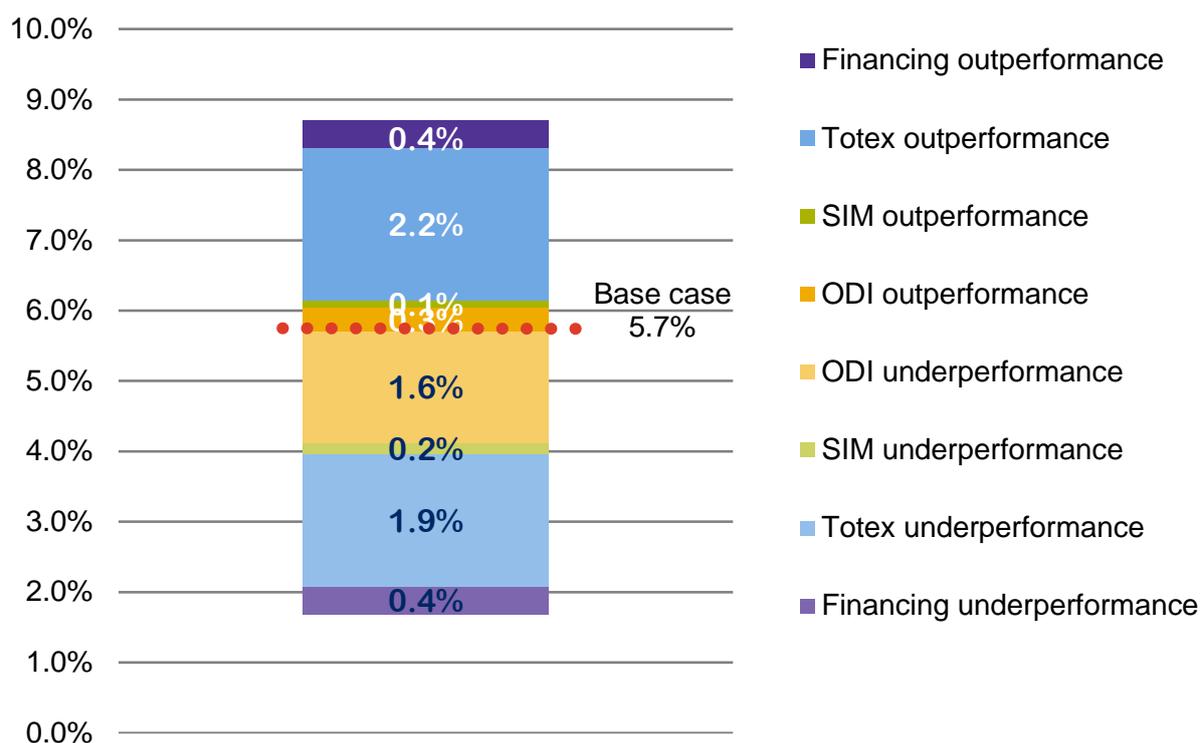
Wholesale water	Wholesale wastewater
We provide you with water that is clean and safe to drink	We take care of your wastewater and protect you and the environment from sewer flooding
We make sure that you always have enough water	We protect and improve the water environment
We protect and improve the water environment	We understand our impact on the wider environment and act responsibly
We understand our impact on the wider environment and act responsibly	
Retail	
We provide the level of customer service you expect and value	
We keep your bills as low as possible	
We understand our impact on the wider environment and act responsibly	

### Allowed costs/expenditure<sup>1</sup>

Wholesale	Water	Wastewater
Totex – 2015-20 total (£m)	1,516.8	1,938.0
Allowed weighted average cost of capital (%)	3.70%	3.70%
Allowed wholesale revenue in 2015-20 (£m)	1,861.3	2,300.0
Retail	Household	Non-household
Cost allowance – 2015-20 total (£m)	271.0	
Margin (%)	1.0%	2.5%
Retail allowed revenue (£m)	311.4	61.0
Average bill per household customer – retail component only (£)	29	

**Notes:** Wholesale figures in 2012-13 prices and retail figures in nominal prices – this is consistent throughout this draft determination unless otherwise stated

### RoRE ranges – appointee



## Ofwat's calculation of notional financeability ratios

Financial ratios for notional company	Ofwat calculation (average 2015-20)
Cash interest cover	2.84
Adjusted cash interest cover ratio (ACICR) – base case (avg over five years)	1.64
Funds from operations/debt	8.66%
Retained cash flow/debt	6.08%
Gearing	60.75%
Dividend cover (profit after tax/dividends paid)	0.56
Regulatory equity/regulated earnings for the regulated company	17.92
RCV/EBITDA	12.03

## Summary of interventions

<p><b>Outcomes</b></p> <ul style="list-style-type: none"> <li>• <b>Cap:</b> We have imposed an overall cap and collar on outcome delivery incentives of +/- 2% of RoRE.</li> <li>• <b>Horizontal check:</b> We have made four performance level targets more stretching and changed the reward and penalty deadbands.</li> <li>• <b>Bottom-up analysis:</b> We have removed the reward for four ODIs, changed the penalty rate and deadbands.</li> </ul>	<p><b>Wholesale costs</b></p> <ul style="list-style-type: none"> <li>• The company proposed wholesale water totex of £1,487m. Our (pre cap) draft determination threshold is £1,596m and hence Yorkshire would be 7% below the threshold. In line with our policy we have applied a 5% cap on this which results in a revised DD cost draft determination threshold of £1,561m (£35m lower than would occur without a cap).</li> <li>• The company proposed wholesale wastewater totex of £1976 in its plan which is £6m above our draft determination threshold of £1970m. We rejected one of the company's adjustments to our threshold, and partially allowed another.</li> <li>• We have re-profiled wastewater totex as the costs were front loaded without sufficient justification.</li> </ul>
<p><b>Retail</b></p> <ul style="list-style-type: none"> <li>• We have rejected some minor costs (non-household).</li> <li>• We require the company to resubmit its retail costs allocated in line with our guidance.</li> </ul>	<p><b>Reconciling 2010-15 performance</b></p> <ul style="list-style-type: none"> <li>• Reduced the adjustments for 2010-15 performance: interventions total -£13m revenue and -£2m regulatory capital value (RCV). The biggest change is to capital expenditure incentive scheme (CIS) (-£10m).</li> </ul>
<p><b>Risk and reward</b></p> <ul style="list-style-type: none"> <li>• In relation to the business rates uncertainty mechanism, we are changing the sharing rate from 100 %:0 % to 75%:25% in line with other companies.</li> </ul>	<p><b>Financeability and affordability</b></p> <ul style="list-style-type: none"> <li>• We are adjusting pay as you go (PAYG) rates, RCV asset lives on additions and RCV run off rates to be consistent with those submitted in December. This is because there was no evidence of customer support and because the company was using these tools to support its actual financeability as opposed to notional financeability.</li> </ul>

## A2. Wholesale water

### A2.1 Company outcomes, performance commitments and delivery incentives

#### A2.1.1 Outcomes, performance commitments and incentives

In the [outcomes technical appendix](#), we discuss our approach to outcomes for the wholesale and retail controls.

We summarise the outcomes, performance commitments and outcome delivery incentives for the wholesale water control for Yorkshire in Table A2.1 below.

We are intervening to impose an overall cap and collar on outcome delivery incentives for the 2015-20 period, thereby limiting total rewards and penalties. The maximum rewards for outperformance will be limited to +2% of RoRE and maximum penalties for underperformance are limited to -2% of RoRE. This will help ensure that the overall package of delivery incentives is calibrated to provide meaningful financial incentives and protect customers.

In addition for some performance commitments and incentives types, we have intervened to change the underlying performance level or incentives. These interventions are listed in Table A2.1 below. Full detail of the wholesale water outcomes, performance commitments and incentives is provided in annex 4.

**Table A2.1 Wholesale water outcomes, performance commitments and incentives**

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
We provide you with water that is clean and safe to drink	Drinking water quality (overall compliance)	Financial – penalty only	<b>Horizontal check:</b> Changes to PC level; penalty deadband and collar in years 2017-18, 2018-19 and 2019-20 only.

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
	Significant drinking water events which require corrective action	Non-financial incentive	No intervention
	Drinking water complaints (taste, odour and discolouration)	Financial – reward and penalty	<b>Horizontal check:</b> Changes to: PC level; reward and penalty deadbands and cap and collar in all years.
	Long term stability and reliability factor: water quality	Financial – reward and penalty	<b>Bottom-up analysis:</b> Remove reward
We make sure that you always have enough water	Leakage	Financial – reward and penalty	<b>Bottom-up analysis:</b> Lower reward deadband for all years.
	Water supply interruptions	Financial – reward and penalty	<b>Horizontal check:</b> Changes to PC level; penalty deadband and collar in all years.
	Water use	Non-financial incentive	No intervention
	Long term stability and reliability factor: water quantity	Financial – reward and penalty	<b>Bottom-up analysis:</b> Remove reward
We protect and improve the water environment	Length of river improved (against WFD component measures)	Financial – reward and penalty	No intervention
	Solutions delivered by working with others	Financial – reward and penalty	No intervention
	Amount of land we conserve and enhance (total cumulative area)	Financial – reward and penalty	No intervention
	Recreational visitor satisfaction measure	Non-financial incentive	No intervention

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
We understand our impact on the wider environment and act responsibly	Energy generated through renewable technologies	Non-financial incentive	No intervention
	Waste diverted from landfill (re-used and recycled)	Non-financial incentive	No intervention

### **A2.1.2 Outcome delivery and reporting**

In the [assurance technical appendix](#), we set out our proposed framework for the form and level of reporting, monitoring and assurance we will seek from companies during the five year regulatory period 2015-20 in relation to the delivery of their commitments for the price review. This sets out three levels of assurance and the opportunities available for a company to improve its category status through the finalisation of the price controls and during the regulatory period itself.

We are satisfied with the company's proposals for self-reporting. But consistent with the commentary in our assurance technical annex, we will need to consider the categorisation of the company for assurance purposes at the final determination.

Yorkshire Water's proposed approach to the measurement, reporting and governance of outcomes and our assessment of this approach is summarised in Annex 4.

## **A2.2 Calculating the wholesale water price control**

### **A2.2.1 Calculating allowed wholesale water expenditure**

Our approach to calculating allowed wholesale expenditure is set out in the [wholesale water and wastewater technical appendix](#).

In Yorkshire's revised plan the company proposed wholesale water totex of £1,487m over 2015-20 (versus £1,428m in its December plan). This would be 7% below the basic cost threshold (post additions) of £1,596m. However, in line with our policy we have applied a 5% cap on this which results in a revised draft determination threshold of £1,561m (£35m lower than would occur without a cap). Overall Yorkshire is £74m under this threshold.

The proposed wholesale water allowed expenditure for Yorkshire is detailed in Table A2.2 below. We provide a further breakdown of some of the calculations in annex 1. Further information about our assessment of each claim is set out in the [populated version of draft determination initial cost threshold models](#).

**Table A2.2 Wholesale water allowed expenditure (£ million)**

	2015-16	2016-17	2017-18	2018-19	2019-20	Total 2015-20
Draft determination cost threshold						1,560.9
Costs excluded from menu						55.5
Menu cost baseline <sup>1</sup>	344.4	309.2	281.4	282.0	288.4	1,505.4
Company's view of menu costs <sup>2</sup>						1,419.7
Implied menu choice						94.3
Allowed expenditure from menu	339.5	304.8	277.4	277.9	284.3	1,484.0
Costs excluded from menu	11.3	11.0	11.0	11.0	11.0	55.5
Total allowed expenditure <sup>3</sup>	350.8	315.9	288.5	289.0	295.3	1,539.5
Less pension deficit repair allowance	4.5	4.5	4.5	4.5	4.5	22.7
<b>Totex for input to PAYG</b>	<b>346.3</b>	<b>311.3</b>	<b>283.9</b>	<b>284.5</b>	<b>290.8</b>	<b>1,516.8</b>

**Notes:**

1. Menu baseline is equal to the draft determination threshold less pension deficit recovery costs, third party costs and market opening costs related to 2014-15 (see annex 1).
2. Based on company plan totex minus costs for items excluded from the menu.
3. Includes pension deficit repair allowance.

We have adapted our draft determination threshold by capping our view of the cost threshold at 5% above the company plan view of totex for water. We have implemented this cap by adjusting our view of the menu baseline. We have not made an adjustment to the menu exclusions.

## A2.2.2 Calculation of revenues: PAYG and RCV-run off

Table A2.3 shows the PAYG ratios and associated totex recovery for wholesale water, which we have used as the basis for this draft determination. This reflects our intervention on PAYG and RCV run-off rates as described under section 6.3 on financeability.

**Table A2.3 Yorkshire wholesale water PAYG ratios**

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Totex (£m)	346.3	311.3	283.9	284.5	290.8	1,516.8
PAYG %	59.0%	60.0%	65.0%	66.0%	65.0%	63.0%
Resulting PAYG (£m)	204.3	186.8	184.6	187.7	189.0	952.4

Table A2.4 shows the RCV run-off amounts included within the wholesale water charge. This reflects a run-off rate of **2.87%** for the RCV as at 31 March 2015 and **35 years** for the totex additions to the RCV over 2015-20.

**Table A2.4 Yorkshire wholesale water RCV run-off (£ million)**

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Run-off of 2015 RCV	64.2	62.4	60.6	58.8	57.1	303.1
RCV run-off of totex additions	2.0	5.9	9.1	11.9	14.8	43.7
Total RCV run-off	66.2	68.2	69.7	70.7	71.9	346.8

## A2.2.3 Return on the RCV

Our risk and reward guidance set out a single industry cost of capital for both wholesale water and wastewater services of 3.7%. The company has accepted this guidance and so we have used a cost of capital of 3.7% in this draft determination. This results in a return on capital of **£438.2 million** over 2015-20.

Table A2.5 shows our calculation of the opening RCV at 1 April 2015 taking account of the adjustments for 2010-15 performance discussed in section A2.2.4 below. The average RCV, set out in Table A2.6 for each year, takes into account the proportion of totex additions to the RCV determined by the PAYG ratio and RCV run-off.

**Table A2.5 Yorkshire wholesale water opening RCV (£ million)**

	2015-16
Closing RCV 31 March 2015	2,342.3
Land sales	-1.2
Adjustment for actual expenditure 2009-10	5.1
Adjustment for actual expenditure 2010-15 <sup>1</sup>	-109.2
Net adjustment from logging up, logging down and shortfalls	0.0
Other adjustments	0.0
Opening RCV 1 April 2015	2,237.0

**Note:**

1. The adjustment for actual expenditure 2010-15 is explained further in annex 3 as part of the CIS adjustment.

**Table A2.6 Yorkshire wholesale water return on RCV (£ million)**

	2015-16	2016-17	2017-18	2018-19	2019-20
Opening RCV	2237.0	2312.7	2369.0	2398.7	2424.7
RCV additions (from totex)	142.0	124.5	99.4	96.7	101.8
Less RCV run-off	66.2	68.2	69.7	70.7	71.9
Closing RCV	2312.7	2369.0	2398.7	2424.7	2454.6
Average RCV (year average)	2274.8	2340.9	2383.9	2411.7	2439.7
Return on capital	84.1	86.6	88.1	89.2	90.2

**A2.2.4 Reconciling 2010-15 performance**

Our approach to reconciling 2010-15 performance is set out in the [wholesale water and wastewater technical appendix](#).

The company proposed adjustments to the opening RCV and allowed revenue for the wholesale water services to reconcile performance in 2010-15. We have intervened and as a result the revenue adjustments for wholesale water have changed from £84.2 million to £81.9 million. We summarise these interventions in Table A2.7 below. The impact on the opening RCV of 2010-15 adjustments is shown

in Table A2.5. As illustrated above we have not made any adjustments relating to logging up, logging down and shortfalls. We discuss this in further detail in annex 3.

**Table A2.7 Yorkshire Water wholesale water revenue adjustments to reflect 2010-15 performance (£ million)**

Area of intervention	Intervention	Why we did it	Total 2010-15
Service incentive mechanism (SIM)	There are no interventions in this area	n/a	0.0
Revenue correction mechanism (RCM)	We have intervened in the following areas: <ul style="list-style-type: none"> <li>• FD09 assumptions</li> <li>• Number of non-households billed</li> </ul>	We have concerns on FD09 assumptions and data inconsistencies.	51.1
Opex incentive allowance (OIA)	We have rejected the company's 'Other adjustment' in 2013-14 to reduce actual opex by £1.084m for equipment reliability and serviceability.	It is our view that costs associated with stabilising key serviceability measures should not be treated as exceptional, but are business as usual and should be included in actual opex.	13.6
Capital expenditure incentive scheme (CIS)	The company has correctly applied the published Ofwat methodology. There are no interventions in this area.	n/a	17.3

### A2.2.5 Calculation of allowed revenue

We set out the calculation of the allowed revenue for Yorkshire's wholesale water control in Table A2.8.

Overall, we consider that the company's wholesale water revenue allowance should be **£365.8 million** in 2015-16, increasing by **3.5%** to **£378.4 million** in 2019-20.

**Table A2.8 Yorkshire wholesale water allowed revenue (£ million)**

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Totex	346.3	311.3	283.9	284.5	290.8	1516.8
PAYG ratio	59.00%	60.00%	65.00%	66.00%	65.00%	-
Totex additions to the RCV	142.0	124.5	99.4	96.7	101.8	564.4
RCV (year average)	2274.8	2340.9	2383.9	2411.7	2439.7	-
<b>Wholesale allowed revenue build up:</b>						
PAYG <sup>1</sup>	208.8	191.3	189.1	192.3	193.5	975.1
Return on capital	84.1	86.6	88.1	89.2	90.2	438.2
RCV run-off	66.2	68.2	69.7	70.7	71.9	346.8
Tax <sup>2</sup>	0.0	0.0	0.0	0.0	0.3	0.3
Income from other sources	-7.0	-7.0	-7.0	-7.0	-7.0	-35.1
Reconciling 2010-15 performance	21.9	19.7	19.9	10.2	10.2	81.9
Ex-ante additional menu income <sup>3</sup>	2.4	2.2	2.0	2.0	2.0	10.5
<b>Wholesale allowed revenue adjustments</b>						
Profiling adjustments <sup>4</sup>	-16.4	1.0	2.1	8.5	6.7	1.9
<b>Capital contributions from connection charges and revenue from infrastructure charges</b>	5.8	6.9	8.7	9.8	10.6	41.8

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
<b>Final allowed revenues</b>	<b>365.8</b>	<b>368.9</b>	<b>372.6</b>	<b>375.6</b>	<b>378.4</b>	<b>1861.3</b>

**Notes:**

1. PAYG includes the PAYG calculated from totex and the pension deficit repair allowance.
2. Including tax on adjustments for reconciling 2010-15 performance and ex-ante additional menu income.
3. We have adjusted other income values to remove the deferred income element relating to IFRIC18, as this is an accounting adjustment
4. Our bill profiling adjustments are discussed in section A6.4

## A2.3 Uncertainty mechanisms

We outline our approach to uncertainty mechanisms in the [risk and reward technical appendix](#). In Table A2.9 below, we set out Yorkshire's proposed wholesale water uncertainty mechanisms and our assessment of these proposals.

**Table A2.9 Yorkshire proposals for wholesale water uncertainty mechanisms**

Yorkshire proposals	Our assessment
Yorkshire has proposed an uncertainty mechanism for water business rates with a sharing rate of 100% customer and 0% company.	<p>We consider that the materiality, comparability and control over risk criteria for water business rates are met. We have included a 75%:25% uncertainty mechanism for all companies consistent with our prior guidance and earlier draft determinations. No compelling evidence has been submitted that would convince us to change the sharing rate.</p> <p>The specific text of this Notified Item and the rationale for its inclusion in the draft determination is set out in the <a href="#">risk and reward technical appendix</a>.</p>

## A3. Wholesale wastewater

### A3.1 Outcomes, performance commitments and incentives

In the [outcomes technical appendix](#), we discuss our approach to outcomes for the wholesale and retail controls.

We summarise the outcomes, performance commitments and outcome delivery incentives for the wholesale wastewater control for Yorkshire in Table A3.1 below.

Similar to the water wholesale control, we are intervening to impose an overall cap and collar on outcome delivery incentives for the 2015-20 period, thereby limiting total rewards and penalties. The maximum rewards for outperformance will be limited to +2% of RoRE and maximum penalties for underperformance are limited to -2% of RoRE. This will help ensure that the overall package of delivery incentives is calibrated to provide meaningful financial incentives and protect customers.

In addition for some performance commitments and incentives types we have intervened to change the underlying performance level or incentives. These interventions are listed in Table A3.1 below. Full detail of the wholesale water outcomes, performance commitments and incentives is provided in annex 4.

**Table A3.1 Wholesale wastewater outcomes, performance commitments and incentives**

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
We take care of your wastewater and protect you and the environment	Internal flooding incidents	Financial – reward and penalty	No intervention
	External flooding incidents	Non-financial incentive	No intervention

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
from sewer flooding	Pollution incidents	Financial – reward and penalty	<b>Horizontal check:</b> Changes to: PC level (all years); reward and penalty deadbands; collar and cap, (all years).  Serious pollution incidents have a non-financial incentive in all years
	Long term stability and reliability factor: Sewer Network	Financial – reward and penalty only	<b>Bottom-up analysis:</b> Remove reward
We protect and improve the water environment	Number of Yorkshire's designated bathing waters that exceed the required quality standard	Non-financial incentive	No intervention
	Long term stability and reliability factor: wastewater quality	Financial – Reward and penalty	<b>Bottom-up analysis:</b> Remove reward
	Solutions delivered by working with others	Financial – reward and penalty	No intervention
	Length of river improved (against WFD component measures).	Financial – reward and penalty	No intervention
	Amount of land we conserve and enhance	Financial – reward and penalty	No intervention
We understand our impact on the wider environment and act responsibly	Energy generated through renewable technologies	Non-financial incentive	No intervention
	Waste diverted from landfill (re-used and recycled)	Non-financial incentive	No intervention

### **A3.1.1 Outcome delivery and reporting**

In the [assurance technical appendix](#), we set out our proposed framework for the form and level of reporting, monitoring and assurance we will seek from companies during the five year regulatory period 2015-20 in relation to the delivery of their commitments for the price review. This sets out three levels of assurance and the opportunities available for a company to improve its category status through the finalisation of the price controls and during the regulatory period itself.

We are satisfied with the company's proposals for self-reporting. But consistent with the commentary in our assurance technical annex, we will need to consider the categorisation of the company for assurance purposes at the final determination.

Yorkshire Water's proposed approach to the measurement, reporting and governance of outcomes and our assessment of this approach is summarised in Annex 4.

## **A3.2 Calculating the wholesale wastewater price control**

### **A3.2.1 Calculating allowed wholesale wastewater expenditure**

Our approach to calculating allowed wholesale expenditure is set out in the [wholesale water and wastewater technical appendix](#).

In Yorkshire's revised plan the company proposed wholesale wastewater totex of £1,976m over 2015-20 (versus £2,032m from its December plan). We calculated the draft determination threshold at £1,970m, giving rise to a difference of £6m or 0.3% (this is after making an adjustment for the National Environmental Programme Phase 5). We did consider making a further £18m in adjustments to our draft determination threshold (net of implicit allowances) however the company did not provide sufficient evidence to support the claim.

The proposed wholesale wastewater allowed expenditure for Yorkshire is detailed in Table A3.2 below. A further breakdown of some of the calculations is provided in annex 1. Further information about our assessment of each claim is set out in the [populated version of draft determination initial cost threshold models](#).

We have not phased totex as per the approach set out in section A of the [wholesale water and wastewater technical appendix](#). This is because we could find no justification for the front loading of the programme as adopted by Yorkshire Water.

We do not consider this front loading to be in the interest of customers and therefore applied a flat profile over 2015-20 to the menu baseline.

**Table A3.2 Wholesale wastewater allowed expenditure (£ million)**

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Draft determination cost threshold						1,969.9
Costs excluded from menu						29.9
Menu cost baseline <sup>1</sup>	388.0	388.0	388.0	388.0	388.0	1,940.0
Company's view of menu costs <sup>2</sup>						1,931.0
Implied menu choice						99.5
<b>Allowed expenditure from menu</b>	<b>387.5</b>	<b>387.5</b>	<b>387.5</b>	<b>387.5</b>	<b>387.5</b>	<b>1,937.7</b>
Costs excluded from menu	6.2	5.9	5.9	5.9	5.9	29.9
<b>Total allowed expenditure<sup>3</sup></b>	<b>393.7</b>	<b>393.5</b>	<b>393.5</b>	<b>393.5</b>	<b>393.5</b>	<b>1,967.7</b>
Less pension deficit repair allowance	5.9	5.9	5.9	5.9	5.9	29.7
<b>Totex for input to PAYG</b>	<b>387.8</b>	<b>387.5</b>	<b>387.5</b>	<b>387.5</b>	<b>387.5</b>	<b>1,938.0</b>

**Notes:**

1. Menu baseline is equal to the draft determination threshold less pension deficit recovery costs, third party costs and market opening costs related to 2014-15 (see annex 1).
2. Based on company plan totex minus costs for items excluded from the menu.
3. Includes pension deficit repair allowance.
4. We have not phased totex as per the approach set out in section A of the [wholesale water and wastewater technical appendix](#). We could find no justification for the front loading of the programme. We do not consider this front loading to be in the interest of customers and therefore applied a flat profile over 2015-20 to the menu baseline.

### A3.2.2 Calculation of Revenues: PAYG and RCV-run off

Table A3.3 shows the proposed PAYG ratios and associated totex recovery for wholesale wastewater, which we have used as the basis for this draft determination. This reflects our intervention on PAYG and RCV run-off rates as described under section 6.3 on financeability

**Table A3.3 Yorkshire wholesale wastewater PAYG ratios**

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Totex (£m)	387.8	387.5	387.5	387.5	387.5	1,938.0
PAYG %	46.0%	43.0%	45.0%	51.0%	62.0%	49.4%
Resulting PAYG (£m)	178.4	166.6	174.4	197.7	240.3	957.4

Table A3.4 shows the RCV run-off amounts included within the wholesale wastewater charge. This reflects a run-off rate of **3.62%** for the RCV as it stands on 31 March 2015 and **28 years** for the totex additions to the RCV over 2015-20.

**Table A3.4 Yorkshire wholesale wastewater RCV run-off (£ million)**

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Run-off of 2015 RCV	111.7	107.7	103.8	100.0	96.4	519.5
RCV run-off of totex additions	3.8	11.6	19.5	26.8	32.9	94.5
Total RCV run-off	115.5	119.2	123.2	126.8	129.2	613.9

### A3.2.3 Return on the RCV

As discussed in section A2.2.3, the company has accepted our risk and reward guidance and so we have used a cost of capital of 3.7% in this draft determination. This results in a return on capital of **£611.4 million** over 2015-20.

Table A3.5 shows our calculation of the opening RCV at 1 April 2015 taking account of the adjustments for 2010-15 performance discussed in section A3.2.4 below. The average RCV, set out in Table A3.6 below for each year, takes into account the proportion of totex additions to the RCV determined by the PAYG ratio and RCV run-off.

**Table A3.5 Yorkshire wholesale wastewater opening RCV (£ million)**

	2015-16
Closing RCV 31 March 2015	3279.4
Land sales	-1.7
Adjustment for actual expenditure 2009-10	-13.0
Adjustment for actual expenditure 2010-2015 <sup>1</sup>	-163.0
Net adjustment from logging up, logging down and shortfalls	-16.2
Other adjustments	0.0
Opening RCV 1 April 2015	3085.5

**Note:**

1. The adjustment for actual expenditure 2010-15 is explained further in annex 3 as part of the CIS adjustment.

**Table A3.6 Yorkshire wholesale wastewater return on RCV (£ million)**

	2015-16	2016-17	2017-18	2018-19	2019-20
Opening RCV	3085.5	3179.4	3281.1	3371.0	3434.2
RCV additions (from totex)	209.4	220.9	213.2	189.9	147.3
Less RCV run-off	115.5	119.2	123.2	126.8	129.2
Closing RCV	3179.4	3281.1	3371.0	3434.2	3452.2
Average RCV (year average)	3132.5	3230.2	3326.0	3402.6	3443.2
Return on capital	115.8	119.4	123.0	125.8	127.3

### A3.2.4 Reconciling 2010-15 performance

Our approach to reconciling 2010-15 performance is set out in the [wholesale water and wastewater technical appendix](#).

The company proposed adjustments to the opening RCV and allowed revenue for the wholesale water services to reconcile performance in 2010-15. We have intervened and as a result the revenue adjustments for wholesale water have changed from £74.5 million to £63.9 million. We summarise these interventions in Table A3.7 below, and quantify the resulting adjustments within this draft determination. The impact on the opening RCV of 2010-15 adjustments is shown in Table A3.5 above. As noted in the table, we have applied -£16.2m in (net) adjustments arising from logging up, logging down and shortfalls. It should be noted that in relation to serviceability, the company did not propose a shortfall. Accordingly we have intervened and applied a shortfall of -£2.2m – this relates to (i) Sewer blockages. We have also made some interventions in relation to the change protocol. Further information on our interventions and rationale is set out in annex 3.

**Table A3.7 Yorkshire Water wholesale wastewater revenue adjustments to reflect 2010-15 performance (£ million)**

Area of intervention	Intervention	Why we did it	Total 2015-20
Service incentive mechanism (SIM)	There are no interventions in this area	n/a	0.0
Revenue correction mechanism (RCM)	We have intervened in the following areas: <ul style="list-style-type: none"> <li>• FD09 assumptions</li> <li>• Number of non-households billed</li> </ul>	We have concerns on FD09 assumptions and data inconsistencies.	55.3
Opex incentive allowance (OIA)	We have rejected the company's 'Other adjustment' in 2013-14 to reduce actual wastewater opex by £4.176m for equipment reliability and serviceability.	It is our view that costs associated with stabilising key serviceability measures should not be treated as exceptional, but are business as usual and should be included in base opex.	0.0

Area of intervention	Intervention	Why we did it	Total 2015-20
Capital expenditure incentive scheme (CIS)	The company has correctly applied the published Ofwat methodology. There are no interventions in this area other than we have included our view of the applicable change protocol amounts.	As a result of the applicable change protocol amounts the revenue adjustments changes from £18.8m to £8.7m.	8.7

### A3.2.5 Calculation of allowed revenue

The calculation of the allowed revenue for Yorkshire's wholesale wastewater control is shown in Table A3.8.

Overall, we consider that Yorkshire's wholesale wastewater revenue allowance should be **£452.8 million** in 2015-16, increasing by **3.1%** to **£467.0 million** in 2019-20.

**Table A3.8 Yorkshire wholesale wastewater allowed revenue (£ million)**

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Totex	387.8	387.5	387.5	387.5	387.5	1938.0
PAYG ratio	46.0%	43.0%	45.0%	51.0%	62.0%	-
Totex additions	209.4	220.9	213.2	189.9	147.3	980.6
RCV (year average)	3132.5	3230.2	3326.0	3402.6	3443.2	-
<b>Wholesale allowed revenue build up:</b>						
PAYG <sup>1</sup>	184.3	172.6	180.3	203.6	246.2	987.0
Return on capital	115.8	119.4	123.0	125.8	127.3	611.4
Depreciation	115.5	119.2	123.2	126.8	129.2	613.9
Tax <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Income from other sources	-1.2	-1.2	-1.2	-1.2	-1.2	-5.9
Reconciling 2010-15 performance	13.8	13.9	14.0	11.1	11.1	63.9
Ex ante additional menu income <sup>3</sup>	0.2	0.2	0.2	0.2	0.2	1.1
<b>Wholesale allowed revenue adjustments</b>						
Profiling adjustments <sup>4</sup>	19.3	26.1	13.4	-10.7	-54.6	-6.5
<b>Capital contributions from connection charges and revenue from infrastructure charges</b>	5.0	5.8	7.3	8.1	8.8	35.0
<b>Final allowed revenues</b>	<b>452.8</b>	<b>456.2</b>	<b>460.3</b>	<b>463.7</b>	<b>467.0</b>	<b>2300.0</b>

**Notes:**

1. PAYG includes the PAYG calculated from totex and the pension deficit repair allowance.
2. Including tax on adjustments for reconciling 2010-15 performance and ex ante additional menu income.
3. We have adjusted other income values to remove the deferred income element relating to IFRIC18, as this is an accounting adjustment.
4. Our bill profiling adjustments are discussed in section A6.4.

### A3.3 Uncertainty mechanisms

We outline our approach to uncertainty mechanisms in the [risk and reward technical appendix](#). In Table A3.9 below, we set out Yorkshire's proposed wholesale wastewater uncertainty mechanisms and our assessment of these proposals.

**Table A3.9 Yorkshire proposals for wholesale wastewater uncertainty mechanisms**

Yorkshire proposals	Our assessment
Yorkshire did not propose any uncertainty mechanisms beyond those that will already form part of the regulatory framework for 2015-20.	

## A4. Household retail

### A4.1 Company outcomes, performance commitments and delivery incentives

In the [outcomes technical appendix](#), we discuss our approach to outcomes for the wholesale and retail controls.

We summarise the outcomes, performance commitments and outcome delivery incentives for the household retail control for Yorkshire in Table A4.1 below.

For some performance commitments and incentives types, we have intervened to change the underlying performance level or incentives. These interventions are listed in Table A4.1 below. Full detail of the wholesale water outcomes, performance commitments and incentives is provided in annex 4.

**Table A4.1 Household retail outcomes, performance commitments and incentives**

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
We provide the level of customer service you expect and value	Customer service – service incentive mechanism	Financial – reward and penalty	No intervention
	Service commitment failures	Non-financial incentive	No intervention
	Overall customer satisfaction (CCWater Annual Tracking Survey)	Non-financial incentive	No intervention
We keep your bills as low as possible	Cost of bad debt to customers (expressed as percentage of average bill).	Non-financial incentive	No intervention
	Number of people who we help to pay their bill	Non-financial incentive	No intervention

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
	Value for money (CCWater Annual Tracking Survey)	Non-financial incentive	No intervention
We understand our impact on the wider environment and act responsibly	Energy generated through renewable technologies	Non-financial incentive	No intervention
	Waste diverted from landfill (re-used and recycled)	Non-financial incentive	No intervention

#### A4.1.1 Outcome delivery and reporting

In the [assurance technical appendix](#), we set out our proposed framework for the form and level of reporting, monitoring and assurance we will seek from companies during the five year regulatory period 2015-20 in relation to the delivery of their commitments for the price review. This sets out three levels of assurance and the opportunities available for a company to improve its category status through the finalisation of the price controls and during the regulatory period itself.

We are satisfied with the company's proposals for self-reporting. But consistent with the commentary in our assurance technical annex, we will need to consider the categorisation of the company for assurance purposes at the final determination.

Yorkshire Water's proposed approach to the measurement, reporting and governance of outcomes and our assessment of this approach is summarised in Annex 4.

## A4.2 Costs

Our approach to the household retail control is set out in the [household retail technical appendix](#).

#### A4.2.1 Allocation of costs

In Table A4.2 below, we summarise our assessment of Yorkshire's cost allocation methodology.

**Table A4.2 Our assessment of Yorkshire’s cost allocation methodology**

Area assessed	Assessment
No potential material misallocations	Fail
Adequate assurance provided	Fail
Reconciliation to Regulatory accounts and December business plan provided	Fail
Correct price base used	Fail

We will use the company’s cost allocation to set our draft determination. However, we noted the following issues with respect to the company’s cost allocation:

- the company has not allocated first/investigatory visits, IT costs, motor vehicles costs, facilities, building and grounds maintenance, local authority rates and cumulo rates between retail and wholesale in accordance with our guidance; and
- the company has not allocated the following costs between household and non-household in accordance with our guidance – debt management, IT costs, motor vehicles costs, facilities, building and grounds maintenance, insurance, finance, HR, payroll, executive team and general management.

We note that the company did not provide a reconciliation between their June submissions of tables R3 and R4 and their 2013-14 regulatory accounts, as required by our guidance. This means that we do not have any comfort over the completeness and accuracy of the adjustments made between the regulatory accounts and the business plan submission.

We note that the scope of the company’s external assurance over cost allocation was inadequate. This was because it only covered corrections made as a result of our risk-based review and Block F of R3 (recharges for depreciation) not compliance with the new guidance on cost allocation that we issued on 24 March.

**In order to address the issues that we have identified, we expect the company to submit the following information to us with its draft determination representations, by 3 October at the latest:**

- revised tables R3 and R4 with the retail / wholesale and household / non-household allocations noted above corrected;
- the detailed cost allocation tables for 2013-14 for retail / wholesale and household / non-household to support the revised figures in lines 1 of R3 and R4;

- a full reconciliation between lines 1 of R3 and R4 in the October submission and the 2013-14 regulatory accounts;
- an external assurance report giving assurance over the company's completion of tables R3 and R4 and allocations between retail and wholesale and household and non-household in the October submission of R3 and R4.

While reviewing the company's cost allocations, we also noted that the company had submitted tables R3 and R4 in 2013-14 outturn prices. This is not in line with our guidance which required these tables to be prepared in 2012-13 base year prices. We have amended our models to deflate the company's household and non-household costs to 2012-13 base year prices.

#### A4.2.2 Adjustments

In Table A4.3 below, we outline Yorkshire's proposed average cost to serve (ACTS) adjustment and our assessment of this proposal. The adjustments proposed by Yorkshire and our decisions are quantified in Table A4.4. Our approach to assessing adjustment claims is set out in the [household retail technical appendix](#).

**Table A4.3 Yorkshire proposals for ACTS adjustments**

		Adjustment assessment criteria			
Adjustment	Value (£m over 2015-20)	Materiality	Beyond efficient management control	Impact company in materially different way	Value of adjustment appropriate
Input price pressure	18.7	Pass	Pass	Efficiency benchmarking evidence: Pass	Pass
				Upper quartile: Conditional Pass	

Notes: The pass is conditional on the company addressing its cost allocation issues and remaining upper quartile

Yorkshire Water is seeking an adjustment for input price pressure of £18.7m over 2015-20.

We have accepted Yorkshire’s proposal for an ACTS adjustment for input price pressure. Yorkshire demonstrated that these costs are outside of efficient management control and that they are affected in a materially different way to other companies, both through a range of benchmarking evidence and through its performance against the ACTS, which shows them to be upper quartile efficient. They have also provided sufficient evidence to support the value of the adjustment that they are seeking.

The value of the adjustment is material, at 6.3% of household retail operating expenditure plus depreciation over the period 2015-20.

The evidence provided on management practices is sufficient and convincing that Yorkshire efficiently manage its costs and so future input price pressures are beyond efficient management control. Yorkshire provided evidence on how staff and other costs (for example, bill printing costs) are managed within their business that convinced us that they use efficient management practices.

The evidence provided on relative efficiency, including benchmarking, is sufficient and convincing that these costs are outside of management control. This included a range of benchmarking evidence using a variety of benchmarking methods including comparisons outside of the water sector. Our assessment for ACTS within the water sector suggests that Yorkshire is upper quartile efficient for unmetered retail costs but is not for metered costs. This assessment is a necessary condition for the adjustment allowance. Accordingly we will be reassessing whether Yorkshire is still upper quartile following both (i) the resubmission of its retail business plan tables; and (ii) whether any other changes made by companies affect the ACTS.

The size of the adjustment is calculated bottom up from inflation rates for different cost areas and the approach appears reasonable and results in a low rate of unavoidable price increases of 1.78% a year.

**Table A4.4 Household retail adjustments (£ million, nominal prices)**

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
<b>Adjustments proposed in Yorkshire Water's business plan</b>						
Input price pressure	1.781	2.717	3.695	4.719	5.787	18.699
Pension deficit repair costs	1.254	1.241	1.287	1.162	1.047	5.991
<b>Adjustments included in business plan</b>	<b>3.035</b>	<b>3.958</b>	<b>4.982</b>	<b>5.881</b>	<b>6.834</b>	<b>24.690</b>

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
<b>Adjustments included in draft determination</b>						
Input price pressure	1.781	2.717	3.695	4.719	5.787	18.699
Pension deficit repair costs	0.980	0.980	0.980	0.980	0.980	4.899
<b>Adjustments included in draft determination</b>	<b>2.761</b>	<b>3.697</b>	<b>4.675</b>	<b>5.699</b>	<b>6.767</b>	<b>23.598</b>

**Note:**

There will be no indexation for retail price controls.

**A4.2.3 New costs**

Yorkshire did not propose material household retail new costs.

**Table A4.5 New household retail costs (£/customer)**

	Units	Value
Modification made to 2013-14 CTS for ACTS calculation	£/cust	0.00

**Note:**

There will be no indexation for retail price controls from this 2012-13 price base.

**A4.3 Calculating the allowed revenues**

Using the average industry allowances per customer, and the projected customer numbers in the company's revised business plan, we have calculated the total allowed household retail revenues, including the efficiency challenge and the household retail net margin.

**A4.3.1 Net margins**

The table below shows the household retail net margin over 2015-20.

**Table A4.6 Household retail net margins (%)**

	2015-16	2016-17	2017-18	2018-19	2019-20
Household retail net margin	1.00%	1.00%	1.00%	1.00%	1.00%

Table A4.7 below sets out the components of the allowed household retail revenue.

**Table A4.7 Components of the allowed household retail revenue (nominal prices)**

	2013-14	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Company cost to serve (£/customer)</b>						
Unmetered single service customers	17.83					
Unmetered water and wastewater customers	23.18					
Metered water only customers	23.07					
Metered wastewater only customers	23.53					
Metered water and wastewater customers	29.16					
<b>Industry average cost to serve (£/customer)</b>						
Unmetered single service customers			20.73			
Unmetered water and wastewater customers			26.78			
Metered water only customers			24.04			
Metered wastewater only customers			33.21			
Metered water and wastewater customers			26.95			
<b>Allowed cost to serve<sup>1</sup> (£/customer)</b>						
Unmetered single service customers		16.70	16.99	17.29	17.59	17.88
Unmetered water and wastewater customers		21.71	22.09	22.47	22.86	23.24
Metered water only customers		21.39	21.66	21.97	22.29	22.64

	2013-14	2015-16	2016-17	2017-18	2018-19	2019-20
Metered wastewater only customers		21.78	21.49	21.19	20.90	21.19
Metered water and wastewater customers		27.29	27.68	28.09	28.55	29.01
<b>Total allowed (£ million)</b>						
Cost to serve (excluding net margin)		51.0	52.4	54.1	55.8	57.7
Forecast household wholesale charge (including forecast RPI <sup>2</sup> ) <sup>3</sup>		885.1	920.4	957.9	995.0	1,031.6
Household retail revenue (including an allowance for the net margin) <sup>4</sup>		58	60	62	64	66

**Notes:**

There will be no indexation for retail price controls.

1. Allowed cost to serve includes pension deficit repair costs.
2. The household wholesale charge includes forecast RPI so that the total household retail revenue can be displayed on the same price base as other retail costs.
3. The allocation of allowed wholesale revenue to different wholesale charges will be at the company's discretion, subject to charging rules and licence conditions.
4. This number is indicative as allowed revenue will depend upon actual customer numbers.

## A4.4 Uncertainty mechanisms

We outline our approach to uncertainty mechanisms in the [risk and reward technical appendix](#). In Table A4.8 below, we set out Yorkshire's proposed household retail uncertainty mechanisms and our assessment of these proposals.

**Table A4.8 Yorkshire proposals for household retail uncertainty mechanisms**

Yorkshire proposals	Our assessment
Yorkshire did not propose any uncertainty mechanisms beyond those that will already form part of the regulatory framework for 2015-20.	n/a

## A5. Non-household retail

In the [non-household retail technical appendix](#), we outline our overall approach to the non-household retail price control. Further information regarding our observations on companies' proposals for their non-household retail price controls is set out in [IN14/14: 2014 price review – non-household customer engagement ahead of draft determination representations](#).

In this chapter, we provide details of Yorkshire Water's non-household retail draft determination.

### A5.1 Indicative non-household retail total revenue

Table A5.1 below shows the indicative total of non-household allowed revenue. The table is indicative, as it does not assume any gains or losses from competition or impacts from the company charging customers at levels different to the relevant default tariffs for the projected customers in each customer type.

**Table A5.1 Indicative non-household retail total revenue price control including net margins (£ million, nominal prices)**

	2015-16	2016-17	2017-18	2018-19	2019-20
Indicative non-household retail total revenue price control including net margins	12	12	12	12	13

**Note:**

There will be no indexation for retail price controls from this price base. The non-household wholesale charge includes forecast RPI so that the total non-household retail revenue can be displayed on the same price base as other retail costs. Figures exclude retail services to developers and revenues associated with miscellaneous charges.

### A5.2 Net margins

The company proposed net margins that equal 2.5% in aggregate. This is in line with our risk and reward guidance. We have therefore accepted the company's proposals.

### A5.3 Cost proposals

Below we set out our interventions on the company's costs, including for:

- Consistency with existing policy, including for example ensuring that companies cost information is presented in a consistent price base and pension deficit costs are presented as per our stated policy; and
- Cost escalation, including for example material new investments or increases in costs or requests for input cost allowances.

The table requirements stipulated the use of 2012-13 prices. The company did not deflate its costs; therefore we have deflated its submission from 2013-14 prices to 2012-13 prices.

In '[IN 13/17: Treatment of companies' pension deficit repair costs at the 2014 price review](#)' we explained how we would treat the costs associated with water companies reducing the deficits in their defined benefit pension schemes at the 2014 price review. Where companies' proposals have differed from our calculations we have over-written their proposals in line with our overall approach.

This resulted in the company's proposals being adjusted from £2.642 million over the control period, to £0.785 million.

Overall the company's proposed costs increase by more than our non-household retail materiality threshold of 5.3% between 2015 and 2020. We therefore assessed the evidence presented in the company's plan.

The majority of the company's new costs relate to costs associated with market opening. These include IT systems updates, additional staff, direct costs of separation and legal and licence costs. These total £6.083 million in opex over 2015-20 and also contribute to the company's capex plans. The opex costs are supported by some justification for their need, however, the company explains in its business plan that it has not sought views from its customer forum on the acceptability of these proposals, and there is no evidence of any form of costs benefit analysis. It is therefore not possible to judge whether its customers would be willing to pay for new investment in this area. We have therefore reduced the company's new costs down to our materiality threshold.

In total (including the pension deficit repair cost and price base adjustments), this resulted in the company's proposed costs being adjusted from £36.846 million over the control period to £33.668 million.

## A6. Appointee financeability and affordability

In this section we discuss at an appointee level:

- bills and K factors;
- return on regulated equity
- financeability; and
- affordability.

### A6.1 Bills and K factors

Table A6.1 below sets out the allowed revenues we have assumed in our draft determination for Yorkshire Water to deliver its:

- statutory duties;
- outcomes; and
- associated performance commitments.

It also sets out the average customer bills on the basis of the draft determination.

**Table A6.1 Yorkshire Water’s draft determination – K factors, allowed revenues and customer bills<sup>A</sup>**

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Wholesale water – allowed revenues (£m) <sup>1</sup>	365.8	368.9	372.6	375.6	378.4	1,861.3
Wholesale water – K (%) <sup>2</sup>	0.00%	0.84%	1.10%	0.63%	0.56%	-
Wholesale wastewater – allowed revenues (£m)	452.8	456.2	460.3	463.7	467.0	2,300.0
Wholesale wastewater <sup>2</sup> – K (%)	0.00%	0.76%	0.99%	0.56%	0.51%	-
Retail household allowed revenue (£m)	58.5	60.2	62.1	64.2	66.4	311.4
Retail non-household expected revenue (£m)	11.8	12.0	12.2	12.4	12.6	61.0

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Average household bill – water (£)	158	158	158	157	157	-
Average household bill – wastewater (£)	196	196	196	196	196	-
Average household bill – combined (£) <sup>3, 4</sup>	338	338	338	337	336	-

**Notes:****A Wholesale figures in 2012-13 prices and retail figures in nominal prices**

1. The allowed revenue for our draft determination is based on an implied menu choice. The company will have the opportunity to make its own menu choice, which will impact on its allowed revenues and customers' bills.
2. As discussed in the [wholesale water and wastewater technical appendix](#), K is set to zero for 2015-16 for wholesale water and wastewater because there are no directly equivalent wholesale revenues for 2014-15 (on account of the new price review structure). As such, there is no reference point against which to express a change in K.
3. The average combined household bill is not equal to the sum of the average household water bill and the average household wastewater bill due to the use of the economies of scope factor in the household retail price control.
4. It should be noted the average household bill illustrated above reflects a notional allocation (by Ofwat but based on the company's split of household and non-household customers) of the overall wholesale revenue requirement across Yorkshire Water's household and non-household customer base. In practice, this will depend upon the structure of wholesale charges implemented by Yorkshire Water.

We note that customer bills in the regulatory period from 2020 will be affected by Yorkshire Water's performance in the forthcoming regulatory period in relation to costs and the regulatory incentives in place for performance delivery and revenue projection performance.

## A6.2 Return on regulated equity range

We set out our approach to calculating the expected range in RoRE in the [risk and reward technical appendix](#). The whole company RoRE range, based on RoRE information provided by Yorkshire, and reflecting our interventions on ODIs, is shown in Table A6.2 below.

**Table A6.2 Whole company RoRE range**

	Lower bound (%) (appointee)	Upper bound (%) (appointee)
Overall	-4.0%	+3.0%
ODIs	-1.6%	+0.3%
Totex	-1.9%	+2.2%

	Lower bound (%) (appointee)	Upper bound (%) (appointee)
Financing	-0.4%	+0.4%
SIM	-0.2%	+0.1%

**Commentary:**

The whole company RoRE range is from 1.7% to 8.7%, with a base case of 5.7%. This translates to a downside impact of -4.0% and an upside variance of +3.0% as shown in the table.

Totex performance variance has been modelled by Yorkshire using their Monte Carlo risk model for the defined risk scenarios together with an overlay to incorporate company controllable totex risk. The controllable totex risk has been derived on a bottom up basis and informed by historical performance. We consider the approach to be robust and realistic. The resultant RoRE impacts, ranging from -1.9% to +2.2%, are broadly in line with other companies.

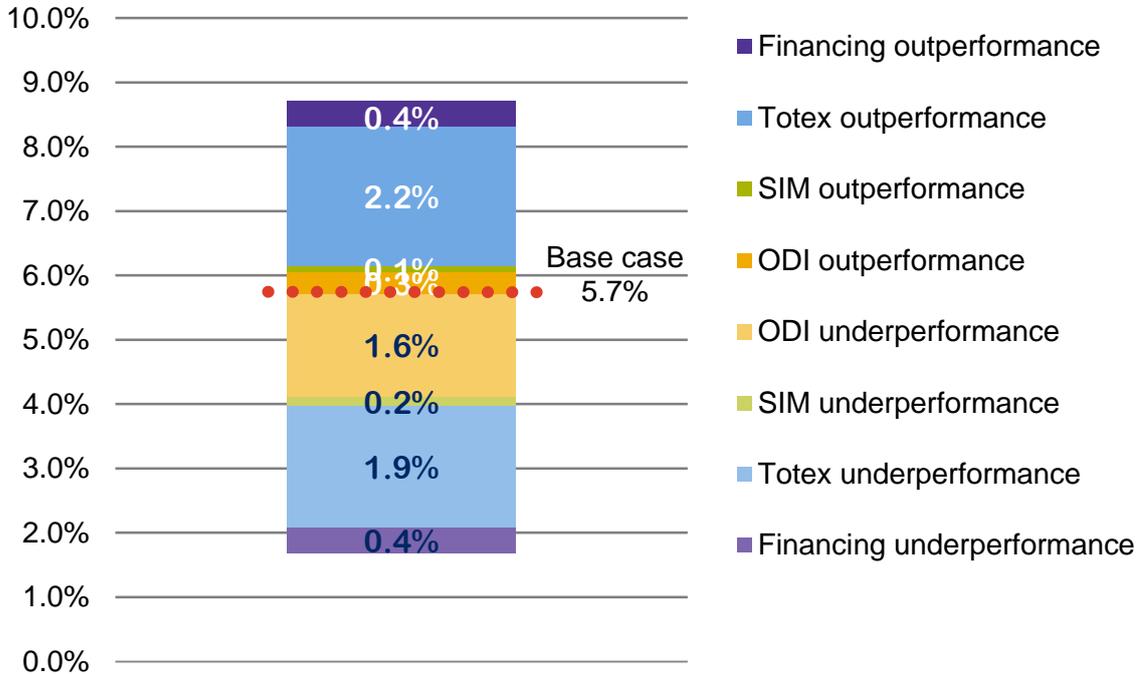
The ODI range proposed by Yorkshire was from -1.3% to +1.1%. We have adjusted this to -1.6% to +0.3% to take account of the interventions detailed in Annex 4.

Yorkshire has modelled financing risk on a notional basis applying a variation of +/- 125 basis points to the cost of new debt. The assumptions have been based on recent debt issuance and produce a RoRE range of -0.4% to +0.4% which we consider to be reasonable.

Yorkshire have estimated the SIM range based on a narrower range of rewards and penalties than the maximum possible, reflecting their view that on a P10/P90 basis the best ranking position it could achieve is fourth place with a worst case of fourteenth. We consider Yorkshire's rationale to be reasonable.

The composition of the RoRE range for Yorkshire at an appointee level is shown in Figure A6.1 below.

**Figure A6.1 Yorkshire RoRE range – appointee**



**Source:**

Ofwat calculations based on information from Yorkshire

### A6.3 Financeability

We have compared the financial ratios provided by Yorkshire and our calculation of its financial ratios implied by the company’s business plan proposals submitted on 27 June, when both are prepared on a notional basis. We illustrate these in Table A6.1 below. The final column of Table A6.3 sets out the financeability ratios based on our draft determination revenues and costs (post our intervention regarding Yorkshire’s use of the financeability tools)

**Table A6.3 Company and Ofwat financial ratio calculations based on the company business plan and financial ratios based on our draft determination**

Financial ratios for notional company	Financial ratio calculations based on the company business plan (average 2015-20)		Financial ratio calculations based on our draft determination (average 2015-20)
	Company calculation	Ofwat calculation	
Cash interest cover (ICR)	3.09	3.11	2.84
Adjusted cash interest cover ratio (ACICR) – base case (avg over five years)	1.70	1.71	1.64
Funds from operations(FFO)//debt	9.80%	9.87%	8.66%
Retained cash flow/debt	7.00%	7.26%	6.08%
Gearing	61.25%	60.01%	60.75%
Dividend cover (profit after tax/dividends paid)	0.73	0.96	0.56
Regulatory equity/regulated earnings for the regulated company	17.06	17.99	17.92
RCV/EBITDA	11.52	11.13	12.03

**Commentary:**

**Financial ratios:** Yorkshire provided evidence of Board assurance that the company would be financeable under both its actual and a notional capital structure. Yorkshire has stated that it is targeting a credit rating of A3 for its notional structure. Our calculated ratios are consistent with Yorkshire's for the company's business plan, prior to our intervention on PAYG ratios. The ratios are lower following our intervention, particularly for FFO/debt, however, we consider that they are still consistent with financeability.

**PAYG changes:** Yorkshire has proposed to increase PAYG and RCV run-off since December, which completely offset the weighted average cost of capital (WACC) reduction from the adoption of the cost of capital in the Ofwat risk and reward guidance. Yorkshire has reduced actual dividends so that they are zero in 2015-16, 2016-17 and 2017-18 (although this will not impact on notional financeability).

**Pass through of WACC reduction:** Yorkshire has not passed through any of the reduction in the WACC (from 4.2% to 3.7%) to customers in 2015-20 by adjusting PAYG and RCV

run off rates. It is the only WaSC to have fully offset the reduction in WACC from its December business plan

**Customer support:** The CCG supports the company's cost recovery approach which it acknowledges will eliminate much of the benefit of the lower WACC in the short term and is being done to support financeability. However, Yorkshire has explained the need to adjust ratios in order to ensure the financeability of the actual rather than the notional company. It is not evident that the company discussed alternative financeability scenarios, how customers would benefit from its preferred approach and why the company is unable to pass through at least part of the benefit of the WACC reduction, consistent with approach of most other companies.

**Conclusion on intervention:** Given the lack of pass through of the WACC reduction and the potential headroom, particularly in our post intervention ratios, we have intervened to provide the benefit of the WACC reduction to customers in 2015-20. We have therefore adjusted the PAYG and RCV run off rates back to the position in the company's December plan. This reduces bills in 2015-20 while still maintaining comfortable financial ratios for the notional company. This intervention is reflected in the draft determination results shown above. We invite Yorkshire to consider implications for the financeability of the notional company and if it proposes to revise the PAYG and RCV run off rates in response to the draft determination, it should engage with customers, explain the benefits to customers from any change and how it is balancing the pass through of the WACC reduction in 2015-20 with benefits for its notional financeability.

Table A6.4 sets out the PAYG and RCV run-off rates which shows whether revenue has been brought forward compared to the December plan and the impact that this has on RCV growth and longer term affordability and financeability. This reflects the impact of our intervention on PAYG and RCV rates. The average PAYG rate changes between company December plan and the draft determinations as the December plan PAYG rate is the period average from the business plan tables, compared to the annual PAYG rates used for the draft determinations which we took from the December business plan commentary. It also reflects adjustments to the PAYG rate to take account of differences in the profile of totex between the December plan and the draft determinations; this accounts for the slightly higher PAYG rate in the draft determination compared to the December plan.

**Table A6.4 Impact on the longer term**

	PAYG rate	RCV run-off	RCV growth % 1 April 2015 to 31 March 2020
Company December plan	55.8%	3.25%	6.1%

	PAYG rate	RCV run-off	RCV growth % 1 April 2015 to 31 March 2020
Company June plan	58.2%	3.71%	1.4%
Draft determination	56.2%	3.25%	11.0%

## A6.4 Affordability

Table A6.5 sets out the change in household bill profile between the company's December and June business plans and the draft determinations.

**Table A6.5 Household bill profile**

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Company December plan	351	351	351	351	351	351
Company June plan	351	351	351	351	351	351
Ofwat calculation for June plan	353	352	354	354	352	352
Ofwat calculation for draft determinations – pre-reprofiling	353	337	328	332	338	354
Ofwat calculation for draft determinations	353	338	338	338	337	336

Companies have not necessarily used the same method of calculating household bills as Ofwat – for example, we have included economies of scope for household retail when calculating combined water and sewerage bills. So the Ofwat calculations (lines 3 and 4 of Table A6.5) are not directly comparable to the company plans (lines 1 and 2 of Table A6.5). The draft determination leads to a reduction in bills in 2015-20.

In the absence of customer preferences for bill profiles at this level we have re-profiled bills so that there is a large reduction in the first year with broadly flat bills for the remainder of the period. This equalises the customer benefits across the period. We invite Yorkshire to engage with its customers on their priorities for bills as part of its response to the draft determinations.

Table A6.6 sets out the reasons why this draft determination is assessed as affordable. It describes key changes in relation to Yorkshire’s December business plan that we assessed as affordable.

**Table A6.6 Business plan affordability assessment**

	Commentary
<b>Acceptability</b>	<p>Yorkshire Water’s customer engagement, carried out in support of its December submission, found that the business plan was considered acceptable by 77% of its customers.</p> <p>In its June submission, the company’s proposed average bills across 2015-20 that were unchanged, at £351, from those in the December submission. There is no evidence that there has been any reduction in the scope or scale of the service package being offered. As the bill profile following our draft determinations is lower than the company plan then it is reasonable to conclude that it should remain acceptable to the majority its customers.</p> <p>Our proposed interventions reduce the bill level and so should enhance acceptability.</p>
<b>Identification of affordability issues and appropriate support measures</b>	<p>In its December submission, the company proposed an appropriate range of measures designed to help those customers identified as having affordability problems. These included: flexible payment plans, water efficiency advice/audits, budgeting advice from third party organisations, WaterSure, water direct, the ‘resolve’ write-off scheme, a community trust operated by an independent charity, and new initiatives around data sharing.</p> <p>There is no evidence in the revised submission that the scale and scope of the company’s assistance measures has been in any way reduced.</p>
<b>Longer-term affordability</b>	<p>In its December plan, the company adjusted its cost recovery tools in order to provide a stable bill profile for customers. The RBR concluded that the company’s cost recovery adjustments had been designed to assist affordability in 2015-20 and would not negatively impact longer term affordability.</p> <p>In its June submission, the company explains how accepting the lower WACC has necessitated amendments to its PAYG and RCV run-off ratios for the plan to remain financeable. The company states that this results in a fairer distribution of customer charges through time avoiding an intergenerational</p>

	Commentary
	<p>transfer of costs.</p> <p>We have intervened to reset the companies PAYG and RCV run off rates as discussed above, as the changes since December have not been based on appropriate engagement with customers.</p>
<p><b>Longer-term affordability – ODIs</b></p>	<p>The company revisited its package of ODIs for the June submission, in accordance with the risk and reward guidance, and carried out some new customer research to test the support for the proposed package of rewards and penalties. The research found that, overall, customers did express support for the proposals when presented alongside likely bill impacts (taking effect after 2020).</p> <p>The CCG supports Yorkshire Water’s revisions to its package of ODIs.</p>

## Annex 1 Wholesale costs

### Establishing draft determination thresholds

Our approach to establishing draft determination thresholds is outlined in the [wholesale water and wastewater technical appendix](#).

In the tables below, we provide some information on the company-specific numbers that support these calculations.

Further information about our assessment of each claim is set out in the [populated version of draft determination initial cost threshold models](#).

**Table AA1.1 Movement from basic cost threshold to draft determination menu threshold for wholesale water totex (£ million)**

Basic cost threshold	Policy additions <sup>1</sup>	Unmodelled costs adjustment	Deep dive	Draft determination threshold	Deep dives fully or partially not added <sup>2</sup>
1369.7	238.1	-12.2	-34.7 (Application of cap)	1560.9	None

**Note:**

1. See Table AA1.2 below.
2. Deep dives are net of implicit allowances. A value of zero means deep dives are wholly covered by IAs.

**Table AA1.2 Policy additions to the wholesale water basic cost threshold (£ million)**

Business rates	Pension deficit payments	Third party costs	Open market costs <sup>1</sup>	Net v gross adjustments	Total
181.4	22.7	32.5	1.4	0.0	238.1

**Note:**

1. Of this amount, £0.207m relates to 2014-15 open market costs.

**Table AA1.3 Comparison of company wholesale water totex with the draft determination threshold and 2010-15 totex (£ million)**

Plan	DD threshold	Gap <sup>1</sup>	Plan v 2010-15
1,486.6	1,560.9	-74.3	51.6

**Note:**

1. This gap will not equal the deep dives fully or partially not added in Table AA1.1 if the company's claims for special treatment in the costs thresholds are not equal to the gap.

**Table AA1.4 Summary of wholesale water deep dive assessments**

Company proposal		Assessment				DD allowance	
Claim	Amount sought	Implicit allowance	Need	CBA	Robust costs	Assessment	Amount allowed
Capping	-	0	n/a	n/a	n/a	Accept	(34.7)

**Table AA1.5 Movement from basic cost threshold to draft determination threshold for wholesale wastewater totex (£ million)**

Basic cost threshold	Policy additions <sup>1</sup>	Unmodelled costs adjustment	Private sewage pumping stations	NEP5	Deep dive	Draft determination threshold	Deep dives fully or partially not added <sup>2</sup>
1642.6	127.0	0.0	20.7	179.6	0.0	1969.9	18

**Note:**

1. See Table AA1.6 below.
2. Deep dives are net of implicit allowances. A value of zero means deep dives are wholly covered by IAs.

**Table AA1.6 Policy additions to the wholesale wastewater basic cost threshold (£ million)**

Business rates	Pension deficit payments	Third party costs	Open market costs <sup>1</sup>	Net v gross adjustments	Total
95.7	29.7	0.0	1.6	0.0	127.0

**Note:**

1. Of this amount, £0.235m relates to 2014-15 open market costs.

**Table AA1.7 Comparison of company wholesale wastewater totex with the draft determination threshold and 2010-15 totex (£ million)**

Plan	DD threshold	Gap	Plan v 2010-15
1,976.0	1,969.9	6.1	161.4

**Note:**

- This gap will not equal the deep dives fully or partially not added in Table AA1.5 if the company's claims for special treatment in the costs thresholds are not equal to the gap.

**Table AA1.8 Summary of wholesale wastewater deep dive assessments**

Company proposal		Assessment				DD allowance	
Claim	Amount sought	Implicit allowance	Need	CBA	Robust costs	Assessment	Amount allowed
NEP phase 5	200	0	Pass	Pass	Partial pass	Partially accept	180
Withernsea WWTW relocation	18	0	Pass	Fail	Fail	Reject	0

## Annex 2 Household retail revenue modification

We outline our approach to revenue modification in the household retail price control in the [household retail technical appendix](#).

Table AA2.1 sets out the amount per customer, by customer type, that allowed revenues will be modified by if outturn customer numbers differ from forecast customer numbers and Table AA2.2 sets out the baseline number of customers.

**Table AA2.1 Household retail allowed revenue modification factors by class of customer (£/customer)**

Revenue modification per	2015-16	2016-17	2017-18	2018-19	2019-20
Unmetered water only customer	19.14	19.50	19.86	20.22	20.57
Unmetered wastewater only customer	19.14	19.50	19.86	20.22	20.57
Unmetered water and wastewater customer	24.89	25.35	25.82	26.29	26.74
Metered water only customer	24.51	24.87	25.24	25.64	26.05
Metered wastewater only customer	24.97	24.67	24.35	24.03	24.38
Metered water and wastewater customer	31.28	31.77	32.28	32.83	33.37

**Note:**

There will be no indexation for retail price controls.

**Table AA2.2 Assumed number of customers for household retail total revenues (000s)**

Number of customers	2015-16	2016-17	2017-18	2018-19	2019-20
Unmetered water only	55.3	53.1	50.6	48.3	46.2
Unmetered wastewater only	65.8	63.2	60.3	57.6	55.1
Unmetered water and wastewater	946.1	908.3	866.8	827.1	791.2
Metered water only	47.7	50.3	53.4	56.4	59.3
Metered wastewater only	48.8	51.5	54.6	57.7	60.7

Number of customers	2015-16	2016-17	2017-18	2018-19	2019-20
Metered water and wastewater	966.2	1019.2	1080.3	1141.9	1201.5

## Annex 3 Reconciling 2010-15 performance

We set out our methodology for calculating the adjustments to 2015-20 wholesale price controls resulting from the company's actual performance during the 2010-15 period in the [wholesale water and wastewater technical appendix](#).

In this annex, we set out the draft determination adjustments to 2015-20 price controls for Yorkshire resulting from the company's actual performance during the 2010-15 period.

As part of the draft determination of the 2010-15 adjustments we have undertaken detailed calculations within our models for the RCM, OIA, CIS and serviceability shortfalls. While we have covered an explanation of our interventions within this annex, each model covers the detail of the specific calculation. Similarly, our detailed calculations behind the midnight adjustments such as land sales (but excluding those relating to the Change protocol) are contained within the RCV midnight adjustment model. A copy of any of these models is available on request.

Table AA3.1 below compares the company's view of the required revenue adjustments included in its revised business plan for each of the incentive tools for water and wastewater services, with our own view. Our view reflects our understanding of the company's performance using these incentives, based on information provided in its revised business plan and subsequent query responses. The table also shows other adjustments, such as those relating to tax resulting from the company's actual performance during the 2010-15 period.

**Table AA3.1 Revenue adjustments 2015-20 (£ million)**

	Water service		Wastewater service	
	Company view	Ofwat view	Company view	Ofwat view
Service incentive mechanism (SIM)	0.000	0.000	0.000	0.000
Revenue correction mechanism (RCM)	50.585	51.060	55.060	55.262
Opex incentive allowance – post-tax (OIA)	16.043	13.568	0.651	0.000
Capital expenditure incentive scheme (CIS)	17.600	17.273	18.822	8.664
Tax refinancing benefit clawback	0.000	0.000	0.000	0.000
Other tax adjustments	0.000	0.000	0.000	0.000
Equity injection clawback	0.000	0.000	0.000	0.000
Other adjustments	0.000	0.000	0.000	0.000
<b>Total wholesale legacy adjustments</b>	<b>84.227</b>	<b>81.900</b>	<b>74.533</b>	<b>63.926</b>

**Notes:**

Totals may not add up due to rounding.

For the CIS mechanism, there is a corresponding adjustment to the RCV made at 1 April 2015 (part of the ‘midnight’ adjustments’). The impact on the RCV for both water and wastewater can be seen in Table AA3.15. This adjustment is net of any logging up, logging down or shortfalls. A full reconciliation showing all of the midnight adjustments to the RCV, including the impact of logging up, logging down and shortfalls, can be seen in Table A2.5 and Table A3.5.

We noted inconsistencies between the values in the company’s CIS model and the values reported in table S20. The company view CIS revenue adjustment for wastewater presented here is taken from the company’s CIS model.

## Service incentive mechanism (SIM)

We provide our view of each company's SIM reward/penalty in the [wholesale water and wastewater technical appendix](#).

Table AA3.2 provides the annualised rewards from the company's SIM performance.

**Table AA3.2 SIM annualised rewards (£ million)**

		2015-16	2016-17	2017-18	2018-19	2019-20	Total
Water	Company view	0.000	0.000	0.000	0.000	0.000	0.000
	Ofwat view	0.000	0.000	0.000	0.000	0.000	0.000
Wastewater	Company view	0.000	0.000	0.000	0.000	0.000	0.000
	Ofwat view	0.000	0.000	0.000	0.000	0.000	0.000

## Revenue correction mechanism (RCM)

This draft determination includes our view of the company's RCM annualised adjustment amounts as detailed in Table AA3.3 below. Table AA3.4 summarises our interventions in relation to Yorkshire's proposed 2010-15 RCM adjustments.

**Table AA3.3 RCM annualised adjustments for 2015-20 (£ million)**

		2015-16	2016-17	2017-18	2018-19	2019-20	Total
Water	Company view	10.117	10.117	10.117	10.117	10.117	50.585
	Ofwat view	10.212	10.212	10.212	10.212	10.212	51.060
Wastewater	Company view	11.012	11.012	11.012	11.012	11.012	55.060
	Ofwat view	11.052	11.052	11.052	11.052	11.052	55.262

**Table AA3.4 Interventions on proposed 2010-15 RCM adjustments**

Area of intervention	What we did	Why we did it
FD09 assumptions	Our assumptions for the draft determination includes our view of the FD09 assumptions.	There are inconsistencies between the company's and our view of the FD09 assumptions used in the company's populated RCM model.
Number of non-households billed	Our assumptions for the draft determination uses the data the company submitted in business plan tables W17 and S17 to calculate our view of the RCM adjustment	There were inconsistencies with the number of non-households billed between business plan tables W17 and S17 and the company's populated RCM model.

## Operating expenditure incentive allowance (OIA)

Table AA3.5 below summarises the company's view and our view of the incentive allowances for 2015-20. Table AA3.4 summarises our interventions in relation to Yorkshire's proposed 2010-15 OIA adjustments.

**Table AA3.5 Operating expenditure incentive allowances for 2015-20 (£ million)**

		2015-16	2016-17	2017-18	2018-19	2019-20	Total
<b>Water service</b>							
Incentive allowance (post-tax)	Company view	6.938	4.552	4.552	0.000	0.000	16.043
	Ofwat view	6.113	3.727	3.727	0.000	0.000	13.568
<b>Wastewater service</b>							
Incentive allowance (post-tax)	Company view	0.651	0.000	0.000	0.000	0.000	0.651
	Ofwat view	0.000	0.000	0.000	0.000	0.000	0.000

**Table AA3.6 Interventions on proposed 2010-15 OIA adjustments**

Area of intervention	What we did	Why we did it
Other adjustments in 2013-14 for equipment reliability and serviceability (both services)	We have not accepted these adjustments and added back in the values of £1.084m to actual water opex and £4.176m to actual sewerage opex in 2013-14.	It is our view that costs associated with stabilising key serviceability measures should not be treated as exceptional, but are business as usual and should be included in base opex.

## Change protocol (logging up, logging down and shortfalls)

Table AA3.7 and Table AA3.8 below summarise Yorkshire’s view and our baseline view of total adjustments to:

- capex included in the CIS reconciliation; and
- the FD09 opex assumptions used in the calculation of the opex incentive revenue allowances.

Table AA3.9 summarises our interventions in relation to Yorkshire’s proposed change protocol adjustments.

**Table AA3.7 Summary of post-efficiency capex for logging up, logging down and shortfalls included in the CIS reconciliation (£ million)**

2009-10 to 2014-15 – post-efficiency capex	Water service		Wastewater service		Total service	
	Company view	Ofwat view	Company view	Ofwat view	Company view	Ofwat view
Logging up (two-sided)	0.000	0.000	28.294	28.294	28.294	28.294
Logging down (two-sided)	0.000	0.000	-47.495	-42.272	-47.495	-42.272
Shortfalls (one-sided)	0.000	0.000	0.000	0.000	0.000	0.000

### Notes:

1. Includes two-sided adjustments from the PR09 agreed overlap programme as set out in
2. Table AA3.13.
3. We exclude shortfalls for serviceability from the CIS reconciliation, but instead make direct adjustments to the RCV in 2015-16. We do this to allow the actual capex the company incurred in seeking to maintain serviceability, to be reflected in the rewards or penalties earned through the scheme. But to also ensure customers are not required to pay for the regulatory output the company has failed to deliver.

**Table AA3.8 Summary of post-efficiency opex for logging up, logging down and shortfalls included in the opex incentive allowance calculation (£ million)**

2009-10 to 2014-15 – post-efficiency opex	Water service		Wastewater service		Total service	
	Company view	Ofwat view	Company view	Ofwat view	Company view	Ofwat view
Logging up	0.000	0.000	18.711	18.711	18.711	18.711
Logging down	0.000	0.000	-0.673	-0.673	-0.673	-0.673
Shortfalls	0.000	0.000	0.000	0.000	0.000	0.000
Shortfalls for serviceability	0.0	0.0	0.0	0.0	0.0	0.0

**Table AA3.9 Interventions on proposed 2010-15 change protocol adjustments**

Area of intervention	What we did	Why we did it
Sewer flooding: 1 in 20 internal outputs – Logging down	<p>We are accepting the company's proposed logging down claim.</p> <p>We have corrected an error in the company's submission and classified this item as logging down rather than logging up.</p>	<p>We accepted the company's proposed value (£1.142m in post efficiency terms) for the capex. Since the DG5 outputs have been under-delivered (rather than being an additional obligation not set out in FD09) against FD09 targets it is more appropriate to classify this variance as a log down.</p>

Area of intervention	What we did	Why we did it
<p>Sewerage Supply Demand: sewerage new development – Logging down</p>	<p>We have rejected the company’s proposed claim for sewerage new development.</p>	<p>The company has not followed Change Protocol guidance in its calculation methodology. Trivial claims have been submitted and claims have been considered across programme areas and drivers.</p> <p>We have, however, assessed this claim. This claim has been considered alongside the claim below for properties connected to mains sewerage. We have assessed this claim together with the grants and contributions claim. We have utilised the values provided by the company and determined the net effect on capex to be £5.696m in pre efficiency terms. When considered in this manner, which is in line with Change Protocol guidance, the claim is a logging up claim and the variance is trivial. We have rejected the claim on this basis. It is not in the interest of customers to accept logging up claims that are trivial.</p>

Area of intervention	What we did	Why we did it
<p>Sewerage Supply Demand: properties connected to mains sewerage – Logging down</p>	<p>We have rejected the company’s proposed claim for properties connected to mains sewerage.</p>	<p>The company has not followed change protocol guidance in its calculation methodology. Trivial claims have been submitted and claims have been considered across programme areas and drivers.</p> <p>We have, however, assessed this claim. This claim, which considers variances to grants and contributions only, has been considered alongside the claim above for sewerage new development. We have utilised the values provided by the company and determined the net effect on capex to be £5.696m in pre-efficiency terms. When considered this way, which is in line with change protocol guidance, the claim is a logging up claim and the variance is trivial. We have rejected the claim on this basis. It is not in the interest of customers to accept logging up claims that are trivial.</p>

## Service standard outputs

The final determination supplementary reports in 2009 contained defined project(s) where the primary output was the service standard specified<sup>1</sup>. These outputs were set out to recognise that companies may decide to prioritise investment differently in order to achieve the service output in a more innovative and efficient manner, while still holding the company to account for the benefits to customers and the environment.

Where companies have not reported progress on these service standards, we would have expected them to demonstrate achievement of the service standards to both customers and Ofwat as part of the price review process.

We have considered applying shortfalls equal to the cost of the FD09 project(s) with defined service standards. However, in many cases there is some evidence that the projects and activities have been delivered, but there is a lack of compelling evidence that the service standards specified have been achieved.

**For the purposes of these draft determinations, we will not applying shortfalls on this issue conditional upon this information being provided as part of companies' draft determination representations.** We would expect companies to respond to this issue in their representations. If they do not provide adequate evidence to demonstrate achievement of the service

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<sup>1</sup> In the final determination supplementary reports we said: "Both the project activity (as proposed in your final business plan) and the service standard are the defined output. You must demonstrate delivery of the stated service standard output through the June return. The service standard output is the primary output. We recognise that companies may decide to prioritise activity differently in order to achieve the service output in a more efficient manner. All material changes to the project activity must be reported and explained through your June return."

standards set out, then they should assume that we will apply a shortfall equal to the costs assumed for the project(s) at FD09 within our final determinations in December 2014.

## Serviceability performance

Table AA3.10 below summarises our serviceability assessments for Yorkshire Water and Table AA3.11 quantifies the value and impact of any serviceability shortfall on the RCV. Table AA3.12 summarises our interventions in relation to Yorkshire Water's proposed adjustments for serviceability.

**Table AA3.10 Serviceability assessments for 2010-15<sup>1</sup>**

		2010-11	2011-12	2012-13	2013-14	2014-15 <sup>2</sup>
Water infrastructure	Company view	Marginal	Marginal	Stable	Stable	Stable
	Owat view	Marginal	Marginal	Stable	Stable	Stable
Water non infrastructure	Company view	Stable	Stable	Stable	Stable	Stable
	Owat view	Stable	Stable	Stable	Stable	Stable
Wastewater infrastructure	Company view	Stable	Stable	Stable	Stable	Stable
	Owat view	Stable	Stable	Stable	Marginal	Marginal
Wastewater non-infrastructure	Company view	Stable	Stable	Stable	Stable	Stable
	Owat view	Stable	Stable	Stable	Stable	Stable

**Notes:**

1. Assessments are based on actual and forecast performance submitted in the company's revised business plans.
2. Assessments for 2014-15 are based on forecast data and are subject to review once actual performance data becomes available.

**Table AA3.11 Impact of serviceability shortfalls on the RCV (£ million)**

2009-10 to 2014-15		Water	Wastewater	Total
Amount subtracted from RCV	Company view	0.0	0.0	0.0
	Ofwat view	0.0	-2.2	-2.2

**Table AA3.12 Interventions on proposed 2010-15 serviceability adjustments**

Area of intervention	What we did	Why we did it
Sewer blockages	For the purposes of the draft determination, we have assumed a shortfall adjustment of £2.0m (£2.2m post efficiency) for deteriorating performance in this indicator. In accordance with our shortfall calculation methodology the shortfall (which has been applied for the years 2012-13, 2013-14 and 2014-15) has not been capped, the scaling factors <sup>2</sup> in these years	The company has had two breaches of the upper control limit in 2012-13 and 2013-14 and the 2014-15 forecast remains above the upper control limit. The company states that the transfer of private sewers in 2011 led to an increase in the number of reported blockages on its legacy network. We consider that the company has not provided sufficient evidence to

<sup>2</sup> The shortfall calculation methodology is detailed in the [wholesale water and wastewater technical appendix](#).

Area of intervention	What we did	Why we did it
	<p>are below 2 standard deviations. The overall scale of the shortfall does not exceed 50% of the sub-service capital expenditure and therefore no further cap has been applied.</p> <p>We would expect the company to demonstrate its latest performance as part of its representations and in advance of the final determination.</p>	<p>demonstrate this impact. Therefore we have assumed a shortfall adjustment for this indicator.</p>
<p>Pollution incidents (Cat 1,2 and3)</p>	<p>For the purposes of the draft determination we have assumed no intervention. This is conditional upon the 2014-15 enhanced service level for this indicator being achieved. We would expect the company to demonstrate its latest performance as part of its representations and in advance of the final determination.</p>	<p>The company has not yet achieved the enhanced service level for this indicator. The company is forecasting to achieve this in 2014-15. If this target is not achieved we may consider a shortfall adjustment.</p>
<p>Sewage treatment works numeric non-compliance</p>	<p>For the purposes of the draft determination we have assumed no Intervention. This is conditional upon the performance in 2014-15 being improved to a position such that it could be considered as stable. We may consider a shortfall adjustment if this is not achieved. We would expect the company to demonstrate its latest performance as part of its representations and in advance of the final determination.</p>	<p>The company has had two breaches of the upper control limit in 2011-12 and 2012-13. Performance has improved in the last year but has remained above the reference level. The company has forecast 2014-15 to outturn at the reference level. We require the company to demonstrate stable serviceability in 2014-15. If this is not achieved, we may consider a shortfall adjustment.</p>

## The 2009 agreed overlap programme

As the company did not propose an overlap programme at PR09, our FD09 did not contain any agreed projects that would need to be reviewed in this price review. Therefore, we have not assessed any scheme progress or costs under this mechanism. Table AA3.14 confirms this position and Table AA3.13 below confirms the zero assumptions included in this draft determination.

**Table AA3.13 PR09 agreed overlap programme adjustments and assumptions (£ million)**

		2010-15		2015-20	
		Two-sided adjustment for inclusion in the CIS		Expenditure forecasts to complete the projects	
		Capex	Opex	Capex	Opex
Water service	Company view	0	0	0	0
	Ofwat view	0	0	0	0
Wastewater service	Company view	0	0	0	0
	Ofwat view	0	0	0	0

**Table AA3.14 Interventions on proposed 2010-15 PR09 agreed overlap programme adjustments**

Area of intervention	What we did	Why we did it
The company did not propose an overlap programme at PR09.	n/a	n/a

## Capital expenditure incentive scheme (CIS)

Table AA3.15 provides details of the CIS ratios and performance incentive. It also gives the:

- monetary amounts of the CIS performance reward or penalty;
- true-up adjustment to 2015-20 allowed revenues; and
- midnight adjustment to the closing 2014-15 RCV.

Table AA3.16 then sets out the profiled values of the revenue adjustments in each year 2015-20.

**Table AA3.15 Legacy true-up adjustments**

		Water service	Wastewater service	Total service
<b>Restated FD09 CIS bid ratio</b>	Company view	99.531	93.286	-
	Ofwat view	99.531	92.595	-
<b>Out-turn CIS ratio</b>	Company view	88.507	87.483	-
	Ofwat view	88.479	87.598	-
<b>Incentive reward/penalty (%)</b>	Company view	3.493	4.315	-
	Ofwat view	3.502	4.269	-
<b>Reward/penalty (£m)</b>	Company view	25.993	51.104	77.098
	Ofwat view	26.064	50.490	76.554
<b>Adjustments to 2015-20 revenue (£m)</b>	Company view	16.964	17.096	34.060

		Water service	Wastewater service	Total service
	Ofwat view	16.649	8.352	25.001
<b>CIS adjustment to RCV (£m)</b>	Company view	-109.186	-176.946	-286.132
	Ofwat view	-109.186	-176.946	-286.132

**Commentary:**

The company has correctly applied the published Ofwat methodology.

In carrying out our assessment we have included our view of the applicable change protocol amounts.

**Notes:**

The restated FD09 CIS bid ratio takes account of the adjustments for the change protocol (Table AA3.7) and the 2009 agreed overlap programme (Table AA3.13).

The reward/(penalty) is adjusted for the additional income included in the 2010-15 determination and the financing cost on the difference between actual spend and capital expenditure assumed in the 2010-15 determination to derive the value of the adjustment to 2015-20 revenue.

The adjustment to 2015-20 revenue values shown in this table assume a single year adjustment in the first year, and do not include the NPV profiling used for the draft determination.

**Table AA3.16 Profiled revenue adjustments from the CIS reconciliation (£ million)**

		2015-16	2016-17	2017-18	2018-19	2019-20	Total
Water	Company view	5.655	5.864	6.081	0.000	0.000	17.599
	Ofwat view	5.550	5.755	5.968	0.000	0.000	17.273
Wastewater	Company view	5.699	5.910	6.128	0.000	0.000	17.736
	Ofwat view	2.784	2.887	2.994	0.000	0.000	8.664

**Notes:**

We noted inconsistencies between the values in the company's CIS model and the values reported in table S20. The company view of CIS adjustment for wastewater presented here is taken from the company's CIS model.

## Other adjustments

Table AA3.17 below confirms the assumptions included in this draft determination with respect to the following adjustments:

- tax refinancing benefit clawback;
- other tax adjustments;
- equity injection clawback; and
- other adjustments.

**Table AA3.17 Other adjustments 2015-20 (£ million)**

	Water service		Wastewater service		Commentary
	Company view	Ofwat view	Company view	Ofwat view	
Tax refinancing benefit clawback	0.000	0.000	0.000	0.000	No adjustment was proposed by the company
Other tax adjustments	0.000	0.000	0.000	0.000	No adjustment was proposed by the company
Equity injection clawback	0.000	0.000	0.000	0.000	No adjustment was proposed by the company
Other adjustments	0.000	0.000	0.000	0.000	No adjustment was proposed by the company

## Annex 4 Outcomes, performance commitments and outcome delivery incentives

This chapter sets out in detail the performance commitments and outcome delivery incentives (ODIs) we are proposing for the company's wholesale water, wholesale wastewater and household retail outcomes, presented in that order.

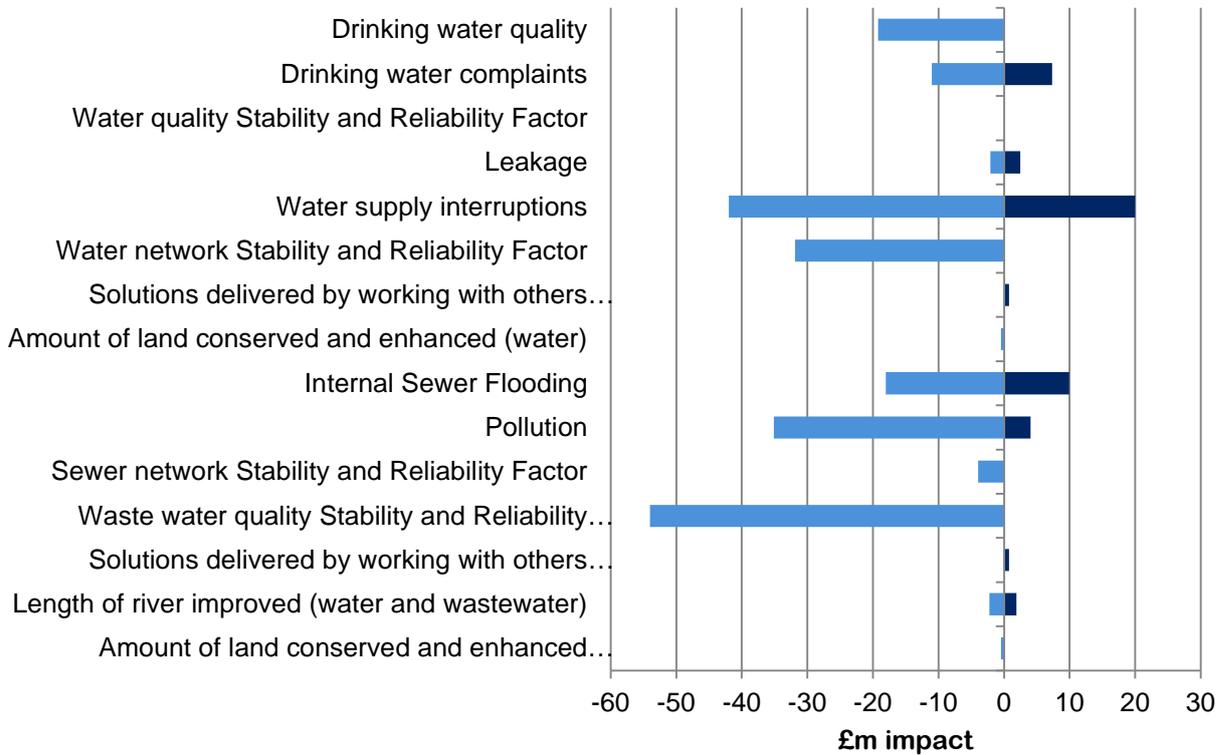
The two figures below first provide an overview of these proposed performance commitments and ODIs. Table AA4.1 shows the balance between reward and penalty, penalty only and reputational incentives in the package of proposed incentives for the company and Figure AA4.2 shows the potential financial impact of each of the financial incentives proposed.

**Table AA4.1 The composition of the proposed package of ODIs**

	Reward and penalty	Penalty only	Non-financial incentive
Wholesale water	6	3	5
Wholesale wastewater	5	2	4
Household retail	1	0	7
Total	12	5	16

The following graph shows the potential financial consequences of the individual financial ODIs. The figures represent the penalties and rewards associated with the p10 and p90 scenarios over the 5 years (2015-16 to 2019-20). This means there is a 10% chance of performance being higher or lower than these assumed levels. In most cases the potential maximum will be bigger but is very unlikely to occur. The p10 and p90 therefore represent a more realistic estimate of potential financial consequences. The impacts shown below represent the net ODI impacts after any double-counting across ODIs has been accounted for.

**Figure AA4.2 Overview of financial ODIs**



Tables AA4.2, AA4.3 and AA4.4 set out a more detailed explanation of our interventions in the company’s wholesale water, wholesale wastewater and household retail outcomes.

As explained in the [outcomes technical appendix](#), we are proposing the introduction of an aggregate cap on rewards and collar on penalties from the outcome delivery incentives. Details of how the cap/collar will operate are set out in section A5 of the [outcomes technical appendix](#).

There are no specific exclusions from the cap/collar for Yorkshire Water.

**Table AA4.2 Summary of interventions on wholesale water outcomes, performance commitments and incentives**

PC/ODI affected	What we did	Why we did it
<p>WA1: Drinking water quality</p>	<p>Following horizontal consistency check, increase PC level and penalty deadband in years 3, 4 and 5 to 100% and 99.96% respectively.</p> <p>Also, move the penalty collar up to 99.949% in years 3, 4 and 5.</p>	<p><b>Horizontal consistency check</b></p> <p>As set out in the <a href="#">outcomes technical appendix</a> we have set the performance commitment level at 100% compliance for all companies' mean zonal compliance performance commitment in years 3, 4 and 5. We have also set penalty deadbands at 99.96% to reflect upper quartile performance, with allowance for some uncertainty and company-specific factors.</p> <p>We have also moved the penalty collar up to 99.949% in years 3, 4 and 5 so that the maximum penalty remains as proposed by Yorkshire Water.</p> <p>The Company has defined Outcome Delivery Incentives for drinking water quality compliance with a penalty at less than 100%. This penalty represents an incentive to the company to not reduce its compliance with water quality measures. This threshold represents the point at which financial incentives will be applied to the company through the price setting process. All companies are subject to drinking water quality obligations regulated by the DWI, which are the overriding statutory obligations that a water company must comply with as part of their Section 37 obligations. The company's Board has confirmed as part of its business plan submission that it will comply with all relevant statutory obligations.</p>

PC/ODI affected	What we did	Why we did it
<p>WA3: Drinking water complaints (taste, odour and discolouration)</p>	<p>Following horizontal consistency check, reduce PC level to 6,067 complaints in years 3, 4 and 5</p> <p>Also, adjust PC levels in years 1 to 2 as well as deadbands and caps and collars to reflect upper quartile adjustments.</p>	<p><b>Horizontal consistency check</b></p> <p>As set out in the <a href="#">outcomes technical appendix</a> we have set the performance commitment level at upper quartile for all companies' drinking water complaints performance commitments in years 3, 4 and 5. We have also set performance commitments in years 1 to 2, deadbands and caps and collars consistent with the approach described in the <a href="#">outcomes technical appendix</a>.</p>
<p>WA4: Water quality Stability and Reliability Factor</p>	<p>Removed reward aspects.</p>	<p><b>Rewards not sufficiently justified</b></p> <p>The rewards for the water quality stability and reliability factor are only available for performance on two sub-measures: WTW coliform non-compliance and reactive equipment failure.</p> <p>However, we do not believe it is appropriate for rewards to be earned for WTW coliform non-compliance as companies should be targeting 100% compliance. Furthermore, we do not believe reactive equipment failure is a good indicator of asset performance and, as such, we do not believe Yorkshire has provided sufficient evidence that customers benefit from improved performance on this sub-measure.</p>
<p>WB1: Leakage</p>	<p>Lower reward deadband to average of last 3 years (274 MI/d) across all years.</p>	<p><b>Rewards not sufficiently stretching</b></p> <p>Yorkshire Water's proposed reward deadband is above (that is, worse than) recent performance. This is because Yorkshire Water has been operating at low levels of leakage due to an undertaking following its failure to meet its leakage target at the start of the previous price control period in 2010.</p> <p>Yorkshire Water states the proposed ODI, including parameters and</p>

PC/ODI affected	What we did	Why we did it
		<p>historic performance levels has been presented to and accepted by the Customer Forum in both the December and the June submission. However, we have concerns over the customer legitimacy of this and we have not seen the evidence from the CCG that it accepts Yorkshire Water's reward deadband on leakage.</p> <p>We therefore propose to lower Yorkshire Water's reward deadband for leakage to represent stretching performance, consistent with interventions on other companies.</p>
WB2: Water supply interruptions	<p>Following horizontal consistency check, reduce PC level to 10.00 minutes in years 3, 4 and 5.</p> <p>Also, adjust PC levels in years 1 to 2 as well as penalty deadbands and collars to reflect upper quartile adjustments.</p>	<p><b>Horizontal consistency check</b></p> <p>As set out in the <a href="#">outcomes technical appendix</a> we have set the performance commitment level at upper quartile (10 minutes) for all companies' supply interruptions performance commitments in years 3, 4 and 5. We have also set penalty deadbands and collars consistent with the approach described in the <a href="#">outcomes technical appendix</a>. No changes have been made to reward deadbands and caps as Yorkshire Water's proposals already required upper quartile performance for rewards to be earned.</p>
WB4: Water network Stability and Reliability Factor	Removed reward aspects.	<p><b>Rewards not sufficiently justified</b></p> <p>The rewards for the water network stability and reliability factor can be earned for a range of measures, including some which have demonstrable customer benefit. However, with individual reward and penalty financial incentives in place for these measures we do not believe it is necessary or appropriate to have rewards in place for this stability and reliability factor.</p>

PC/ODI affected	What we did	Why we did it
		We understand the reasons for having the stability and reliability factors to ensure long-term performance of assets is not put at risk in order to deliver short-term improvements, but we believe a penalty only incentive is appropriate for this.
All financial incentives	Replace the overall reward and penalty caps proposed by Yorkshire Water with overall caps proposed by Ofwat.	<p><b>Overall caps and collars not required</b></p> <p>With overall caps on rewards and penalties being set we do not believe it is necessary for Yorkshire Water to also propose these. We therefore have removed Yorkshire Water’s proposed caps and replaced with the 2% of RoRE maximum upside and downside per year.</p>

**Table AA4.3 Summary of interventions on wholesale wastewater outcomes, performance commitments and incentives**

PC/ODI affected	What we did	Why we did it
SA3: Pollution incidents	<p>Following horizontal consistency check, reduce PC level to zero serious pollution incidents and 208 category 3 incidents in years 3, 4 and 5.</p> <p>Also, adjust PC levels in years 1 to 2 as well as deadbands and caps and collars to reflect upper quartile adjustments.</p> <p>Remove financial incentive from</p>	<p><b>Horizontal consistency check</b></p> <p>As set out in the <a href="#">outcomes technical appendix</a> we have set the performance commitment level at upper quartile for all companies’ pollution incidents performance commitments in years 3, 4 and 5. We have also set deadbands and caps and collars consistent with the approach described in the <a href="#">outcomes technical appendix</a>.</p> <p>Also, consistent with our approach on other companies, in order to ensure that Yorkshire Water cannot earn rewards in connection with its performance on serious pollution incidents (for which they could be prosecuted) we removed serious pollution incidents from the ODI and</p>

PC/ODI affected	What we did	Why we did it
	serious pollution incidents.	it now only applies to category 3 incidents.
SA4: Stability and reliability factor: Sewer network	Removed reward aspects.	<p><b>Rewards not sufficiently justified</b></p> <p>The rewards for the sewer network stability and reliability factor can be earned for a range of measures, including some which have demonstrable customer benefit. However, with individual reward and penalty financial incentives in place for these measures we do not believe it is necessary or appropriate to have rewards in place for this stability and reliability factor.</p> <p>We understand the reasons for having the stability and reliability factors to ensure long-term performance of assets is not put at risk in order to deliver short-term improvements but believe a penalty only incentive is appropriate for this.</p>
SB2: Stability and reliability factor: Wastewater quality	Removed reward aspects.	<p><b>Rewards not sufficiently justified</b></p> <p>The rewards for the wastewater quality stability and reliability factor are only available for performance on two sub-measures: Sewage treatment works non-compliance and reactive equipment failure.</p> <p>However, we do not believe it is appropriate for rewards to be earned for sewage treatment works non-compliance as companies should be targeting 100% compliance. Furthermore, we do not believe reactive equipment failure is a good indicator of asset performance and, as such, we do not believe Yorkshire has provided sufficient evidence that customers benefit from improved performance on this sub-measure.</p>

PC/ODI affected	What we did	Why we did it
All financial incentives	Replace the overall reward and penalty caps proposed by Yorkshire Water with overall caps proposed by Ofwat.	<p><b>Overall caps and collars not required</b></p> <p>With overall caps on rewards and penalties being set we do not believe it is necessary for Yorkshire Water to also propose these. We therefore have removed Yorkshire Water’s proposed caps and replaced with the 2% of RoRE maximum upside and downside per year.</p>

**Table AA4.3 Summary of interventions on household retail outcomes, performance commitments and incentives**

PC/ODI affected	What we did	Why we did it
No interventions on household retail outcomes.		

## Outcome delivery and reporting

In the [outcomes technical appendix](#), we outline a framework against which we have assessed Yorkshire Water’s proposals in relation to outcome delivery and reporting.

The table below summarises Yorkshire Water’s proposed approach to the measurement, reporting and governance of outcomes and our assessment of this approach.

**Table A2.10 Yorkshire Water’s proposals for outcome delivery and reporting**

Yorkshire Water’s proposals	Our assessment
<p>Yorkshire Water summarises its process for outcome delivery and reporting as follows</p> <p>“We will demonstrate our performance against each commitment by publishing an Annual Performance Statement. This will clearly set out our commitments and our performance against each measure, together with any associated penalties or rewards.</p> <p>Our Annual Performance Statement will be audited by an independent third party, following our well defined ISO9001 procedures for compilation and assurance of a consistent output.</p> <p>It will be endorsed by the Yorkshire Water Board, and presented to the Customer Forum in June each year. We will publish our performance on our website.</p> <p>Our customers have told us that they approve of our proposed approach to monitoring our performance commitments and consequent financial penalties or rewards involving independent audit, Yorkshire Water Board assurance, Customer Forum sign-off and ultimately Ofwat review.”</p>	<p>In our methodology statement we set out our expectation that companies should demonstrate that their proposed PCs can be measured and recorded consistently and that they will have the appropriate governance and quality assurance processes in place to achieve this. We also expect companies to be transparent with customers about their performance against their outcomes and commitments.</p> <p>Yorkshire has provided sufficient evidence demonstrating the approach it will undertake to ensure the PCs will be measured and reported consistently, and the proposed governance and assurance processes. Therefore, we have accepted the company’s proposal.</p> <p>In time, we may develop further information requirements with regard to outcomes, as we review and change current requirements relating to performance indicators and each company’s annual risk and compliance statement.</p>

In the remainder of this section, we provide the following information on each performance commitment we are proposing as part of this draft determination.

- The name and detailed definition of the performance commitment.
- The type of incentive.
- The performance commitment level.
- For financial incentives:
  - the limits on rewards and penalties (caps and collars) and neutral zones (deadbands) as applicable<sup>3</sup>; and
  - the incentive rates.
- Additional details on the measure.
- where Ofwat has not accepted the company's proposals, the nature of the intervention made is also explained.

Appendix 1 of our final methodology statement contains a number of worked examples that illustrate how the different incentive types will operate.

We have intervened in relation to a number of performance commitments proposed by the company. Where our intervention is to remove the performance commitment in question, details and reasoning are provided in Table AA4.1 at the end of this annex. Where we have amended the company's proposed incentive but retained the performance commitment, we have intentionally set out our interventions below using a ~~struck through~~. What this means is that we have rejected the proposal that has been struck through and instead we have either used a different value or not included a value at all (for example, in the case of some rewards).

Yorkshire will be able to finalise its proposed menu choice and affected ODI calibrations following our consideration of responses to these proposals.

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<sup>3</sup> In general, the cap or collar is the level of service at which the maximum penalty or reward occurs and a deadband is the level of service at which the incentive first applies. However, where a greater than or less than symbol precedes the figure this denotes that the maximum or initial incentive only occurs if service is greater than or less than this level.

## Wholesale water outcome A: We provide you with water that is safe and clean to drink

### Performance commitment WA1: Drinking water quality

#### Detailed definition of performance measure:

The overall compliance with the Drinking Water Inspectorate's (DWI) drinking water quality standards.

Number of fails recorded within the clean water regulatory sampling programme as defined by Water Supply (Water Quality) Regulations 2000 for parameters with a numeric standard expressed as a percentage of the total number of determinations with a numeric standard.

**Incentive type:** Financial – penalty only.

#### Performance commitments

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	%	99.960	99.960	99.960	100 <del>99.960</del>	100 <del>99.960</del>	100 <del>99.960</del>
Penalty collar			99.929	99.929	99.949 <del>99.929</del>	99.949 <del>99.929</del>	99.949 <del>99.929</del>
Penalty deadband			99.940	99.940	99.96 <del>99.940</del>	99.96 <del>99.940</del>	99.96 <del>99.940</del>

#### Incentive rates

Incentive type	Performance levels (%)		Incentive rate (£m/0.01%/year)
	Lower	Upper	
Penalty	99.929	<99.96 <del>&lt;99.940</del>	8.7224

**Additional details**

Necessary detail on measurement units	Reported to 3 decimal places
Frequency of PC measurement and any use of averaging	Reported by calendar year in the following year, that is, 01 Jan 15 to 31 Dec 2015 reported in 2015-16.
Timing and frequency of penalties	Calculated annually
Form of penalty	Penalty investment financed by shareholders, no RCV addition.
Any other information or clarifications relevant to correct application of incentive	-

**Performance commitment WA2: Significant drinking water events which require corrective action****Detailed definition of performance measure:**

The number of potentially significant events notified to the DWI under the Water Industry (Suppliers' Information) Direction 2009, that have the potential for negative impact on public confidence in the water supply, for which the DWI has subsequently required the company to take corrective action to maintain compliance or protect public health.

**Incentive type:** Reputational.

**Performance commitments**

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	6	6	6	6	6	6

## Additional details

Necessary detail on measurement units	Number of significant events notified to the DWI
Frequency of PC measurement and any use of averaging	Reported by calendar year in the following year, that is, 01 Jan 15 to 31 Dec 2015 reported in 2015-16.
Any other information or clarifications relevant to correct application of incentive	PC is the number where corrective actions have been received from the DWI by 01 June in the following year.

## Performance commitment WA3: Drinking water complaints

### Detailed definition of performance measure:

The number of times customers contact Yorkshire Water about discolouration, taste and odour each year.

**Incentive type:** Financial – reward and penalty.

### Performance commitments

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	8427	7640 8701	6854 8759	6067 8835	6067 8921	6067 9015
Penalty collar			11284 11740	11284 11799	8924 11876	8924 11963	8924 12058
Penalty deadband			8427 8883	8427 8942	6067 9019	6067 9106	6067 9201
Reward deadband			6067 8519	6067 8576	6067 8651	6067 8736	6067 8829
Reward cap			2734	2734	2734	2734	2734

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
			5186	5243	5318	5403	5496

### Incentive rates

Incentive type	Performance levels (no.)		Incentive rate (£m/no./year)
	Lower	Upper	
Penalty	6068 varies	11284 varies	0.0035
Reward	2734 varies	6066 varies	0.0030

### Additional details

Necessary detail on measurement units	Number of times customers contact Yorkshire Water about discolouration, taste and odour each year
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	Incentive rate performance levels represent the full range between which penalties or rewards could apply. The actual range they will apply in each year are demonstrated in the performance commitments table

## Performance commitment WA4: Water quality stability and reliability factor

### Detailed definition of performance measure:

An overall assessment of long-term stability and reliability for water quality, based on a basket of indicators. Assessment is based on the recent historical trend of the indicators. Assessment will give a classification of improving, stable or deteriorating.

**Incentive type:** Financial – ~~reward and penalty~~ penalty only.

### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Assessment	Stable	-	-	-	-	Stable
Penalty collar			-	-	-	-	-
Penalty deadband			-	-	-	-	Deteriorating
Reward deadband			-	-	-	-	Improving
Reward cap			-	-	-	-	-

### Incentive rates

Incentive type	Performance levels		Incentive rate (£m/AMP)
	Lower	Upper	
Penalty	Deteriorating	Deteriorating	Up to 10% totex for outcome
Reward	Improving	Improving	<del>Up to 6.5% totex for outcome</del>

**Additional details**

Necessary detail on measurement units	Specific documentation for stability and reliability factors
Frequency of PC measurement and any use of averaging	Assessed in year 4 for year 5 outturn.
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues.
Any other information or clarifications relevant to correct application of incentive	Specific documentation for stability and reliability factors to be agreed with CCG which will set out all factors that will determine if a penalty will occur and the size of the penalty

## Wholesale water outcome B: We make sure that you always have enough water

### Performance commitment WB1: Leakage

#### Detailed definition of performance measure:

The sum of distribution losses and supply pipe losses.

This includes any uncontrolled losses between the treatment works and the customer's stop tap. It does not include internal plumbing losses.

**Incentive type:** Financial – reward and penalty.

#### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	MI/d	297.1	297.1	297.1	297.1	292.1	287.1
Penalty collar			-	-	-	-	-
Penalty deadband			302.1	302.1	302.1	297.1	292.1
Reward deadband			274	274	274	274	274
			287.1	287.1	287.1	282.1	277.1
Reward cap			-	-	-	-	-

#### Incentive rates

Incentive type	Performance levels (MI/d)		Incentive rate (£m/MI/d/year)
	Lower	Upper	
Penalty	287.1		0.0987
Reward		274 varies	0.0494

**Additional details**

Necessary detail on measurement units	MI/d
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	Incentive rate performance levels represent the full range between which penalties or rewards could apply. The actual range they will apply in each year are demonstrated in the performance commitments table

**Performance commitment WB2: Water supply interruptions****Detailed definition of performance measure:**

Number of minutes lost per property served in the year with supply interruptions of three hours or longer (irrespective of whether it was planned, unplanned or caused by a third party).

**Incentive type:** Financial – reward and penalty.

**Performance commitments**

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Min	14.44	13.0	11.5	10.00	10.00	10.00
			14.44	14.44	14.44	14.44	14.44

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Penalty collar			18.44 <del>22.82</del>	18.44 <del>22.82</del>	14 <del>22.82</del>	14 <del>22.82</del>	14 <del>22.82</del>
Penalty deadband			14.44 <del>18.9</del>	14.44 <del>18.9</del>	10.00 <del>18.9</del>	10.00 <del>18.9</del>	10.00 <del>18.9</del>
Reward deadband			9.82	9.82	9.82	9.82	9.82
Reward cap			5.9	5.9	5.9	5.9	5.9

### Incentive rates

Incentive type	Performance levels (min)		Incentive rate (£m/min/year)
	Lower	Upper	
Penalty	>10	18.44	2.551
	<del>&gt;18.9</del>	<del>22.82</del>	
Reward	5.9	<9.82	2.551

### Additional details

Necessary detail on measurement units	Minutes
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	Incentive rate performance levels represent the full range between which penalties or rewards could apply. The actual range they will apply in each year are demonstrated in the performance commitments table

## Performance commitment WB3: Water use

### Detailed definition of performance measure:

The average daily water consumption per head of population (per capital consumption or PCC) in measured and unmeasured households in a dry year. This is only for household consumption.

**Incentive type:** Reputational.

### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	l/hd/d	143.7	142.6	141.5	140.4	139.3	138.3

### Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	-

## Performance commitment WB4: Water network stability and reliability factor

### Detailed definition of performance measure:

An overall assessment of long term stability and reliability for the water network, based on a basket of indicators. Assessment is based on the recent historical trend

of the indicators. Assessment will give a classification of improving, stable or deteriorating.

**Incentive type:** Financial – reward and penalty only.

### Performance commitments

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Assessment	Stable	-	-	-	-	Stable
Penalty collar			-	-	-	-	-
Penalty deadband			-	-	-	-	Deteriorating
Reward deadband			-	-	-	-	Improving
Reward cap			-	-	-	-	-

### Incentive rates

Incentive type	Performance levels		Incentive rate (£m/AMP)
	Lower	Upper	
Penalty	Deteriorating	Deteriorating	Up to 10% Totex for outcome
Reward	Improving	Improving	Up to 6.5% Totex for outcome

### Additional details

Necessary detail on measurement units	Specific documentation for stability and reliability Factors
Frequency of PC measurement and any use of averaging	Assessed in year 4 for year 5 outturn.
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.

<b>Form of reward/penalty</b>	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues.
<b>Any other information or clarifications relevant to correct application of incentive</b>	Specific documentation for stability and reliability Factors to be agreed with CCG which will set out all factors that will determine if a penalty will occur and the size of the penalty

## Wholesale water outcome C: We protect and improve the water environment

### Performance commitment WC1: Length of river improved

#### Detailed definition of performance measure:

The length of river in the Yorkshire Water region improved during 2015-20 against Water Framework Directive component measures.

**Incentive type:** Financial – reward and penalty.

#### Performance commitments

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	km	-	-	-	-	-	100
Penalty collar			-	-	-	-	-
Penalty deadband			-	-	-	-	103
Reward deadband			-	-	-	-	97
Reward cap			-	-	-	-	-

#### Incentive rates

Incentive type	Performance levels (km)		Incentive rate (£m/km/AMP)
	Lower	Upper	
Penalty	-	<97	0.1459
Reward	>103	-	0.0766

#### Additional details

Necessary detail on measurement units	Measurement using modelled length
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Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	This measure represents obligations for specific service improvements in AMP6 to meet requirements of the Water Framework Directive.

## Performance commitment WC2: Solutions delivered by working with others

### Detailed definition of performance measure:

The number of intervention solutions delivered through working with multi agencies, organisations or individuals.

The performance commitment is a total commitment, held at Appointee level, that is, it spans Water and wastewater controls and specific targets have not been allocated to the individual controls.

**Incentive type:** Financial – reward only.

### Performance commitments

	Unit	Starting level	Committed performance levels (Water and wastewater combined)				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	No.	-	3	3	3	3	4
Reward deadband			3	6	9	12	16
Reward cap			-	-	-	-	-

## Incentive rates

Incentive type	Performance levels (no.)		Incentive rate (£m/no./year)
	Lower	Upper	
Reward	>3	-	5% of totex cost of YW cost for each eligible intervention

## Additional details

Necessary detail on measurement units	Specific document for solution eligibility criteria.
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually.
Form of reward/penalty	<del>Penalty investment financed by shareholders, no RCV addition.</del> Reward by AMP7 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	Both annual PC and cumulative PC must be achieved for annual reward (that is, year 1: 3, year 2: 6, year 3: 9, year 4: 12, year 5: 16). The total performance commitment for Yorkshire Water is to deliver 16 solutions by working together by the end of year 5.

## Performance commitment WC3: Amount of land conserved and enhanced

### Detailed definition of performance measure:

The amount of land that that the company conserves and enhances, for example, Biodiversity 2020, Ancient Woodlands and SSSIs. This includes land within the region and includes both Yorkshire Water and non-Yorkshire Water land.

The performance commitment is a total commitment, held at Appointee level, that is, it spans Water and wastewater controls and specific targets have not been allocated to the individual controls.

**Incentive type:** Financial – reward and penalty.

### Performance commitments

		Starting level	Committed performance levels (Water and wastewater combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	Ha.	-	-	-	-	-	11,736
Penalty collar			-	-	-	-	10,998
Penalty deadband			-	-	-	-	11,501
Reward deadband			-	-	-	-	11,971
Reward cap			-	-	-	-	12,049

### Incentive rates

Incentive type	Performance levels (no.)		Incentive rate (£m/ha/AMP)
	Lower	Upper	
Penalty	10,998	<11,501	0.0198
Reward	>11,971	12,049	0.0129

### Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.

<b>Form of reward/penalty</b>	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues
<b>Any other information or clarifications relevant to correct application of incentive</b>	The total performance commitment for Yorkshire Water is to conserve and enhance 11,736 Ha by the end of year 5. This measure represents Biodiversity 2020 and CRoW Act.

## Performance commitment WC4: Recreational visitor satisfaction

### Detailed definition of performance measure:

An assessment of customer satisfaction with the current facilities, access and use of recreational sites and the recreational offer.

**Incentive type:** Reputational.

### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	Qual	-	Qual	Qual	Qual	Qual	Qual

### Additional details

<b>Necessary detail on measurement units</b>	Qualitative assessment by annual survey
<b>Frequency of PC measurement and any use of averaging</b>	Reported annually by financial year
<b>Any other information or clarifications relevant to correct application of incentive</b>	Commitment is to undertake qualitative survey each year and publish results

## Wholesale water outcome D: We understand our impact on the wider environment and act responsibly

### Performance commitment WD1: Proportion of energy use generated by renewable technology

#### Detailed definition of performance measure:

The amount of energy Yorkshire Water generates through its renewable technology expressed as a percentage of total energy consumption.

The performance commitment is a total commitment, held at Appointee level, that is, it spans Water, wastewater and Retail controls and specific targets have not been allocated to the individual controls.

**Incentive type:** Reputational.

#### Performance commitments

		Starting level	Committed performance levels (Water, wastewater and HH Retail combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	%	8	12	12	12	12	12

#### Additional details

Necessary detail on measurement units	%
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to generate 12% of its total energy use, annually.

## Performance commitment WD2: Proportion of waste diverted from landfill

### Detailed definition of performance measure:

The amount of waste from all Yorkshire Water activities (office, operational or construction) that is recycled or re-used as a percentage of total waste produced.

The performance commitment is a total commitment, held at appointee level, that is, it spans water, wastewater and retail controls and specific targets have not been allocated to the individual controls.

**Incentive type:** Reputational.

### Performance commitments

		Starting level	Committed performance levels (Water, wastewater and HH Retail combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	%	93	94	94	95	95	95

### Additional details

Necessary detail on measurement units	%
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to recycle or re-use 94-95% of its total waste, annually.

## Wholesale wastewater outcome A: We take care of your wastewater and protect you and the environment from sewer flooding

### Performance commitment SA1: Internal sewer flooding

#### Detailed definition of performance measure:

Total number of incidents of internal sewer flooding of homes and businesses in the year. The measure includes incidents due to other causes, including blocked and defective gullies and overloaded sewers in rainfall events up to and including 1 in 30 year return period, but incidents in exceptional rainfall events are excluded.

The measure includes incidents arising from assets transferred to Yorkshire Water in October 2011.

**Incentive type:** Financial – reward and penalty.

#### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	1,857	1,877	1,898	1,919	1,919	1,919
Penalty collar			1,986	2,008	2,029	2,029	2,029
Penalty deadband			1,945	1,967	1,988	1,988	1,988
Reward deadband			1,808	1,808	1,808	1,808	1,808
Reward cap			1,651	1,651	1,651	1,651	1,651

#### Incentive rates

Incentive type	Performance levels (no.)		Incentive rate (£m/incident/year)
	Lower	Upper	
Penalty	1,945 varies	2,029 varies	0.2198

Incentive type	Performance levels (no.)		Incentive rate (£m/incident/year)
	Lower	Upper	
Reward	1,651	<1,808	0.0574

### Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	<p><del>Full definition in ODI documentation</del></p> <p>Incentive rate performance levels represent the full range between which penalties or rewards could apply. The actual range they will apply in each year are demonstrated in the performance commitments table</p> <p>Includes any incident of internal flooding to normally occupied buildings and includes schools, offices, commercial premises and public buildings. Outbuildings and buildings used primarily for storage are excluded.</p> <p>All incidents are included, including damp/wet only patches. Incidents of flooding via the sewers caused by high river levels, inundation due to surface run-off or overflowing watercourses are excluded.</p>

## Performance commitment SA2: External sewer flooding

### Detailed definition of performance measure:

Total number of incidents of areas affected by external flooding in the year.

The measure includes incidents arising from assets transferred to Yorkshire Water in October 2011.

**Incentive type:** Reputational.

### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	10,125	10,125	10,363	10,487	10,487	10,487

### Additional details

Necessary detail on measurement units	Total number of incidents of areas affected by external flooding in the year
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	<p><del>Full definition in ODI documentation</del></p> <p>Includes property curtilage, highways, car parks, footpaths, public open space, fields, agricultural land, woodland and flooding to buildings not defined as internal flooding. The measure includes incidents due to other causes, including blocked and defective gullies and overloaded sewers in rainfall events up to and including 1 in 30 year return period, incidents in exceptional rainfall events are excluded. All incidents are included, including damp/wet only patches.</p> <p>Incidents of flooding via the sewers caused by high river levels, inundation due to surface run-off or overflowing watercourses are excluded.</p>

## Performance commitment SA3: Pollution

### Detailed definition of performance measure:

Total number of Category 1-3 pollution incidents caused by a discharge or escape from any Yorkshire Water wastewater asset each year, (this covers all consented and non-consented intermittent events, but not continuous discharges).

This measure includes all wastewater assets, that is, surface water assets are included, and excludes impacts from private pumping stations which will transfer to Yorkshire Water in 2015.

**Incentive type:** Financial – reward and penalty.

### Performance commitments

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No. (Category 1-2 / Category 3)	10/250 260	6/236 260	3/222 260	0/208 260	0/208 260	0/208 260
Penalty collar	No. (Category 3 only)		303 324	303 324	261 324	261 324	261 324
Penalty deadband	No. (Category 3 only)		250 274	250 274	208 274	208 274	208 274
Reward deadband	No. (Category 3 only)		208 249	208 249	208 249	208 249	208 249
Reward cap	No. (Category 3 only)		144 196	144 196	144 196	144 196	144 196

## Incentive rates

Incentive type	Performance levels (no.) (Category 3 only)		Incentive rate (£m/incident/year)
	Lower	Upper	
Penalty	208	303	0.19
	>274	324	
Reward	144	208	0.19
	196	<249	

## Additional details

Necessary detail on measurement units	Performance will be reported for the different categories as follows [1 and 2]/[3]
Frequency of PC measurement and any use of averaging	Reported by calendar year in the following year, that is, 01 Jan 15 to 31 Dec 2015 reported in 2015-16.
Timing and frequency of rewards/penalties	Calculated annually Reward and penalty applies to category 3 pollution incidents only
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	<del>Full definition in ODI documentation</del> The financial incentive only applies to category 3 incidents. Should the number of successful court prosecutions on category 3 incidents exceed the deadband range, then the number of the prosecutions in excess of the penalty deadband will be deducted from the number of pollution incidents for which the penalty rate is to be applied. The number of successful prosecutions will not impact on the reward calculation as the EA may prosecute for pollution incidents which occur when we are achieving our performance commitment.

## Performance commitment SA4: Sewer network stability and reliability factor

### Detailed definition of performance measure:

An overall assessment of long term stability and reliability for the sewer network, based on a basket of indicators. Assessment is based on the recent historical trend of the indicators. Assessment will give a classification of improving, stable or deteriorating.

**Incentive type:** Financial – ~~reward and penalty~~ penalty only.

### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Assessment	Stable	-	-	-	-	Stable
Penalty collar			-	-	-	-	-
Penalty deadband			-	-	-	-	Deteriorating
Reward deadband			-	-	-	-	Improving
Reward cap			-	-	-	-	-

### Incentive rates

Incentive type	Performance levels		Incentive rate (£m / AMP)
	Lower	Upper	
Penalty 1	Deteriorating	Deteriorating	Up to 10% Totex for outcome
Reward	Improving	Improving	Up to 6.5% Totex for outcome

**Additional details**

Necessary detail on measurement units	Specific documentation for stability and reliability Factors
Frequency of PC measurement and any use of averaging	Assessed in year 4 for year 5 outturn.
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues.
Any other information or clarifications relevant to correct application of incentive	Specific documentation for stability and reliability Factors to be agreed with CCG which will set out all factors that will determine if a penalty will occur and the size of the penalty

## Wholesale wastewater outcome B: We protect and improve the water environment

### Performance commitment SB1: Number of designated bathing waters that exceed the required quality standard

#### Detailed definition of performance measure:

The number of designated bathing waters where the requirements of the EU Bathing Water Directive are exceeded, based on EA bathing water samples taken at designated bathing beaches, that is, the number of bathing waters which are good or excellent (better than sufficient).

**Incentive type:** Reputational.

#### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	15	15	15	15	15	15

#### Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported by bathing season in the following year, that is, bathing season 2015 reported in 2015-16.
Any other information or clarifications relevant to correct application of incentive	The number is per bathing season.

## Performance commitment SB2: Wastewater quality stability and reliability factor

### Detailed definition of performance measure:

An overall assessment of long term stability and reliability for wastewater quality, based on a basket of indicators. Assessment is based on the recent historical trend of the indicators. Assessment will give a classification of improving, stable or deteriorating.

**Incentive type:** Financial – ~~reward and penalty~~ penalty only.

### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Assessment	Stable	-	-	-	-	Stable
Penalty collar			-	-	-	-	-
Penalty deadband			-	-	-	-	Deteriorating
Reward deadband			-	-	-	-	Improving
Reward cap			-	-	-	-	-

### Incentive rates

Incentive type	Performance levels		Incentive rate (£m / AMP)
	Lower	Upper	
Penalty	Deteriorating	Deteriorating	Up to 10% Totex for outcome
Reward	Improving	Improving	Up to 6.5% Totex for outcome

## Additional details

Necessary detail on measurement units	Specific documentation for stability and reliability Factors
Frequency of PC measurement and any use of averaging	Assessed in year 4 for year 5 outturn.
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues.
Any other information or clarifications relevant to correct application of incentive	Specific documentation for stability and reliability Factors to be agreed with CCG which will set out all factors that will determine if a penalty will occur and the size of the penalty

## Performance commitment SB3: Solutions delivered by working with others

### Detailed definition of performance measure:

The number of intervention solutions delivered through working with multi agencies, organisations or individuals.

The performance commitment is a total commitment, held at appointee level, that is, it spans water and wastewater controls and specific targets have not been allocated to the individual controls.

**Incentive type:** Financial – reward only.

## Performance commitments

	Unit	Starting level	Committed performance levels (Water and wastewater combined)				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	No.	-	3	3	3	3	4
Reward deadband			3	6	9	12	16
Reward cap			-	-	-	-	-

## Incentive rates

Incentive type	Performance levels (no.)		Incentive rate (£m/no./year)
	Lower	Upper	
Reward	>3	-	5% of totex cost of YW cost for each eligible intervention

## Additional details

Necessary detail on measurement units	Specific document for solution eligibility criteria.
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually.
Form of reward/penalty	<del>Penalty investment financed by shareholders, no RCV addition.</del> Reward by AMP7 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	Both annual PC and cumulative PC must be achieved for annual reward (that is, year 1: 3, year 2: 6, year 3: 9, year 4: 12, year 5: 16) The total performance commitment for Yorkshire Water is to deliver 16 solutions by working together by the end of year 5.

## Performance commitment SB4: Length of river improved

### Detailed definition of performance measure:

The length of river in the Yorkshire Water region improved during 2015-20 against Water Framework Directive component measures.

**Incentive type:** Financial – reward and penalty.

### Performance commitments

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	km	-	-	-	-	-	340
Penalty collar			-	-	-	-	-
Penalty deadband			-	-	-	-	343
Reward deadband			-	-	-	-	337
Reward cap			-	-	-	-	-

### Incentive rates

Incentive type	Performance levels (km)		Incentive rate (£m/km/AMP)
	Lower	Upper	
Penalty	-	<337	0.1459
Reward	>343	-	0.0766

### Additional details

Necessary detail on measurement units	Measurement using modelled length
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.

<b>Form of reward/penalty</b>	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues
<b>Any other information or clarifications relevant to correct application of incentive</b>	This measure represents obligations for specific service improvements in AMP6 to meet requirements of the Water Framework Directive.

## Performance commitment SB5: Amount of land conserved and enhanced

### Detailed definition of performance measure:

The amount of land that the company conserves and enhances, for example, Biodiversity2020, ancient woodlands and SSSIs. This includes land within the region and includes both Yorkshire Water and non-Yorkshire Water land.

The performance commitment is a total commitment, held at appointee level, that is, it spans water and wastewater controls and specific targets have not been allocated to the individual controls.

**Incentive type:** Financial – reward and penalty.

### Performance commitments

	Unit	Starting level	Committed performance levels (Water and wastewater combined)				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	Ha.	-	-	-	-	-	11,736
Penalty collar			-	-	-	-	10,998
Penalty deadband			-	-	-	-	11,501
Reward deadband			-	-	-	-	11,971
Reward cap			-	-	-	-	12,049

**Incentive rates**

Incentive type	Performance levels (no.)		Incentive rate (£m/ha/AMP)
	Lower	Upper	
Penalty	10,998	<11,501	0.0198
Reward	>11,971	12,049	0.0129

**Additional details**

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to conserve and enhance 11,736 Ha by the end of year 5. This measure represents Biodiversity 2020 and CRoW Act.

## Wholesale wastewater outcome C: We understand our impact on the wider environment and act responsibly

### Performance commitment SC1: Proportion of energy use generated by renewable technology

#### Detailed definition of performance measure:

The amount of energy Yorkshire Water generates through its renewable technology expressed as a percentage of total energy consumption.

The performance commitment is a total commitment, held at Appointee level, that is, it spans water, wastewater and retail controls and specific targets have not been allocated to the individual controls.

**Incentive type:** Reputational.

#### Performance commitments

		Starting level	Committed performance levels (Water, wastewater, household retail combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	%	8	12	12	12	12	12

#### Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to generate 12% of its total energy use, annually.

## Performance commitment SC2: Proportion of waste diverted from landfill

### Detailed definition of performance measure:

The amount of waste from all Yorkshire Water activities (office, operational or construction) that is recycled or re-used as a percentage of total waste produced.

The performance commitment is a total commitment, held at Appointee level, that is, it spans Water, wastewater and Retail controls and specific targets have not been allocated to the individual controls.

**Incentive type:** Reputational.

### Performance commitments

		Starting level	Committed performance levels (Water, wastewater, HH Retail combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	%	93	94	94	95	95	95

### Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to recycle or re-use 94-95% of its total waste, annually.

## Household retail outcome A: We provide the level of customer service you expect and value

### Performance commitment RA1: Service incentive mechanism – satisfaction score

#### Detailed definition of performance measure:

A full definition of this measure is in ‘Service incentive mechanism (SIM) for 2015 onwards – conclusions’, as published on Ofwat’s website in April 2014:

[http://www.ofwat.gov.uk/regulating/aboutconsumers/sim/pap\\_pos140404pr14sim.pdf](http://www.ofwat.gov.uk/regulating/aboutconsumers/sim/pap_pos140404pr14sim.pdf)

**Incentive type:** Financial – reward and penalty.

#### Performance commitments

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Score	4.62 4.47	>2014-15	>2015-16	>2016-17	>2017-18	>2018-19
Penalty collar							
Penalty deadband							
Reward deadband							
Reward cap							

#### Incentive rates

Incentive type	Performance levels (score)		Incentive rate (£m/comparative position)
	Lower	Upper	
Penalty	-	-	As Ofwat definition
Reward	-	-	As Ofwat definition

**Additional details**

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by AMP7 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	-

**Performance commitment RA2: Service commitment failures****Detailed definition of performance measure:**

The total number of GSS (Guaranteed Standards of Service) events, including enhanced GSS events, each year.

**Incentive type:** Reputational.

**Performance commitments**

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	15,267	Average of AMP6 performance to be less than average of last 3 years of AMP5 performance				

**Additional details**

Necessary detail on measurement units	
Frequency of PC measurement and any use of averaging	Reported annually by financial year, PC assessed at year 5: Average of AMP6 performance to be less than average of last 3 years of AMP5 performance.
Any other information or clarifications relevant to correct application of incentive	Excludes company customer charter events/payments.

**Performance commitment RA3: Overall customer satisfaction****Detailed definition of performance measure:**

The reported value for overall customer satisfaction determined by the annual CCWater tracking survey.

**Incentive type:** Reputational.

**Performance commitments**

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	%	-	Average of AMP6 performance to better than average of AMP5 performance				

**Additional details**

Necessary detail on measurement units	
Frequency of PC measurement and any use of averaging	Reported annually by financial year, PC assessed at year 5: Average of AMP6 performance to be less than average of AMP5 performance.

Any other information or clarifications relevant to correct application of incentive

## Household retail outcome B: We keep your bills as low as possible

### Performance commitment RB1: Cost of bad debt to customers expressed as proportion of bill

#### Detailed definition of performance measure:

The cost to bill paying customers to cover the cost of interest on revenue that is not collected, debt written off and debt management costs, expressed as a percentage of the average annual bill. This includes the collection and revenue activities for managing the debt.

**Incentive type:** Reputational.

#### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	%	3.1	3.1	3.1	3.1	3.1	3.1

#### Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year.
Any other information or clarifications relevant to correct application of incentive	

## Performance commitment RB2: Number of people who we help to pay their bill

### Detailed definition of performance measure:

The number of customers who are assisted to pay their bill. This includes, but is not limited to: WaterSure, Resolve and the Community Trust, plus the number of those who take up a water meter as a result of targeted advice following identification of an affordability issue (customers should not be double counted).

**Incentive type:** Reputational.

### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	-	To publish data annually on the number of people who have been helped				

### Additional details

Necessary detail on measurement units	
Frequency of PC measurement and any use of averaging	Reported annually by financial year, PC assessed at year 5: Average of AMP6 performance to be less than average of AMP5 performance.
Any other information or clarifications relevant to correct application of incentive	Aim to increase the number of people who are helped.

## Performance commitment RB3: Value for money

### Detailed definition of performance measure:

The reported value for value for money determined by the annual CCWater tracking survey.

**Incentive type:** Reputational.

### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	%	-	Average of AMP6 performance to better than average of AMP5 performance				

### Additional details

Necessary detail on measurement units	
Frequency of PC measurement and any use of averaging	Reported annually by financial year, PC assessed at year 5: Average of AMP6 performance to be less than average of AMP5 performance.
Any other information or clarifications relevant to correct application of incentive	

## Household retail outcome C: We understand our impact on the wider environment and act responsibly

### Performance commitment RC1: Proportion of energy use generated by renewable technology

#### Detailed definition of performance measure:

The amount of energy Yorkshire Water generates through its renewable technology expressed as a percentage of total energy consumption.

The performance commitment is a total commitment, held at Appointee level, that is, it spans water, wastewater and retail controls and specific targets have not been allocated to the individual controls.

**Incentive type:** Reputational.

#### Performance commitments

		Starting level	Committed performance levels (Water, wastewater and household retail combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	%	8	12	12	12	12	12

#### Additional details

Necessary detail on measurement units	
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to generate 12% of its total energy use, annually.

## Performance commitment RC2: Proportion of waste diverted from landfill

### Detailed definition of performance measure:

The amount of waste from all Yorkshire Water activities (office, operational or construction) that is recycled or re-used as a percentage of total waste produced.

The performance commitment is a total commitment, held at appointee level, that is, it spans water, wastewater and retail controls and specific targets have not been allocated to the individual controls.

**Incentive type:** Reputational.

### Performance commitments

		Starting level	Committed performance levels (Water, wastewater and household retail combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	%	93	94	94	95	95	95

### Additional details

Necessary detail on measurement units	
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to recycle or re-use 94-95% of its total waste, annually.

**Table AA4.1 Performance commitments proposed by the company that we have removed from this draft determination**

Performance commitment	Reason for its removal
Wholesale water	
None	

Performance commitment	Reason for its removal
<b>Wholesale wastewater</b>	
None	
<b>Household retail</b>	
None	

**Ofwat** (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water sector in England and Wales provides customers with a good quality and efficient service at a fair price.



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