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By email only

Dear Sir or Madam

Ofwat Regulatory Reporting Consultation

Thank you for the opportunity to comment on the reporting proposals for the 2016/17 reporting year.

We agree that it is important that information about us is easy to understand and navigate to ensure that we continue to provide transparency and continue to build trust and confidence in the sector as a whole.

As stated in the consultation, information forms the basis for conversations so that water companies can listen to their customers and other stakeholders. We also agree that for that conversation to be meaningful our customers and stakeholders do need to be able to compare areas of our performance to that of the rest of the sector.

We welcome the clarity in of reporting requirements within this consultation represents and note that there may be a further consultation in the Summer with a shortened response time. Whilst we are aware of the timescale that Ofwat is working to we would like to comment that short response timescales should be avoided wherever it is possible the ensure that all parties have time to review and create a rounded response.

Appendix A contains our answers to the questions posed and we hope that you find this feedback helpful. Our approach to our response has been to focus on areas that we believe would benefit further consideration and these are primarily around Q3c when there is no prime asset use, Q4 regarding sludge liquors methodology and Q10 applying the principal of a level playing field to contestable markets within new connections.

If you have any areas of clarification, or would like to discuss any of the points raised please do contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Wendy Kimpton".

Wendy Kimpton
Head of Regulation

Appendix A: Responses to the Regulatory Reporting Consultation Questions

Q1 What are your views on the content and format of the proposed tables in appendix 1?

Overall we have no material comments in relation to the tables proposed in appendix 1. We note in RAG3 3.1 the statement on risk and compliance has been removed

Q2 Do you have any views on the revised guidance in RAG1 which is intended to assist completion of pro forma table 4G?

We have reviewed the revised guidance and agree that this will assist the completion of pro forma table 4G.

Q3 RAG2 consists of a mixture of high level principles and detailed guidance for cost reporting;

Q3a Is the balance of principles and rules appropriate?

We have reviewed the balance of principles and rules and agree that they are appropriate.

Q3b Are there areas where more principles should be provided?

The scope of RAG2 1.2 appears to describe section 4 as 'services', however section 4 covers the financial metrics of the company. Please consider if an overview should be provided to reflect this.

Q3c Are there areas where more guidance should be provided?

We would welcome further guidance in relation to the developer services area and the treatment of income in line with accounting standards.

The paragraph is worded in a way that implies all assets would have a principle use, however, for example, IT systems that are used across the business do not have a principal use. We would welcome further clarity regarding RAG2 2.1 when an asset does not have a principal use and how to allocate accordingly.

Q4 RAG2 suggests that a common method for calculating returned sludge liquors should be implemented. Do you have any observations on the approach suggested and any suggestions for a common formula?

We agree that a common approach to quantifying this important cost item needs to be developed. We note that the approach currently suggested by Ofwat is a brief outline – RAG 2.06 states that the method should “*establish the amount and strength of liquors*” and “*take into account: volume flow, % solids, BOD, COD and ammonia*”.

We would propose the following simple method of approach.

1. The return liquor treatment cost should be based on a solids recharge (to the sludge control) and be calculated using a truncated, and potentially modified, version of each company's mogden formula.
2. The truncated mogden formula should only include the V and B charges that relate to “volume flow” related costs and “COD” related costs respectively. We would suggest not including “BOD” or “% solids” as part of the recharge mogden formula as currently suggested in RAG2.06. BOD is essentially addressed by the COD related B

charge, whereas charging for the returned solids would introduce unwarranted circularity. However, where ammonia removal is common across the sewerage company we would suggest that the B charge (in the standard mogden formula) will need to be modified to account for the oxidation potential of the returning “ammonia” loads.

3. The amount and strength of the return liquors will depend on the point in the sludge processing chain from which the liquors are returned as a result of: a) raw sludge thickening (at the STW and/or prior to digestion) and/or dewatering (at transfer stations for onward transport to an Sludge Treatment Centre or prior to incineration/landfilling); and/or b) digested sludge dewatering after digestion, namely prior to recycling to agricultural land (noting the amount and strength of these return liquors will differ as between Mesophilic Anaerobic Digestion, MAD or Advanced Anaerobic Digestion, AAD).
4. Without expensive direct measurement an alternative is to use deemed return flows (amounts based on “typical” company input and output TS% from each sludge thickening/dewatering unit operation) and deemed liquor strengths (based on “typical” company COD, ammonia, and TS concentrations of associated returns). We believe that there is enough technical information available to provide for approximate estimates at an industry level as a “typical” amount/strength values, each thickening/ dewatering point identified in item 3.
5. The deemed strengths (for COD and, where required, ammonia) for each point in the processing chain can be simply inserted into the company’s truncated mogden formula. This will yield different strength recharge rates - in **£/m³ of liquor returned** - to the sewage works for treatment from each thickening/dewatering point.
6. The deemed flows will also need to be estimated for each point and can be assessed on typical input solids and output solids concentrations (with an estimate of the solids concentration in the associated return flow). The flows (on a m³ per TDS processed basis) can be estimated using a simple mass balance formula, noting that an adjustment will be required for post digestion dewatering activities to reflect the TS destruction in the digester. This will then yield an amount estimate - in **m³ liquor returned/TDS processed** - for each point at which water is removed from the sludge.
7. Companies will then need to assess the **% of the sludge produced (TDS)** that flows through the different thickening/dewatering points in the sludge processing chain (see item 3). The sum of this % will be greater than 100% as sludge solids are likely to pass through both sludge thickening and sludge dewatering stages. Sludges may also be de-watered for onward transport, prior to being re-watered for digestion and then de-watered again prior agricultural disposal. Recently information has been collected, following a request from Ofwat, on different treatment-disposal routes adopted by companies (e.g. incineration, landfill, MAD, AAD, AAD-Incineration etc.) and this information would be used to help inform the percentages to be applied.
8. A single weighted unit charge (£/TDS produced) can then be calculated by multiplying the relevant unit *strength* recharge (£/m³ liquor returned) from item 5, by the relevant *amount* returned (m³ liquor returned/TDS processed) from item 6 and the associated % TDS processed/TDS produced from item 7, summing them for each of the different thickening/dewatering points in the sludge processing chain.

9. Finally, companies will need to multiply the weighted unit solids recharge (£/TDS produced) by the annual sludge production estimate (TDS produced/year). This will yield an estimate of the associated liquor treatment costs in £/year.

The above method is not based on a “common formula” per se as there is doubt that such method is viable. This approach could be adopted as a common approach/ methodology - using company specific information relating to amounts, strengths and treatment-disposal routes. If you would like to discuss this further please do not hesitate to contact us.

Q5 In RAG2 we have set out how energy costs and savings from sludge processes should be treated – do you have any views on this approach?

We believe that this approach is correct and offers consistency where we already use the same principle. Where sludge assets are used for energy generation then all of the cost savings and all of the negative opex from external sales are recorded as part of sludge treatment.

Q6 In RAG 2 we have set out how imported potable bulk supplies should be treated – do you have any views on this approach?

We have no additional comments to add to this question.

Q7 In RAG3 we have clarified our expectations for reporting transactions with associates and the non-appointed business. Do you have any comments on these?

We have no additional comments to add to this question.

Q8 Our intention is to include the metrics for the Financial monitoring framework and site data for the Abstraction Incentive Mechanism (AIM) in the Annual Performance Report. Do you agree with this approach?

Yes we agree and anticipate reporting the AIM site data along with contextual information around our performance, consultation with stakeholders and assurance undertaken to meet the operating and reporting requirements of the Ofwat February 2016 Guidelines on the abstraction incentive mechanism.

Q9 Should the Annual Performance Report contain more transparency over metering assets and installation and maintenance costs from 2017?

To enable the effectiveness of the arrangements being put in place to be measured there will be a requirement for further transparency to be introduced. We would welcome further detail to understand if the proposed changes are seen as a long term addition to the APR or as an area of focus after the market opens in 2017.

Q10 Ofwat is working with the sector to develop new charging rules covering activities such as connection charges, infrastructure charges and other contributions from third parties. Should the Annual Performance Report contain more detailed cost information on new connections and other costs associated with these charges?

We would agree with the move to a more transparent and cost reflective set of developers charges as set out by Defra as part of the charging guidance to Ofwat. Increased transparency could come through further cost information being published in the APR.



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Consideration needs to be given to cost details that may be deemed confidential. In a competitive environment the requirement to publish detailed information about costs of service could place incumbents at a commercial disadvantage.

Where the activity is in a non-contestable market further cost detail could aid transparency and reduce the number of disputes to costs and charges being clearly laid out. We would have no concerns, in this scenario, in providing greater detail related to cost of non-contestable activities.

We would welcome an approach to the level of cost detail to be published that is differentiated to reflect whether the charges relate to a contestable market or not. This is consistent with our position stated in our letter dated 21 April 2016 regarding the 'Consultation - New connections charging, emerging thinking for discussion'.

Other than our general position set out above we would comment on any specific requirements on publishing additional costs related to charges should they be formally proposed.

