About this document

In 'Consultation on the final 2010-15 reconciliation' we invite comments on our proposals for reconciling the incentive arrangements for companies' performance and expenditure for the 2010-15 period now that actual information is available for the complete period, including 2014-15 the last year of the price review 2009 (PR09) price control.

To the extent that the adjustments we propose are different to the assumptions we made as part of the price review 2014, the differences will mainly be taken into account at the next price review in 2019, although one, in respect of the revenue correction mechanism, could be adjusted through revenue in the period 2015-2020.

In this appendix, we set out the proposals in respect of Anglian Water. It shows how we have assessed the claims the company has made, and the basis for our proposals.

We are also publishing detailed spreadsheets containing calculations of the adjustments for each company alongside the consultation.

Contents

1. Introduction

At PR09 Ofwat included a number of incentive arrangements designed to protect customers by encouraging companies to improve and deliver their services more efficiently over the period 2010-2015. The mechanisms also were intended to help companies manage uncertainty.

Many of these mechanisms required data for the last year of the price control period, 2014-15 (the blind year) to assess the final outturn for the benefit of customers, or companies, as the case may be. When PR14 was completed in December 2014, this financial year had not finished. Consequently, companies provided forecast data which Ofwat considered and adjusted as necessary, for inclusion in the PR14 final determination.

Companies have now provided actual spend and performance data for the complete period 2010-2015, including 2014-15, which we have used to update our analysis.

In reaching our proposals on the 2010-15 reconciliation, we have applied an approach that follows that previously consulted on and set out in the PR14 Reconciliation Rulebook. In 'Consultation on the final 2010-15 reconciliation', we:

- Recap on the approach we used at PR14 to reconcile companies' proposed adjustments to 2015-20 price controls given companies' performance against incentive mechanisms put in place at the last price control review (PR09); and
- Explain how and why these adjustments differ from those we made in our PR14 final determinations, and those proposed by companies.

In this appendix, we set out our proposals of the blind year reconciliation adjustments for Anglian Water resulting from the company's actual performance during the period 2010-2015, reflecting actual data for 2014-15.

We have structured this appendix to begin in section 2 with a summary of the adjustments. In section 3 we explain each of the adjustments in turn:

- Revenue correction mechanism (RCM);
- Change protocol (logging up, logging down, shortfalls);
- Service standard outputs;
- Serviceability performance;
- 2009 agreed overlap programme; and
- Capital expenditure incentive scheme (CIS).

In addition to the incentive arrangements listed above, we also cover the 2014-15 transition mechanism in section 3.7. We summarise how and when our proposed adjustments will be implemented in section 4.

For each mechanism we outline:

- Our position as set out in PR14 final determination;
- How our proposals differ from decisions taken at PR14; and
- How our proposals differ from companies' proposals.

There are a number of other PR09 incentive mechanisms not listed above, in particular the service incentive mechanism (SIM), the opex incentive allowance (OIA) and other revenue adjustments. For these mechanisms we expected all information to be available at PR14 and so did not include these in the scope of this final reconciliation. In any case we are not aware of any reason to change these adjustments. This document makes no further reference to these.

In order to calculate the blind year adjustments, we have undertaken detailed calculations within our models for the RCM, CIS and serviceability shortfalls and the PR14 reconciliation rulebook legacy blind year model. While we provide an explanation of our interventions within this appendix, each model contains the detail of the specific calculation.

Populated models for the blind year update proposals are published alongside the consultation.

All monetary values stated in this document are in 2012-13 prices unless otherwise stated.

2. Summary of 2010-15 final reconciliation adjustments

Table A1 below sets out for each of the incentive tools for water and wastewater services a quantification of:

- PR14 final determination (FD) position;
- the company's view of the required adjustment (if stated in its blind year update submission); and
- our view resulting from the blind year reconciliation (BYR).

The main difference between the company and our view relates to the change protocol as set out in section 3.2 and serviceability shortfalls as set out in section 3.4.

The table shows adjustments made through revenue and those made through the RCV separately. This is because the PR09 incentive mechanisms are adjusted for in different ways. Mainly, they are adjusted through an adjustment to the RCV, however the RCM and the penalty / reward element of the CIS adjustment are both made through revenue.

Table A1 Revenue and RCV adjustments 2015-20 (£ million)

	Water service			Wastewater service		
	FD position	Company BYR view	Ofwat BYR	FD position	Company BYR view	Ofwat BYR
Revenue adjustments						
RCM	-4.553	n/a	-5.410	-67.357	n/a	-71.038
CIS	-3.717	n/a	2.758	11.284	n/a	14.551
Total revenue adjustments[2]	-8.270	n/a	-2.653	-56.073	n/a	-56.487

	Water service			Wastewater service		
	FD position	Company BYR view	Ofwat BYR	FD position	Company BYR view	Ofwat BYR
RCV adjustments						
Elements of CIS:						
Adjustment for actual expenditure 2010-15	-189.225	n/a	-203.773	-261.173	n/a	-259.681
Adjustment for change protocol – logging up/down	-13.523	-13.505	-13.505	-11.163	-7.632	-14.463
Adjustment for change protocol – shortfalls	0.000	0.000	0.000	0.000	0.000	0.000
Adjustment to overlap	0.000	0.000	0.000	0.000	0.000	0.000
CIS total[2 3]	-202.748	n/a	-217.278	-272.336	n/a	-274.144
Serviceability shortfall	0.000	0.000	-6.030	0.000	0.000	0.000
Total RCV adjustments[2 3]	-202.748	n/a	-223.308	-272.336	n/a	-274.144

Notes:
1. The revenue and RCV adjustments are added for comparison against the materiality threshold in the PR14 reconciliation rulebook blind year model.
2. Totals may not add up due to rounding.
3. The FD position has been updated for the RCV indexation correction that will be applied separately at PR19.

The adjustments for the Change protocol and 2009 agreed overlap programme are considered separately, but both are implemented through the CIS.

3. Adjustments by 2010-15 incentive mechanism

3.1 Revenue correction mechanism

Our view for the revenue correction mechanism (RCM) adjustment is detailed in table A2 below. This shows the components of the movement from the RCM adjustment included in the PR14 final determination.

Table A3 summarises our interventions in relation to the 2010-15 RCM adjustments.

For the RCM, we apply the PR14 vanilla wholesale WACC (real; pre-tax cost of debt, post-tax cost of equity) as the discount rate. As in the final determination, the PR14 discount rate is 3.6% for Anglian Water.

Table A2 RCM total adjustments for 2015-20 (£ million)

	Water service	Wastewater service	Total
FD position	-4.553	-67.357	-71.909
Impact of RPI changes[1]	-4.712	-7.192	-11.904
Impact of updated data from company	3.854	3.511	7.365
Impact of other adjustments	0.000	0.000	0.000
Impact of Ofwat intervention	0.000	0.000	0.000
Ofwat BYR	-5.410	-71.038	-76.448
Change from FD position	-0.858	-3.681	-4.539

Note:

1. The calculated movement from the RCM adjustment included in the PR14 final determination relates to actual RPI being lower than forecast at PR14 for 2014-15.

The changes shown in table A2 above will be implemented in the PR14 reconciliation rulebook legacy blind year model as discussed in section 4.

Table A3 Interventions on proposed 2010-15 RCM adjustments

Area of intervention	What we did at FD	Why we did it at FD	What has changed in BYR	What we have done for BYR and why
FD09 assumptions – measured non-households' revenue for the measured non-household group immediately above and below the 50 megalitre (Ml) threshold	Our FD14 assumptions included our view of the FD09 assumptions. Our view of the company's revenue assumptions for the measured non-household group immediately below and above the 50 Ml tariff basket threshold originated from the company's FD09 revenue forecasts that came from the tariff basket model, which we used for PR09.	There were differences between the company's and our view of the FD09 assumptions used in the company's populated RCM model. The company applied different assumptions for 'FD09 Measured non-households' revenue for the measured non-household group immediately above and below the 50 Ml threshold' compared with our view of its FD09 assumptions. Our assumptions for the final determination included the FD09 revenue forecasts as contained in the PR09 tariff basket model in accordance with our published methodology 'Setting price controls for 2015-20 – further information on reconciling 2010-15 performance'.	There has been no change from the final determination.	There has been no change from the final determination.
Measured non-household revenues	Our assumptions at the final determination used the data the company submitted in	There were inconsistencies with the measured non-household revenues between	The company has submitted updated numbers in tables W17 and S17 for 2014-15.	We have accepted the company's submission, and have not intervened.

Area of intervention	What we did at FD	Why we did it at FD	What has changed in BYR	What we have done for BYR and why
	business plan tables W17 and S17 to calculate our view of the RCM adjustment.	business plan tables W17 and S17 and the company's populated RCM model. Our assumptions for the final determination corrected the company's data inconsistencies.		

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

Table A4 below summarises the company's view and our baseline view of total adjustments to capex included in the CIS reconciliation.

Table A5 summarises our interventions in relation to the company's proposed change protocol adjustments.

Table A4 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		
	FD position	Company BYR view	Ofwat BYR	FD position	Company BYR view	Ofwat BYR	FD position	Company BYR view	Ofwat BYR
Logging up (two-sided)[1, 2]	0.000	0.000	0.000	27.014	34.011	27.180	27.014	34.011	27.180
Logging down (two-sided)[1, 2]	-13.523	-13.505	-13.505	-38.177	-41.643[3]	-41.643	-51.700	-55.148	-55.148
Shortfalls (one-sided)[1, 2]	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Notes:
1. We exclude serviceability shortfalls from the numbers above as they are not part of the CIS reconciliation. Instead we make direct adjustments to the RCV.
2. Changes relating to 2009-10 were implemented in full in the opening RCV at PR14 final determination.
3. Includes the change in associated grants and contributions of -£71.979 million (post efficiency) over the 2010-15 period.

The changes for the five years 2010-15 included in table A4 are implemented through the CIS.

Table A5 Interventions on proposed 2010-15 change protocol adjustments

Area of intervention	What we did at FD	Why we did it at FD	What has changed in BYR	What we have done for BYR and why
Beck Row WTW – Logging down (water service)	The company proposed a log down of £12.9 million (pre-efficiency) due to the removal of the Beck Row scheme. The value was £13.3 million in post efficiency terms. We assessed the claim and determined that the capex to be logged down was £13.1 million (£13.5 million in post efficiency terms).	We assessed the information provided to us by the company and identified an error in the calculation; although the calculation was correct in principle. The correction of the error resulted in the small change noted in the value of the log down. The company did not make a representation on our intervention.	The company has corrected the small error we had identified in the final determination and has restated all figures from 2010-11 to 2014-15 based on a corrected view of COPI which results in an overall pre-efficiency claim of -£13.113 million.	We have not intervened in this area. We accept the company's final claim for this item.
Supply Demand – Logging down (sewerage service)	The company proposed a pre-efficiency log down of £87.8 million (capex) and £0.2 million (opex) due to less activity than forecast for the sewerage supply demand programme. In post-efficiency terms, the value of the log down was £98.3 million (capex) and £0.2 million	The forecast information provided by the company predicted that some 81,900 new connections assumed in FD09 would not be delivered. The gross capital expenditure applicable to the reduced number of new connections was £87.8 million, with a corresponding reduction in	The company has revised its net change in output in 2014-15 from 23,477 to 18,838 properties and has also revised the figure for 2013-14 from 23,907 to 22,915 properties to reflect its actual activity in this year rather than	There are a number of points on which we take a different view to the company, but the logging down value proposed by the company remains greater than our view of the claim based on the number of new connections not delivered during the period 2010-15. Greater logging down values

Area of intervention	What we did at FD	Why we did it at FD	What has changed in BYR	What we have done for BYR and why
	(opex). We assessed the claim and determined that the net capex to be logged down was £34.0 million. In post-efficiency terms, this value was £38.2 million. The difference between the company view of capex and our view was that we took account of grants and contributions (£53.8 million). We therefore accepted the company’s proposed log down as stated in its commentary to Table S13. We did not apply a challenge to the opex.	grants and contributions of £53.8 million. This resulted in a net capex reduction of £34.0 million (£38.2 million in post efficiency terms). The company did not make a representation on our intervention.	its December 2013 estimate which was input in error. The company has also revised its capex adjustment for 2014-15 from -£6.989 million to -£20.179 million to reflect significantly lower than expected actual capex on s98 requisition schemes compared to what it had forecast would be needed in this year. The company has corrected its approach to inflation, which is now in accordance with Ofwat guidance. The company has also revised its approach to the treatment of grants and contributions which it claims is in customers’ favour. Rather than comparing the allowances Ofwat made for G&C at PR09 with the G&C actually collected (with customers bearing the risk of any shortfall in their collection rate), the company derives G&C based on 63% of actual expenditure which the company says was Ofwat's approach at FD09.	benefit customers. We therefore accept the company's final claim for this item which has increased from the final determination. We have applied a pre efficiency logging down adjustment of £37.240 million (£41.643 million post efficiency).

Area of intervention	What we did at FD	Why we did it at FD	What has changed in BYR	What we have done for BYR and why
			The net effect of these changes is an increase in the pre-efficiency logging down adjustment from -£34.0 million to -£37.2 million.	
Transfer of private sewers – Logging up (sewerage service)	The company proposed a log up in pre-efficiency terms of £30.5 million (capex) and £17.9 million (opex). Expressed in post-efficiency terms this was £34.8 million (capex) and £16.9 million (opex). We applied a challenge to the capex proposed and assessed the total amount of capex to be logged up as £23.7 million. In post-efficiency terms, this value was £27.0 million. We did not challenge the company's proposed opex values). There was therefore no intervention for the opex (£16.9 million in post-efficiency terms).	We assessed the company's logging up claim and reduced the collapse-related capex by 12.56% in order to bring the normalised capex/collapse unit cost to the industry unweighted average. This was to prevent the company gaining a possible advantage relative to others merely by virtue of having an accounting policy that resulted in a higher than average capex / opex ratio.	Replacing forecasts for 2014-15 with actuals reported by the company resulted in a revised capex log up claim in pre-efficiency terms of £29.810m which represents £34.011 million in post efficiency terms.	We have carried forward our FD14 view of the capex in the first four years and challenged the reported actual capex in 2014-15 using the methodology employed at FD14. We have reduced collapse related capex (total capex from the blind year submission less around £0.05m other capex taken from p150 of the June 2014 resubmission table commentary) by 3.5% to bring the capex / collapse ratio to the industry unweighted average as determined at FD14. We have assessed the total amount of capex to be logged up as £23.823m. In post efficiency terms this value is £27.180m.

3.3 Service standard outputs

Service standards are regulatory outputs that we set out in FD09 supplementary reports[1]. Where relevant companies reported their performance for 2014-15 on these service standards as part of their submissions for the blind year reconciliations.

In our PR14 final determination, we were satisfied that the FD09 service standards had been met. This remains our view for this final reconciliation.

3.4 Serviceability performance

Table A6 quantifies the value and impact of any serviceability shortfall on the RCV. Table A7 summarises our interventions in relation to the company's proposed adjustments for serviceability.

Since the PR14 final determination, we have intervened in the blind year reconciliation to apply a shortfall adjustment for water infrastructure due to poor performance in unplanned supply interruptions exceeding 12 hours.

[1]In the 2009 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. 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."

Table A6 post-efficiency serviceability shortfall value (£ million)

Post-efficiency shortfall		2010-15
Water service	FD position	0.000
	Company view	0.000
	Ofwat BYR	-6.030
Wastewater service	FD position	0.000
	Company view	0.000
	Ofwat BYR	0.000

The changes between our PR14 final determination and our proposals shown in table A6 above will be implemented in the PR14 reconciliation rulebook legacy blind year model at PR19, discussed in section 4.

Table A7 Impact of serviceability shortfalls on the RCV

Area of intervention	What we did at FD	Why we did it at FD	What has changed in BYR	What we have done for BYR and why
Serviceability – water infrastructure Burst mains	For the purposes of the final determination, there was no intervention for this indicator. This was conditional upon the performance in 2014-15 being improved to a position such that it could be considered as stable. We noted that we will consider a shortfall adjustment if this is not achieved. Serviceability performance in	The company has had two breaches of the upper control limit in 2010-11 and 2011-12. However, performance in 2012-13 and 2013-14 has recovered to just below the upper control limit. Performance in 2014-15 (based on six months of actual failure data) was expected to outturn near the reference	The company has demonstrated stable serviceability with performance in 2014-15 below the upper reference limit.	We have not intervened in this area as the performance of this indicator was below the upper control limit for 2014-15.

	2010-15 was due to be reviewed once actual data is available for the whole period. Any shortfalls arising from this review will be applied at the next price control.	level. The company also provided evidence to show that adverse weather impacted on performance in those years. Considering the weather impacts, only 2011-12 remains above the upper control limit. We required the company to demonstrate stable serviceability in 2014-15. If this is not achieved, we may consider a shortfall adjustment.		
Serviceability – water infrastructure Unplanned interruptions to supply exceeding 12 hours	For the purposes of the final determination, there was no intervention for this indicator. This was conditional upon the performance in 2014-15 being improved to a position such that it could be considered as stable. We will consider a shortfall adjustment if this is not achieved. Serviceability performance in 2010-15 was due to be reviewed in 2015 once actual data is available for the whole period. Any shortfalls arising from this review will be applied at the next price control.	The company has had two breaches of the upper control limit in 2011-12 and 2014-15. Performance in 2012-13 and 2013-14 is near the reference level. Performance in 2013-14 was stable and hence no shortfall has been applied at the final determination. However, 2014-15 performance was at risk of a marginal assessment and potential shortfall.	Actual performance in this indicator is worse than forecast (6,529 vs 2,414 properties) and the performance, before taking account of claims for exclusion, is above the upper control limit. The company provided evidence that it considered showed two events were outside of management control. These were for Caistor St Edmund (4,414 properties) and Littleport (904 properties). At Caistor St Edmund, the company stated that a ductile iron main under 20 years old that was 6 metres deep suffered a burst (not having previously burst), due to a manufacturing fault, after	In the final determination company specific appendix, we warned the company that “2014-15 performance is at risk of a marginal assessment and potential shortfall. This will be reviewed again in 2015 and a shortfall applied if performance is not considered stable.” We accept the Caistor St Edmund exclusion claim, because we consider the evidence presented showed that the event was outside management control. However, we do not find the evidence for the Littleport claim to be compelling. Two bursts occurred on a main and the company has not demonstrated that either burst

			which the company did all it could to restore supply. At Littleport, the company stated that a burst had occurred in a main 2 metres beneath a ploughed field when a water tower downstream was offline for maintenance. A second burst had occurred when the main was recharged. The company stated that its modelling indicates that the burst was not caused by the work on the water tower. The company stated that it was the specific circumstances (location, depth and time of burst - 2.25am) that meant that the burst took almost 12 hours to repair. A second burst had occurred when the main was recharged. The company stated that it had considered the risks, but considered that its approach was appropriate. The company also pointed to e mail correspondence with Ofwat at a working level which suggested that initial views were that the Caistor St Edmund event was exceptional and which referred to the more borderline nature of the Littleport event.	was due to factors outside the company's management control. We do not consider that the location of the burst on the main, 2 metres deep in a field, to be exceptional. There were additional measures that the company could have taken to maintain the flow of services to consumers, particularly as regards the speed and effectiveness of its operational response. Having recognised the risks around taking the water tower out of service, the company put in place certain measures it considered appropriate to mitigate those risks. However, the company had full control over selection of those measures and they were not sufficient. In respect of the Ofwat email correspondence, this made clear that final decisions would be made at a future stage, and were subject to further governance procedures. The main consultation document explains why we have decided to apply a shortfall for those indicators

				where performance was above the upper control limit for 2011-12 and 2014-15. It is appropriate in this situation that we apply a shortfall adjustment. We have applied a shortfall of £6.0 million.
Wastewater infrastructure - Flooding other causes	For the purposes of the final determination, there was no intervention for this indicator. This was conditional upon the performance in 2014-15 being improved to a position such that it is considered stable. We will consider a shortfall adjustment if this is not achieved. Serviceability performance in 2010-15 was due to be reviewed in 2015 once actual data is available for the whole period. Any shortfalls arising from this review will be applied at the next price control.	The company has had three breaches of the upper control limit between 2010-11 and 2012-13. The company has provided evidence to show how severe weather impacted on performance in 2012-13. However, we do not consider the links between antecedent rainfall and flooding other causes to be robust. Therefore, we have not accepted these exclusions. Performance in 2013-14 recovered to near the reference level and performance in 2014-15 (based on six months of actual failure data) is expected to be within control limits. We require the company to demonstrate stable serviceability as part of the 2015 review. If this is not achieved, we will consider a shortfall adjustment.	The actual performance is worse than forecast (179 vs 146 properties) but lies below the upper control limit.	The company's performance lies below the upper control limit for 2014-15. We assess serviceability for this indicator in 2014-15 as stable, and we will not apply a shortfall.

3.5 The 2009 agreed overlap programme

Table A8 below confirms the 2009 agreed overlap programme assumptions. There are no changes from our final determination and there are no interventions in this area.

Table A8 PR09 agreed overlap programme adjustments and assumptions (£ million)

		2010-15
		Two-sided adjustments for inclusion in the CIS
Water service	FD position	0.000
	Company BYR view	0.000
	Ofwat BYR	0.000
Wastewater service	FD position	0.000
	Company BYR view	0.000
	Ofwat BYR	0.000

3.6 CIS

Table A9 provides details of the CIS ratios and performance incentive. It also gives the monetary amounts of the CIS performance reward or penalty and true-up adjustments to allowed revenues.

Table A10 provides details of the RCV adjustments and quantifies the impact of this final 2010-15 reconciliation compared to the PR14 final determination position (updated for the indexation correction we decided to implement in February 2016).

In table A11 we summarise our interventions in relation to the company's CIS adjustments.

Table A9 CIS true-up adjustments

		Water service	Wastewater service	Total service
Restated FD09 CIS bid ratio[1]	FD position	105.121	95.281	n/a
	Ofwat BYR	105.099	99.566	n/a
Out-turn CIS ratio	FD position	90.907	87.868	n/a
	Ofwat BYR	88.596	87.074	n/a
Incentive reward/penalty (%)[2]	FD position	2.437	3.752	n/a
	Ofwat BYR	3.071	3.966	n/a
Reward/penalty (£m)	FD position	22.757	45.085	67.842
	Ofwat BYR	28.919	48.007	76.926
Adjustments to 2015-20 revenue (£m)[3]	FD position	-3.717	11.284	7.567
	Ofwat BYR	2.758	14.551	17.309

Notes:

1. The restated FD09 CIS bid ratio takes account of the adjustments for the change protocol (table A4) and the 2009 agreed overlap programme (Table A8).
2. 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.
3. The adjustment to 2015-20 revenue values shown in this table assumes a single year adjustment in the first year, and does not include the NPV profiling used for the final determination.

Table A10 CIS RCV adjustments (£ million)

	Water service	Wastewater service
FD position	-140.830	-193.276
Impact of indexation correction	-61.918	-79.061
Corrected FD position	-202.748	-272.336
Impact of updated actuals	-14.531	-1.808
Ofwat BYR	-217.278	-274.144
Change from FD position	-76.448	-80.869

The changes to revenue shown in table A9 and the impact of updated actuals for the RCV shown in table A10 above will be implemented through the PR14 reconciliation rulebook legacy blind year model at PR19, discussed in section 4. The indexation correction will be applied separately at PR19.

Table A11 Interventions on proposed CIS adjustments

Area of intervention	What we did at FD	Why we did it at FD	What has changed in BYR	What we have done for BYR and why
Methodology	We used the post-tax basis of the PR09 cost of capital for the discount rate when calculating the future value of the revenue adjustment in the 2010-15 period. We used the PR09 post-tax cost of capital when calculating the financing costs.	As explained in policy chapter A4 (PR14 FD), we changed the methodology in the CIS model with respect to the discount rate used when calculating the future value of the revenue adjustment in the 2010-15 period. The company has made tax adjustments to the PR09 cost of capital based financing and discount rates. We disagreed with this approach and applied Ofwat's published methodology for calculating the financing costs.	Update to reflect 2014-15 actual expenditure, RPI and COPI.	We have used the company's updated expenditure data and therefore have not intervened.

Area of intervention	What we did at FD	Why we did it at FD	What has changed in BYR	What we have done for BYR and why
Change protocol adjustments	In carrying out our assessment, we included our view of the applicable change protocol amounts for water and wastewater.	We applied Ofwat's published methodology.	See section 3.2 and section 3.5 above.	See section 3.2 and section 3.5 above.

3.7 The 2014-15 transition programme

Table A12 confirms the company's proposed transition programme. There are no interventions in this area.

Table A12 Transition programme in 2014-15 (£ million)

Net capital expenditure	FD position	Company BYR view	Ofwat BYR
Water service	23.933	25.310	25.310
Wastewater service	33.904	26.964	26.964

4. Implementing the changes

Our PR14 reconciliation rulebook describes how we will implement the changes between our PR14 final determination and our proposals. This includes the application of the £10,000 materiality threshold to the aggregate of the revenue and RCM adjustments.

The PR14 reconciliation rulebook legacy blind year model draws together the RCM, CIS and serviceability shortfall adjustments applied in the final determination and from the blind year update, calculates the differences, performs the materiality test and preserves the present value of the blind year adjustments for those that will be implemented at PR19. Table A13 shows the output values from the legacy blind year adjustment model and when they will be implemented.

Table A13 adjustments to be implemented (£ million)

	Water service	Wastewater service
RCM revenue adjustment[1]	-0.858	-3.681
Total adjustment revenue carry forward to PR19	7.727	3.899
Total adjustment RCV carry forward to PR19	-24.538	-2.158

Note:

1. To allow companies to manage potential volatility in customer bills, we have given them the option of implementing the RCM revenue adjustment through WRFIM in either 2017-18, 2018-19, 2019-20 or in PR19. We expect companies' responses to this consultation to propose how they want RCM adjustments to apply taking account of customer interests.

The CIS RCV indexation correction is not included in the RCV carry forward in table A13 above because it will be applied separately at PR19 in accordance with the PR14 reconciliation rulebook (section 7.2 process for adjusting CIS for both indexation and the blind year).