

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 Northumbrian 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	3
2. Summary of 2010-15 final reconciliation adjustments	6
3. Adjustments by 2010-15 incentive mechanism	8
4. Implementing the changes	24

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 complete information and final audited spend and performance data for the whole 2010-2015 period, 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 Northumbrian Water resulting from the company's actual performance during the period 2010-2015, including 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).

There are no significant differences between the company view in its submission and our view of the adjustments required for the final 2010-15 reconciliation.

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	34.887	n/a	28.908	28.791	n/a	26.350
CIS	5.601	n/a	8.240	-16.341	n/a	-15.506
Total revenue adjustments ²	40.489	n/a	37.148	12.450	n/a	10.843

	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	-195.905	n/a	-202.493	-23.239	n/a	-34.076
Adjustment for change protocol – logging up/down	0.000	0.000	0.000	-7.399	-3.559	-3.559
Adjustment for change protocol – shortfalls	0.000	0.000	0.000	-8.405	0.000	0.000
Adjustment to overlap	0.000	0.000	0.000	0.000	0.000	0.000
CIS total ^{2 3}	-195.905	n/a	-202.493	-39.044	n/a	-37.635
Serviceability shortfall	0.000	0.000	0.000	0.000	0.000	0.000
Total RCV adjustments ^{2 3}	-195.905	n/a	-202.493	-39.044	n/a	-37.635

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 Northumbrian Water.

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

	Water service	Wastewater service	Total
FD position	34.887	28.791	63.678
Impact of RPI changes ¹	-3.561	-2.467	-6.029
Impact of updated data from company	-2.418	0.026	-2.392
Impact of other adjustments	0.000	0.000	0.000
Impact of Ofwat intervention	0.000	0.000	0.000
Ofwat BYR	28.908	26.350	55.258
Change from FD position	-5.979	-2.441	-8.421

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
2009-10 number of households billed property numbers	Our draft determination included the number of households billed in 2009-10 submitted by the company in table 7 and 13 of its June return. We reviewed the company's representation on our DD intervention and we accepted the company's rebased property numbers for 2009-10.	The company demonstrated in its DD representation the need and justification to rebase its 2009-10 property numbers due to reporting changes.	There has been no change from the final determination.	There has been no change from the final determination.
Forecasted 2014-15 tariff basket revenue	Our assumptions for the draft determination did not include the company's forecasted 2014-15 revenues for both the water and sewerage services. We uplifted tariff basket revenues in 2014-15, such that the variance in 2014-15 between FD09 and actual tariff basket revenues was restricted to the same levels as in 2013-14 for both the water and sewerage services. We reviewed the company's representation on our DD intervention and we accepted	At the draft determination, we had concerns with the company's 2014-15 revenues forecasts because the company had projected a widening revenue shortfall that was not explained. The company provided additional evidence in its DD representation to support its 2014-15 revenues forecast. We did not intervene on its 2014-15 revenues forecast for final determination.	The company has submitted updated numbers for 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
	the company's forecasted 2014-15 revenues for both the water and sewerage services.			
FD09 assumptions – Measured non-households' revenue for the measured non-household group immediately above and below the 50ML threshold	Our final determination included Ofwat's view of the FD09 determinations. 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 come 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 50ML threshold' compared with our view of its FD09 assumptions. In its representation, the company stated that while it was not material on the RCM, it considered that we did not include the band B non-identified customers in our FD09 assumptions. We could not be certain that band B is a group that lies immediately either side of the tariff basket threshold, therefore we did not include it in the FD09 assumptions. We therefore did not change our approach from the draft determination for this area. Our assumptions for the final determination	There has been no change from the final determination.	There has been no change from the final determination.

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
		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'.		
Outturn financial year average RPI	Our assumptions for the final determination included the data that the company submitted in its revised business plan table A9 to calculate our view of the RCM adjustment using our published RCM feeder model.	At the draft determination, we had concerns on the data inconsistencies for outturn financial year average RPI between the data submitted in the company's revised business plan table A9 and the company's populated RCM spreadsheet. The company recognised this in its draft determination representation and updated its RCM model to correct for the data inconsistency.	Actual RPI for 2014-15 is now published.	We have updated the company's forecasted RPI for 2014-15 with actual RPI for 2014-15.

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	12.525	11.045 ³	11.045	12.525	11.045	11.045
Logging down (two-sided) ^{1, 2}	0.000	0.000	0.000	-19.924	-14.604	-14.604	-19.924	-14.604	-14.604
Shortfalls (one-sided) ^{1, 2}	0.000	0.000	0.000	-8.405	0.000	0.000	-8.405	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. Excludes the logging up adjustment in 2009-10 of £23.893m (post efficiency) relating to the PR09 shortfall for sewer flooding. In the PR14 final determination, we treated this outside the CIS reconciliation as an adjustment to the RCV.

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
Trunk main cleaning	For the final determination, we obtained additional information and assurance from the company that it would deliver the 2014-15 performance target of 0.93	The company provided a monthly breakdown of discolouration data from 2010 to the present date, as well as details of the work undertaken and the planned work for	The company reports an actual discolouration contacts per 1,000 population figure for 2014-15 of 0.89. This exceeds the target of 0.93 included in FD09 for which this trunk	As in the final determination, we have not intervened in this area because we are satisfied that the FD09 performance target has been achieved.

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
	<p>discolouration contacts per 1,000 population supplied.</p> <p>Given this projected performance, we removed the £3.6 million shortfall applied at the draft determination for the final determination. However, we expected the company to demonstrate completion of this activity as part of our review of performance in July 2015 and that the 0.93 target had been delivered.</p>	<p>remainder of the period. The discolouration data showed an improving trend, a reduction in discolouration contacts and a projected achievement of the 2014-15 target.</p>	<p>main activity was identified and is just slightly above the forecast of 0.86 at the time of the final determination.</p>	
<p>Sedgeleth STW (Flow1) scheme</p>	<p>In the December [2013] plan, the company justified its exclusion of the deferred scheme at Sedgeleth STW as a logging down item on the grounds that, once the offsetting costs of three new P removal schemes had been taken into account, the resultant net cost did not breach the triviality threshold (2% of service turnover).</p> <p>As the obligation driving investment at Sedgeleth was different to that at the three new sites, the proposed amalgamation did not align with our approach to the aggregation of changes. Accordingly, we considered</p>	<p>Northumbrian Water did not provide any justification in any of its submissions for combining Sedgeleth with the three new P removal schemes the Environment Agency had requested be completed in AMP5. Therefore, our view was that, in line with our policy, the schemes should be treated separately owing to the different cost drivers involved.</p> <p>A small difference compared to the draft determination was due to the company updating actual expenditure based on our COPI values.</p>	<p>This is an Ofwat initiated claim which the company has now reflected in its blind year submission of table S13.</p>	<p>We have not intervened in this area. The company has accepted the logging down claim we initiated for the final determination and reflected this in its blind year submission.</p>

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
	<p>Sedgeleth STW in isolation and, as the associated costs were higher than the triviality threshold, we treated it as a logging down item.</p>			
<p>Newbiggin STW bathing water scheme</p>	<p>The company justified its exclusion of the withdrawn scheme at Newbiggin STW as a logging down item in Table S13 on the grounds that once the offsetting costs of two AMP6 bathing water schemes had been taken into account, the resultant net cost did not breach the triviality threshold (2% of service turnover). Our view was that for the two schemes to be treated as potential offsetting items, the company needed to demonstrate inclusion of the schemes within the NEP AMP5 programme (for which there needed to be explicit support from the Environment Agency and Defra). Failing that, we considered the two schemes should be included in the 'transitional investment' programme which allowed early investment of AMP6 schemes. Accordingly, we considered Newbiggin STW in isolation and, as the</p>	<p>Northumbrian Water did not use the 'transitional investment' approach which we introduced for issues such as these (that is, where companies had to commence investment on AMP6 schemes in AMP5), nor provided evidence of Defra support (in accordance with change protocol requirements) that enabled us to process the Saltburn and Seaham schemes as potential offsetting logging up items. There was no presumption that this Defra support would be forthcoming automatically as the latest prediction for the Seaham Beach and Saltburn bathing waters (published by Defra in November 2014) were 'Sufficient' and 'Good' respectively (without any further improvement scheme). Without these schemes, the net log down may no longer have been trivial. Our final determination adjustment for</p>	<p>This is an Ofwat initiated claim which the company has now reflected in its blind year submission of table S13.</p>	<p>We have not intervened in this area. The company has accepted the logging down claim we initiated for the final determination and reflected this in its blind year submission.</p>

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
	associated costs are higher than the triviality threshold, we treated it as a logging down item.	<p>this claim was the same as the company's in that it treated this claim on an individual logging down basis. The difference compared to the draft determination was due to:</p> <ul style="list-style-type: none"> a. the company updating actual expenditure based on our COPI values; and b. applying efficiencies based on the allocation of expenditure between infrastructure (90%) and non-infrastructure (10%) as assumed at PR09. The company used the same figures but allocated the 90% to non-infrastructure. <p>We assumed the company incorrectly reversed the allocation when completing business plan Table S13.</p>		
Sewer flooding non-delivery of AMP5 outputs	We accepted the revised forecast delivery information provided by Northumbrian Water. The company carried out a review of the outputs proposed in 2014-15 and identified that 50 solutions should be logged down as these were not required. This resulted in a small reduction	Northumbrian Water carried out a review of the outputs proposed for 2014-15 and assessed the risk of not completing them by the end of the year. This review had also been the subject of external assurance. Recent outturn and forecast information provided by the company in	The company has included this Ofwat initiated claim in its blind year submission but has set the value to zero on the basis that it has completed more problems than forecast in 2014-15 (i.e. 552 vs 527). The company does not consider a logging up adjustment is required since	We have removed the logging down adjustment applied in the final determination for the 50 outputs the company considered were not required and the 79 high risk outputs the company considered were at risk of not being completed.

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
	<p>in the scale of the log down we included in the draft determination. Additionally, we accepted the company's proposed shortfall in respect of 79 outputs that had been identified as being at highest risk of missing the March 2015 deadline for completion.</p>	<p>October 2014 supported the revised forecast information the company provided as part of its representation.</p>	<p>overall they have solved 1,142 problems via capital solutions compared to the FD09 programme of 1,135 problems.</p> <p>The company makes reference to its 2015 Annual Performance Report. On page 17, the company confirms it has met its AMP5 obligations with respect to sewer flooding due to its massive effort in 2014-15 "which exceeded the forecast we provided to Ofwat ahead of the PR14 FD."</p>	<p>During 2014-15 the company focussed on delivering against their sewer flooding obligations and were able to provide more solutions than it had forecast at the time of its revised business plan in July 2014. The company provided sufficient evidence in its blind year submission and 2015 Annual Performance Report to demonstrate that overall, the number of solutions provided during 2010-15 exceeded the FD09 expectation and the company has achieved the required net reduction in properties on the internal registers. On that basis we consider it is appropriate to remove the logging down adjustment applied in the final determination.</p>

We have not intervened in the following claims:

- Private sewers (Logging up – sewerage service);
- Sedgeleth STW (Logging down – sewerage service);
- Newbiggin STW (Logging down- sewerage service);
- Sewer flooding AMP5 outputs (Logging down – sewerage service); and

- Sewer flooding end AMP4 – we made this adjustment in the PR14 final determination outside the CIS, directly to the RCV in the calculation of the 2009-10 outperformance adjustment.

3.3 Service standard outputs

Service standards are regulatory outputs that we set out in FD09 supplementary reports¹. Where relevant companies reported their performance for 2014-15 on these service standards as part of their submissions.

In our PR14 final determination, we noted that the company had provided satisfactory evidence that it had achieved the service standards for exceptional items, odour and resilience as set out in the 2009 final determination and therefore we did not apply a shortfall. 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.

¹In 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."

There are no changes from our final determination.

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	0.000
Wastewater service	FD position	0.000
	Company view	0.000
	Ofwat BYR	0.000

Any 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
Wastewater infrastructure – flooding other causes	For the final determination, we removed the £1.9 million (post-efficiency) shortfall applied at the draft determination on condition of the company achieving forecast performance for 2014-15. We noted that we would consider a shortfall	The company has had two breaches of the upper control limit for 2011-12 and 2012-13 and performance for 2013-14 was below the upper control limit. The company provided data to show that performance in 2014-15 is likely to outturn at the reference level. The	The company has demonstrated an improvement in Flooding Other Causes performance since PR14 final determination - it was below the upper control limit in 2014-15.	The company's performance on the Flooding Other Causes indicator has improved to below the upper control limit for 2014-15. We assess serviceability as stable, and we will not apply a shortfall.

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
	adjustment at the next price control should the company fail to demonstrate that it has achieved a forecast performance for 2014-15 on flooding other causes.	improvement was achieved through a focused serviceability action plan. However, we noted that if the projected performance was not achieved we would consider a shortfall adjustment that would be applied at the next price control.		

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.

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	103.061	106.354	n/a
	Ofwat BYR	103.061	101.431	n/a
Out-turn CIS ratio	FD position	85.601	107.766	n/a
	Ofwat BYR	84.428	105.407	n/a
Incentive reward/penalty (%) ²	FD position	4.076	-1.766	n/a
	Ofwat BYR	4.410	-1.588	n/a
Reward/penalty (£m)	FD position	29.429	-8.951	20.477
	Ofwat BYR	31.937	-8.249	23.688
Adjustments to 2015-20 revenue (£m) ³	FD position	5.601	-16.341	-10.739
	Ofwat BYR	8.240	-15.506	-7.267

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	-149.011	-4.865
Impact of indexation correction	-46.894	-34.179
Corrected FD position	-195.905	-39.044
Impact of updated actuals	-6.588	1.408
Ofwat BYR	-202.493	-37.635

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.	As explained in policy chapter A4 (PR14 FD), we changed the methodology in the CIS model.	Updated to reflect 2014-15 actual expenditure, RPI and COPI. The company revised 2014-15 to exclude the transition expenditure in response to an Ofwat query.	We have used the company's revised data and therefore have not intervened.
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.
Data inconsistencies	In carrying out our assessment, we used the values from tables A9 of the PR14 business plan that the company submitted.	We identified minor inconsistencies between the revised business tables and the company's populated CIS model on the COPI financial year values for 2013-14 and 2014-15.	Actual RPI and COPI have been published.	Updated to reflect actual RPI and COPI.

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	0.000	0.000	0.000
Wastewater service	5.357	3.730	3.730

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.

Table A13 adjustments to be implemented (£ million)

	Water service	Wastewater service
RCM revenue adjustment ¹	-5.979	-2.441
Total adjustment revenue carry forward to PR19	3.148	0.996
Total adjustment RCV carry forward to PR19	-7.863	1.681

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).