

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 Yorkshire 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.

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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 Yorkshire 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.

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	50.915	n/a	44.597	55.106	n/a	44.356
CIS	16.063	n/a	17.141	6.608	n/a	8.792
Total revenue adjustments ²	66.978	n/a	61.738	61.714	n/a	53.148
RCV adjustments						

	Water service			Wastewater service		
	FD position	Company BYR view	Ofwat BYR	FD position	Company BYR view	Ofwat BYR
Elements of CIS:						
Adjustment for actual expenditure 2010-15	-156.328	n/a	-153.790	-234.564	n/a	-231.501
Adjustment for change protocol – logging up/down	0.000	0.000	0.000	-13.978	-10.671	-8.963
Adjustment for change protocol – shortfalls	0.000	0.000	0.000	-3.602	-9.000	-9.000
Adjustment to overlap	0.000	0.000	0.000	0.000	0.000	0.000
CIS total ^{2 3}	-156.328	n/a	-153.790	-252.144	n/a	-249.464
Serviceability shortfall	0.000	0.000	0.000	0.000	0.000	0.000
Total RCV adjustments ^{2 3}	-156.328	n/a	-153.790	-252.144	n/a	-249.464

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 Yorkshire Water.

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

	Water service	Wastewater service	Total
FD position	50.915	55.106	106.021
Impact of RPI changes ¹	-3.637	-4.397	-8.034
Impact of updated data from company	-2.682	-6.353	-9.035
Impact of other adjustments	0.000	0.000	0.000
Impact of Ofwat intervention	0.000	0.000	0.000
Ofwat BYR	44.597	44.356	88.952
Change from FD position	-6.319	-10.750	-17.069

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 assumptions for the final determination 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 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 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. 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.
Number of non-households billed	Our assumptions for the final determination used the data the company submitted in	There were inconsistencies with the number of non-households billed between	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
	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 applied the data from W17 and S17.		

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.

The main changes made by the company in its blind year submission were to reduce its logging up claim for the adoption of private sewers by £1.6 million, lessen the value of its 1 in 10, 2 in 10 DG5 sewer flooding logging down claim by £5.9 million, increase the sewer flooding net reduction in properties shortfall by £1.8 million and make a new shortfall claim for the Leeds multi-agency study for £3.1 million.

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	28.294	26.513	26.513	28.294	26.513	26.513
Logging down (two-sided) ^{1, 2}	0.000	0.000	0.000	-42.272	-37.184	-35.476	-42.272	-37.184	-35.476
Shortfalls (one-sided) ^{1, 2}	0.000	0.000	0.000	-3.602	-9.000	-9.000	-3.602	-9.000	-9.000

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.

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
DG5 sewer flooding (1 in 10 and 2 in 10) – logging down (sewerage service)	For the purposes of the draft determination we logged down 164 solutions – this was made up of the 517 required outputs minus the 353 forecasted by the company. The amount of the log down was calculated from a unit	We raised a query with Yorkshire Water regarding the company's ability to meet the net reduction. The company response included more detailed information regarding the number of outputs achieved and those still to be completed. We	The company has reduced the value of its logging down claim from -£21.475 million (pre efficiency) to -£15.593 million. This reduction reflects the non-delivery of 119 solutions for the 2010-15 period compared to 164 solutions expected at	We have not intervened in this area. We consider the company's calculations to be reasonable and therefore we accept the company's revised logging down claim for the non-

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>cost value using both the known and 'additions' programmes. Information provided by the company in its representations suggested that delivery might be at risk. We queried this and asked the company to provide further detail. We reassessed this logging down claim in light of the updated information provided by the company. For the purposes of the final determination we still logged down 164 solutions. This was the same value in terms of capex since this was based on a unit cost rate, although the rationale for the logging down changed.</p>	<p>assumed that the company would complete 328 solutions in 2010-15. This included 250 completed in years 1 to 4, 94 forecast to be completed by the end of year 5, 19 completed in AMP4 (which were over and above the AMP4 requirements for net reduction) less 35 properties which were due to be completed in 2015 but were still at the design and feasibility stage.</p> <p>The required output of 517 solutions, less the forecast 328 solutions, resulted in a log down of 189. However, we reduced this figure by 25 to reflect the shortfall already applied for the net reduction, which is discussed below. Therefore, we logged down 164 outputs. The amount of the log down was calculated from a unit cost value using both the known and 'additions' programmes. Therefore, the value of the logging down remained unchanged because the net effect of the updated information provided by the company still resulted in a variance of 164 solutions.</p>	<p>the time of the final determination.</p> <p>In the final determination, the company identified 35 solutions as being still at design and feasibility stage but these have now been delivered. This is confirmed by the company's entry to table S13 in which it has used the 2014-15 year as a balancing item in which to generate the correct logging down values.</p> <p>Based on the final determination, the unit cost for the 164 solutions logged down was £130,945 per solution.</p> <p>Based on the blind year submission value for the 119 solutions now being logged down, the unit cost is £131,034, the difference being 0.1%.</p>	<p>delivery of 119 solutions during the 2010-15 period.</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
Sewerage supply demand: sewerage new development – logging down	We did not accept the company's proposed claim for sewerage new development.	The company did not follow change protocol guidance in its calculation methodology. Trivial claims were submitted and claims were considered across programme areas and drivers. We did, however, assess the claim. The claim had been considered alongside the claim for properties connected to mains sewerage. We assessed this claim together with the grants and contributions claim. We used the values provided by the company and determined the net effect on capex to be £5.7 million in pre-efficiency terms. When considered in this way, which was in line with change protocol guidance, the claim was a logging up claim and the variance was trivial. We did not accept the claim on that basis. It was not in the interest of customers to accept logging up claims that were trivial.	The company reported that there were 1,991 more properties connected in 2014-15 than forecast resulting in a logging down claim for 21,740 properties compared to 23,731 at the time of the final determination. However, the company also highlighted in its commentary, that it had found an error in the previous submission for the 'Capex – net change to costs' where "a formula had been overtlyed so as the background data changed the final value did not change." The company sets out the changes required to its table S13 for this claim. We note that the correction of the error changed the capex in each year by the net change in the value of the Grants & Contributions. The consequence of this error is to reduce the overall logging down claim from -£4.733 million (pre efficiency) to - £1.548 million. The associated Grants & Contributions in 2014-15 reduced from +£0.884 million to +£0.667 million giving a total	We have intervened in this area. As in the final determination, we have considered this claim along with the individual logging down claim for grants and contributions for properties connected to the mains sewerage system. Despite the revisions to the company's claim, we have rejected the claim of £5.189 million (pre efficiency) on the basis of triviality and that it is not in customers favour to accept logging up claims that are trivial.

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>for 2010-15 of +£2.865 million compared to +£3.072 million at the time of the final determination. The company's correction of the error removes the need for Ofwat to apply the same approach as in the final determination i.e. netting off these G&Cs, so the net change is -£1.548 million (pre efficiency) compared to - £1.661 million at FD14.</p> <p>Overall the net pre efficiency claim is -£1.548 million for missing supply properties plus £6.737 million for grants and contributions which results in a combined claim of £5.189 million (pre efficiency).</p>	
Sewerage supply demand: properties connected to mains sewerage – logging down	We have not accepted the company's proposed claim for properties connected to mains sewerage.	The company did not follow change protocol guidance in its calculation methodology. Trivial claims were submitted and claims were considered across programme areas and drivers. We did, however, assess the claim. The claim, which considers variances to grants and contributions only, had been considered alongside the claim for sewerage new development. We used the values provided by	The company reports that there were 1,991 more properties connected in 2014-15 than forecast resulting in a logging down claim for 21,740 properties compared to 23,731 at the time of the final determination. The change in G&C in 2014-15 reduced from +£2.655 million to +£2.035 million. Overall, the consequence of this error is to reduce the variance in	We have intervened in this area. As in the final determination, we have considered this claim along with the individual logging down claim for grants and contributions for properties connected to the mains sewerage system. Despite the revisions to the company's claim, we have rejected the claim of £5.189 million

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 and determined the net effect on capex to be £5.7 million in pre efficiency terms. When considered this way, which was in line with change protocol guidance, the claim was a logging up claim and the variance was trivial. We did not accept the claim on that basis. It was not in the interest of customers to accept logging up claims that were trivial.	associated grants and contributions from +£7.357 million (pre efficiency) to +£6.737 million. Overall the net pre efficiency claim is -£1.548 million for missing supply properties plus £6.737 million for grants and contributions which results in a combined claim of £5.189 million (pre efficiency).	(pre efficiency) on the basis of triviality and that it is not in customers favour to accept logging up claims that are trivial.
Sewer flooding: required net reduction in properties – shortfall	We raised a shortfall of -£3.6 million for the company's failure to meet the net reduction in number of properties (sewer flooding) as stipulated in FD09.	In its representations the company stated that severe rainfall in August flooded additional properties. As a result it was not clear that the required net reduction would be met although the company stated it was still possible. We raised a query asking the company for further information about the August event and the consequences. The company responded that it expected 159 properties to be on the register at the end of the period. This would result in the company missing its net reduction by 25 properties. The company delivered a net reduction in 2005-10, which was 19 more than required. The	The company has included this Ofwat initiated claim in its blind year submission but increased the value of the shortfall from -£3.274 million (pre efficiency) to -£5.107 million. The company reports that it has failed to meet the net reduction in the sewer flooding register by 39 properties as opposed to 25 forecast at time of the final determination. Based on the final determination, the unit cost for the 25 solutions shortfall was £130,960 per solution. Based on the blind year submission value for the 39 solutions now being shortfalled, the unit cost is	We have not intervened in this area. We consider the company's calculations to be reasonable and therefore we accept the company's revised shortfall claim for their failure to meet the net reduction on the sewer flooding register by 39 properties (compared to 25 at the time of the final determination) during the 2010-15 period.

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
		company also stated that current investigations might demonstrate that the recently flooded properties should not be on the register. We did not consider this to be a valid evidential base. In order to protect customers we applied an intervention (shortfall) as the net reduction was measured against the number of properties on the register at the start of the period. We therefore applied a shortfall representing 25 properties.	£130,949, the difference being 0.1%.	

We have not intervened in the following company claims:

- Private sewer adoption (Logging up – sewerage service)
- Knostrop STW F1a scheme (Logging down – sewerage service)
- Sludge environmental permitting regulations (Logging down – sewerage service)
- First time sewerage (Logging down – sewerage service)
- Leeds multi-agency study (Shortfall – sewerage service)
- DG5 sewer flooding 1in 10, 2 in 10 (Logging down – sewerage service)
- DG5 sewer flooding 1 in 20 (Logging down – sewerage service)
- Sewer flooding net reduction in properties (Shortfall – sewerage service)

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 for the blind year reconciliations.

In our PR14 final determination we were satisfied that the service standard outputs relating to the retrofitting of automated meter reading equipment, East Coast pipeline resilience, odour from sewage, pollution and the Blue Flag Bathing Waters had been achieved. This remains our view for this final reconciliation.

In our PR14 final determination, we also stated that the company's flood resilience service standard at Moor Monkton Raw Water Pumping Station was scheduled to be completed by March 2015 and that for this output, we required the company to provide evidence in 2015-16 that the service standard had been achieved. In this final reconciliation, following a query, the company provided confirmation that the project at Moor Monkton was completed in February 2015 and the service standard achieved, with assurance provided by Atkins.

In addition, at PR09 we set the company an enhanced service level target to achieve in 2014-15 for category 1, 2 and 3 pollution incidents. From the evidence in the company's blind year submission, we are satisfied that the company has achieved its target.

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."

Therefore, there are no changes from our final determination and there are no interventions in this area.

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.

There are no changes from our final determination and there are no interventions in this area.

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 - Sewer Blockages:	For the final determination we removed the £2.2 million (post efficiency) shortfall applied at the draft determination. This was conditional upon the performance in 2014-15 being improved to a position such that it could be considered as stable. We noted we would consider a shortfall adjustment if this was not achieved. Any shortfalls arising would be applied at the next price control.	The company provided additional evidence to demonstrate that the increase in sewer blockages since the transfer of private sewers in 2011 can be partly attributed to customers who mistakenly believed prior to the transfer that they were responsible for their sewers (and therefore did not historically report problems to the company). We considered this to be a reasonable explanation for the increase in blockages seen since the transfer of private sewers. The company provided an effective evidence base to explain this hypothesis and provided external analysis and assurance. Excluding these additional blockages from the data resulted in performance below the upper control limit in all years of the 2010-15 period. However, serviceability was still considered to be marginal for this indicator and the company was encouraged to demonstrate a continued	The actual performance for 2014-15 is better than forecast (18,337 vs 18914 blockages) and below the upper control limit. The company also provided updated analysis of the proportion of blockages on the legacy network which has arisen due to the transfer of private drains and sewers.	As in the final determination we have not intervened in this area. This is because the company has reported blockages in 2014-15 on the legacy network below the upper control limit, and also provided updated analysis showing a proportion of blockages on the legacy network has arisen due to the transfer of private drains and sewers.

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
		improvement in understanding the impact of the transfer of private sewers and how this varies beyond the initial transfer of responsibilities. We required the company to demonstrate stable serviceability in 2014-15 including an update of its analysis of the impact of the transfer of private sewers. We noted, if stable serviceability was not achieved, we would consider a shortfall adjustment.		
Wastewater infrastructure - Pollution incidents (Cat 1, 2 and 3)	For the purposes of the final determination there was no intervention for this indicator. This was conditional upon the enhanced service level target being achieved by the end of 2014-15. We noted we would consider a shortfall adjustment if this was not achieved. Serviceability performance in 2010-15 is due to be reviewed in 2015 once actual data is available for the whole of the period. Any shortfalls arising from this review will be applied at the next price control.	The company had not yet achieved the enhanced service level for this indicator. The company forecasted it would achieve this in 2014-15. We noted if this target was not achieved we would consider a shortfall adjustment.	The Enhanced Level of Service required for 2014-15 was 109. The company achieved a level of 102.	The company has achieved the enhanced service level target, as it had forecast. Therefore, as in the final determinations, we have not intervened in this area.
Wastewater non-infrastructure - Sewage treatment	For the purposes of the final determination there was no intervention for this indicator.	The company had two breaches of the upper control limit in 2011-12 and 2012-13.	The actual performance for 2014-15 is better than forecast (0.68% vs 1.35% sewage	The company has demonstrated a marked improvement in the sewage

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
works numeric non-compliance	This was conditional upon the performance in 2014-15 being improved to a position such that it could be considered as stable. We noted we would consider a shortfall adjustment if this was not achieved. Any shortfalls arising would be applied at the next price control.	Performance improved in the last year but remained above the reference level. The company forecast 2014-15 to outturn at the reference level, which is based on nine months performance for the 2014 calendar year. We required the company to demonstrate stable serviceability in 2014-15. We noted that if this was not achieved, we would consider a shortfall adjustment.	treatment works non-compliance).	treatment works numeric non-compliance. We judged this indicator to be stable in 2014-15. As in the final determination, we have not intervened in this area.

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

		2010-15
		Two-sided adjustments for inclusion in the CIS
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	99.531	92.841	n/a
	Ofwat BYR	99.531	93.498	n/a
Out-turn CIS ratio	FD position	88.479	87.830	n/a
	Ofwat BYR	88.164	87.469	n/a

		Water service	Wastewater service	Total service
Incentive reward/penalty (%) ²	FD position	3.502	4.189	n/a
	Ofwat BYR	3.597	4.321	n/a
Reward/penalty (£m)	FD position	26.064	49.417	75.481
	Ofwat BYR	26.974	51.320	78.294
Adjustments to 2015-20 revenue (£m) ³	FD position	16.063	6.608	22.671
	Ofwat BYR	17.141	8.792	25.933

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	-109.186	-176.946
Impact of indexation correction	-47.142	-75.198
Corrected FD position	-156.328	-252.144
Impact of updated actuals	2.538	2.680
Ofwat BYR	-153.790	-249.464

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 updated the detailed breakdown of the 2013-14 expenditure to reflect the correct allocation of grants and contributions to enhancement infrastructure and enhancement non-infrastructure.	We have used the company's updated 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 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 table A9.	We identified minor inconsistencies between the revised business plan table and the company's populated CIS model on the RPI for 2014-15.	Updated to reflect actual RPI and COPI.	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	18.080	9.688	9.688
Wastewater service	16.472	4.790	4.790

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	-6.319	-10.750
Total adjustment revenue carry forward to PR19	1.287	2.607
Total adjustment RCV carry forward to PR19	3.029	3.198

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).