



YorkshireWater

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Regulatory reporting consultation response.
Ofwat.
Centre City Tower.
7 Hill Street.
Birmingham.
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19th July 2017

Dear Sir/Madam,

Consultation on regulatory reporting for the 2017-18 reporting year.

Thank you for providing Yorkshire Water with the opportunity to contribute to the regulatory reporting for the 2017-18 reporting year consultation. Our responses to the questions asked in the consultation document are appended to this letter.

Yorkshire Water agree with Ofwat's aims in relation to this consultation, our specific responses can be found in the appendix. We would welcome some clarity on certain aspects of the consultation and have also made suggestions to further improve the definitions and understanding.

If you wish to discuss the content of our response in more detail please do not hesitate to contact me on the e mail below.

Janet.bone@yorkshirewater.co.uk.

Yours faithfully,

Janet Bone
Regulatory Strategy Team

Question 1

Appendix 1 contains new tables for;

- Information on new connections (table 2J)
- Information on cost assessment (tables 4J to 4W)

a) Do you agree with expanding the APR with more tables to capture more granular cost data?

Yorkshire Water agree in principle with expanding the APR with more tables to capture more granular cost data

We believe that collecting revenues and expenditure with regards to infrastructure charges from 2017/18 is an important part of building trust and transparency with the developer community. When considered over a 5-year period variance in revenues and expenditure at the headline level would prompt questions as to why these variances had occurred.

Whilst in principle we do agree to the benefits of capturing more cost data at a granular level we are unclear as to what additional benefit there is to further breakdown to an asset type expenditure level. We feel that the head line level is sufficient to prompt questions from the developer community.

b) Do you agree costs should be captured through a controlled process?

Yorkshire Water agree that the costs should be captured through a controlled process. This will safeguard the quality of the information being captured.

c) Do we have sufficient guidance and definitions for the additional line items provided?

In principle Yorkshire Water believe that sufficient guidance and definitions have been provided by Ofwat for the additional line items. However, there are a number of areas where we would welcome further clarity. These are documented in (d) below.

d) What line items need further definition?

In section 3 (paragraph 4) of the consultation document it states :

“If there is a difference between expenditure and receipts in one year, customers will want to understand the reasons behind it and want assurance the imbalance will be corrected in future years.”

We would be grateful if Ofwat could confirm that where there is a variance between in year revenue and expenditure, this will balance out over the rolling 5 year period and any commentaries will be provided based on that 5 year rolling period.

In section 3.1 of the consultation document it states :

“We are also proposing that companies provide similar cost information, as above, for on-site costs. Although not part of the new rules, this request was made at the working group and it was considered that it would be beneficial to record this information, as it provides a

view on the total expenditure incurred by the company, it is on a memorandum basis only, and will not form part of the formal monitoring and reporting requirement.”

We are unclear as to whether the collection of this information applies only to 2017-18 or whether it is planned to be collected on an ongoing basis.

Question 2

What are your views on the proposed changes to the existing tables in Appendix 1?

a. Tax and non-appointed revenue (table 1A)

Yorkshire Water agree with the proposed changes.

b. Totex analysis (table 2B, 4D and 4E)

Yorkshire Water agree with the proposed changes.

c. Other minor changes

Yorkshire Water agree with the proposed changes.

Question 3

Do you agree that there will be some residual non-household retail activities (for example, developer services and meter reading) for an incumbent that exits the non-household retail market?

Yorkshire Water anticipate there will be some residual non-household retail activities that need to be undertaken by the appointed business, even after the appointed business has exited the non-household retail market.

The non-household retail activities which we anticipate will continue to be undertaken by the appointed business are:

- Network customer enquiries and complaints.

The Wholesale Contract makes provision for non-household customers to raise public health matters direct with the wholesaler.

Whilst the non household retail market is in its infancy customers may continue to contact the wholesale business or household retail direct in relation to enquiries and/or complaints. Some of these contacts would be re-directed to the retailer, others are expected to be dealt with directly in order to maintain customer confidence in the new market. Depending on the approach of retailers, customers may be encouraged to contact the wholesaler direct rather than the retailer incurring the cost of managing a customer contact.

- Developer services.

The Wholesale Contract makes provision for developers, or any non-household customer requiring a new connection, to approach either the wholesaler or their retailer in order to apply for a new connection.

Depending on the approach of retailers, developers or any non-household customer requiring a new connection may be encouraged to contact the wholesaler direct rather than the retailer incurring the cost of managing new connections.

- Trade Effluent services.

The Wholesale Contract makes provision for non-household customers requiring who require a trade effluent consent or making a trade effluent enquiry, to approach either the wholesaler or their retailer in order to apply for the consent or make the enquiry.

Depending on the approach of retailers, non-household customers requiring a new trade effluent consent may be encouraged to contact the wholesaler direct rather than the retailer incurring the cost of managing trade effluent applications.

- Investigation visits/first visit to the customer.

The Wholesale Contract makes provision for non-household customers raising public health matters direct with the wholesaler.

The wholesaler may need to investigate and/or visit the customer in order to understand the cause of the issue. The result of the investigation maybe that the issue is on the customers own network however, this cannot be determined without the wholesaler carrying out an initial investigation and/or visit.

Depending on the approach of retailers, customers may be encouraged to contact the wholesaler direct rather than the retailer incurring the cost of managing a customer contact and making the first visit to investigate the customer issue

- Meter reading.

The Wholesale Contract requires wholesaler to continue to provide non-household customer meter reads examples of this being when a meter is replaced, the wholesaler is required to carry out a final meter read and the initial meter read.

- Water efficiency advice.

There is a lack of clarity within the Wholesale Contract as to what retailers are expected to undertake in respect of demand-side water efficiency initiatives. Depending on the approach of retailers, the wholesaler's demand management strategies may be adversely affected by poor/limited retailer engagement with their customers. The wholesale business may therefore continue to engage directly with some non-household customers in relation to water efficiency advice.

Question 4

Do we have sufficient guidance around cost allocations between business units?

Yorkshire Water believe that there is sufficient guidance around cost allocations between business units.

Question 5

Do we have sufficiently defined boundaries for water resources and bio resources?

Yorkshire Water agree that the boundaries have been sufficiently defined for water and bio resources.

We believe that bio resources could be further strengthened and suggest that the text describing the sludge treatment activity could be better reflect the fuller bio resource boundary detail contained in the three appendices (RAG 4.07 appendices 3,4 and 5). For example, reference could be made to the 10% thickening threshold.

Cross references have been made within the end-point description of the sewage treatment boundary but, the reference is to "diagrams in appendix 2" on water resources and not appendices 3,4 and 5 on bio resources. We would welcome further clarity in relation to this matter.

Question 6

Have we provided sufficient guidance for Average Pumping Head in table 4P (wholesale water non-financial data)?

Yorkshire Water would welcome further clarity in relation to this matter in terms of how the definition should be applied to ensure consistency of reporting across the companies.

Questions relating Outcomes reporting

Question 7

Should companies accrue for future ODI revenue rewards/penalties?

Yorkshire Water is of the understanding that in accordance with the International Financial Reporting Standards we are unable to accrue for future ODI revenue penalties. There are no financial outgoings in the period, therefore there is no recognisable financial liability to accrue. In accordance with the International Financial Reporting Standards we are unable to accrue for future ODI revenue rewards as there is no financial gain in the period and the gains will not materialise.

Question 8

Do you have any comments on our proposed shadow reporting of leakage, supply interruptions and sewer flooding according to the new consistent reporting guidance?

Yorkshire Water supports the move to more consistent reporting of the key performance commitments.

The consultation outlines the intention that the shadow reports will not be published until the new price control period however, a number of exceptions have recently come to light.

- The draft Water Resource Management Plans will use the shadow reports of leakage, and will be published in December 2017; and
- The draft and final determinations for PR19 will be published in 2019.

Shadow reports will be in the public domain ahead of 2020, in light of this and the finalisation of the guidance through Water UK's UKWIR report, we would find it helpful for Ofwat to issue a formal direction to use the guidance in the shadow reporting.

Through Water UK, companies are currently developing a communication approach to support the release of shadow data so customers and stakeholders are appropriately informed of the change in reported performance. We believe that a consolidated approach to communications should be agreed between the companies, Ofwat, along with the environmental and quality regulators.

Question relating to small companies (RAG3)

Question 9

Do you agree with the proposal to raise the small company turnover threshold to £10.2m?

Yorkshire Water support the proposal to raise the small company turnover threshold to £10.2m in line with government changes to the small companies' regime.

Questions relating to transfer pricing guidance (RAG5)

Question 10

Does RAG5, in its current form, inhibit efficient bio resources trades from happening? If so, please explain why and if possible, provide evidence.

Yorkshire Water do not believe that the RAG 5 in its current form inhibits efficient bio resources trades from happening.

Question 11

- a. Which of our proposed two options (Option A: incremental cost or above and Option B: incremental cost or above plus a margin) do you prefer and why?
- b. In the case of Option B, do you agree with our proposed approach to specifying an appropriate margin? Please explain your reasoning and provide evidence where possible.

Yorkshire Water prefer Option B, that is incremental costs or above plus a margin. The reasons for this are:

- this option is clear that the transfer price should be above the incremental cost
- it will ensure the cross-subsidy objective is being achieved
- it enables the external market price to be realised without being prescriptive as to how this is achieved; and
- allows for explicit benefit sharing of any market based margin (above incremental costs) with customers.

Question 12

What implications or concerns (if any) do you foresee for new entry to the bio resources market, as a result of our proposals on transfer pricing for bio resources?

There are a number of areas that we wish to draw Ofwat's attention to :

- It is stated in the consultation but, not RAG 5.07 that :

“what is classified as an incremental cost depends on the time frame specified, the relevant timeframe for assessing incremental costs is unlikely to be shorter than the length of an individual contract”.

We feel that this is one aspect of a potential trading arrangement that will determine the nature of incremental costs and, as a transfer pricing principle, is potentially restrictive.

- The contracting arrangements set up with third parties could result in incremental costs being chosen, unless the trade is set up as a rolling short term contract. For example provisions for the rights to the existing capacity. A company may agree a long-term contract with a third party to use its' headroom capacity, with the proviso that the trade can be terminated if needed to utilised, for say an unplanned outage.

Question 13

Are there any other ideas that you propose, to improve our regulation of transfer pricing for bio resources? If so, please provide analysis and where possible, evidence, to support these.

Yorkshire Water have actively participated in the national bio resources working group and have no further ideas to propose at this time.

Question 14

Are there any other matters which we should be taking into consideration regarding transfer pricing for bio resources?

Ofwat may wish to consider situations where capacity is required for resilience purposes, either for day to day head room for planned and unplanned outages or for more longer term strategic issues such as land bank availability, then an interruptible trade offer may offer benefits to both parties. Sharing this reserve capacity with a neighbour may reduce industry wide costs.

Question 15

Do our changes have any implications for the rest of RAG 5 or for activities other than bio resources?

Yorkshire Water believe that the implications for the rest of RAG 5.07 and activities other than bio resources are minimal.

Ofwat may wish to consider the possibility of applying incremental costs to other markets as currently it is unique to bio resources. In addition there may be a case for incorporating incremental costs and marginal costs under a more generalised, cost subsection. This would ensure greater consistency and/or transparency across the different markets.