

July 2019

Trust in water

PR19 draft determinations

**Yorkshire Water – Securing cost efficiency
actions and interventions**

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PR19 Draft Determinations: Yorkshire Water – Securing cost efficiency actions and interventions

Following our initial assessment of plans, we categorised two types of actions for slow-track and significant scrutiny companies:

- required actions for companies which in general were required for draft determinations (or final determinations for some aspects of past delivery); and
- advised actions for companies to do by a specific date but that are not required for our draft determinations.

Table 1 below sets out the required and advised actions, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we are making as part of the draft determination.

Each action has a unique reference. The prefix 'YKY' denotes the company Yorkshire Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key to these acronyms. Actions whose numbers are preceded with an 'A' denote required actions and actions whose numbers are preceded with a 'B' denote advised actions.

Table 2 below sets out any further interventions that are not resulting from an action which we are making as part of the draft determination.

Each further intervention that is not resulting from an action has a unique reference. The prefix 'YKY' denotes the company Yorkshire Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key to these acronyms. Intervention numbers are preceded with a 'C'.

For all other documents related to the Yorkshire Water draft determination, please see the [draft determinations webpage](#).

Table 1: Yorkshire Water's response to required actions and interventions for draft determinations

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
Securing cost efficiency	YKY.CE.A1	Required	We provide our view of efficient costs for the company along with our reasoning. We expect it to address areas of inefficiency, or lack of evidence, in the revised business plan. Where appropriate, we expect it to withdraw investment proposals if either: the need for investment is not compelling; or there is no need for a cost adjustment claim beyond our existing cost baseline.	1 April 2019	Yorkshire reduced its wholesale costs in its April resubmission and increased its retail costs. It removed two of its cost adjustment claims which we rejected at the initial assessment of plans and retained one claim for bioresources handling and treatment capacity to accommodate sludge produced through WINEP enhancements. It provided focused additional evidence on costs in areas including leakage, WINEP, bioresources, costs for improvements in common performance commitments, company efficiency challenges	Intervention required. Much of the wholesale cost reduction is due to a reduced scope (for example decreased ambition in leakage reduction) rather than improved efficiency. The company did not respond to our efficiency challenge in its resubmitted costs, and submitted base costs in April 2019 that are considerably higher than its historical base expenditure. The company's retail costs are efficient.	We provide our view of efficient costs for the company along with our reasoning. We expect the company to continue to address areas of inefficiency and lack of evidence.

					applied to enhancement costs, frontier shift and real price effects. It also provided additional information too late for us to be able to take into consideration for our draft determination, so we will thoroughly assess this for final determination.		
	YKY.CE.A2	Required	The company's approach to deriving unit costs for the Amber schemes within its WINEP investment programme appears reasonable. However, the company should clarify whether its analysis has considered totex or capex. Additionally, we find it difficult to fully reconcile the 179 Amber lines in WINEP3 and request the company provides a line by line reconciliation between the 179 WINEP lines, the 154 schemes and the 119 sites referred to in section 3.12 of Appendix 8g. We also notice discrepancies between the river lengths used in the company's calculations and those entered in WINEP3 and request that the company explains these. The company should also submit a corrected version of Table 3.13 to include columns for Cost and LORI and provide a breakdown of the apportionment of the £578.5m between the lines (capex and, if appropriate opex) in business plan tables WS2 and WWS2.	1 April 2019	The company has addressed all the actions apart from submitting a corrected version of Table 3.13. (A corrected version of Table 3.15 is also required.) However, the answers provided highlight some inconsistencies which will need to be addressed prior to the final determination. In particular the information provided raises questions about the extent to which the company has taken account of the changes in the scope of the Amber programme in the latest release of WINEP (March 2019).	Intervention required. We are changing the company's unit rates to reflect our view of efficient costs. However we will need to raise further prior to final determination.	We provide our view of the unit rates to be used in the cost adjustment mechanism. These do not make any allowance for the retention of any costs by the company for Amber schemes which are not confirmed as needed.
	YKY.CE.A3	Required	There may be significant impacts in terms of investment or type of investment as a result of the metaldehyde ban. The company should investigate and agree with the DWI the scale and timing of any potential changes compared to its submitted plans. Significant changes and uncertainty may require an ODI to protect customers in the instance of expenditure not being required. Should the company propose a performance commitment and ODI, the company should provide evidence to justify the level of the performance commitment and the ODI incentive rates proposed, in line with our Final Methodology. We expect to receive evidence of customer support for outperformance payments, where proposed, and that the incentive rates proposed are reflective of customer valuations.	1 April 2019	The company has agreed its approach with DWI and EA. It removed £1.46m from WINEP Drinking Water Protected Areas enhancement line and is not proposing a performance commitment and outcome delivery incentive.	No intervention required for draft determination but further action needed by the company. We accept the revisions and assess the revised expenditure submitted.	Company to provide evidence to confirm DWI agreement with its submitted plans/ revised undertakings and that no metaldehyde specific treatment or product substitution costs are included in the requested allowance.
	Advised actions	Advised	No advised actions	N/A			

Table 2: Further interventions for draft determinations

Intervention reference	Our assessment and rationale	Interventions
<p>We explain our approach to cost assessment, including the allowances we set for each control, assumption on revenue recovery from grants and contributions, opex-capex split and totex profiling, in 'Securing cost efficiency technical appendix'. We set out other company specific interventions, and the allowances we set for each control, in section 3 of the company's draft determination summary and its cost efficiency appendix.</p>		

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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