

July 2019

Trust in water

PR19 draft determinations

**Yorkshire Water – Targeted controls, markets
and innovation actions and interventions**

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PR19 Draft Determinations: Yorkshire Water – Targeted controls, markets and innovation 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
Targeted controls, markets and innovation	YKY.CMI.A1	Required	The company’s plan does not provide sufficient explanation for the sludge production volume forecasts, particularly the step change in volume at 2024/25. The company should provide further evidence around how the sludge volume forecast was calculated, including any assumptions made or adjustments to model outputs.	1 April 2019	The company provides a detailed forecast methodology in its April 2019 business plan, developed by a third party (ARUP). It takes account of factors such as population growth and P-removal down to a regional level. A revised forecast is provided and the large step change at the end of the period has been removed.	No intervention required. The company has provided clarification and the narrative now aligns with the forecast.	N/A
	YKY.CMI.A2	Required	The proposed split of fixed and variable revenues for the bio-resources revenue control has not been sufficiently evidenced, particularly where cost lines are partly incremental and partly fixed. We are also intervening to ensure that the bioresources revenue adjustment is set on a broadly comparable basis to avoid setting revenue controls that may distort the development of trades. We	1 April 2019	We issued an industry query response in March 2019 setting out further details about the broad approach to be followed consistent with the methodology that was applied to the fast track companies. Yorkshire Water sets out its	Intervention required. We are intervening because our assessment of the companies’ business plans revealed an inconsistent approach between companies	We are intervening to set the level of the split between fixed and variable costs. Our detailed approach

			will set out our view in the draft determinations based on the updated tables Bio1, Bio3 and Bio4. We will treat the funding of the 2020 RCV (run-off, returns and tax) as fixed for these purposes, along with revenues to recover local authority rates; some fees; and a proportion of direct and indirect costs of bioresources treatment and transport.		approach, along with other companies and we have reviewed this evidence.	in their calculation of the bioresources revenue requirements to recover fixed and variable costs. This resulted in a wide range of suggested splits between the fixed and variable revenue component. As with fast track companies, a consistent approach to the fixed/variable split is essential to ensure that the company is correctly remunerated by our modified average revenue control for outturn sludge volumes that differ from its original forecasts.	is set out in 'Our methodology for the classification of bioresources costs'.
	YKY.CMI.A3	Required	The company should provide a commitment to provide a detailed work programme by end August 2019 to assure us that the company will deliver appropriate drainage and wastewater management plans. The programme should ensure that the company can prepare and consult on its first drainage and wastewater management plan no later than the summer of 2022 to enable revised plans to be prepared in early 2023 to inform PR24 business plans.	1 April 2019	The company has provided a commitment in its 1 April 2019 submission.	No intervention required.	N/A
	YKY.CMI.A4	Required	The company should set out in the bid assessment framework document the arrangements to protect commercially sensitive information provided by bidders.	15 July 2019	Yorkshire Water's added text to its bid assessment framework stating that commercially sensitive data will be treated as confidential.	No intervention required.	N/A
	YKY.CMI.A5	Required	<p>Waste Water Treatment Works New Sites Bundle</p> <p>A summary of the key elements of the Wastewater Treatment Works New Sites Bundle schemes particularly focussing on the Sladen-Oldfield options. This should include all relevant scheme information including but not limited to the key deliverables.</p> <p>A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year. These should clearly identify the incremental costs to Yorkshire Water.</p> <p>An economic analysis of the scheme including a Net Present Value analysis using the standardised assumptions provided in Table A. This analysis should clearly identify any additional benefit to customers of progressing this scheme as two separate schemes as detailed in Yorkshire Water's plan outside of DPC compared to the delivery of a new works at Oldfield under DPC.</p>	1 April 2019	The company provided a revised assessment of its projects with regards to DPC. It did not identify any more projects that met the threshold. It carried out a further analysis based on the option for a combined works for Sladen-Oldfield which it evaluated as technically suitable. The NPV analysis was carried out and the result indicated that the company's proposed solution was marginally better value for customers than a new combined works under a DPC proposal.	<p>Action needed.</p> <p>An assessment was carried out on the technical and NPV analysis to determine if the decision to reject the scheme under DPC was convincing. The overall quality of the assessment was satisfactory although some supporting evidence was less convincing particularly the initial and future refurbishment capex maintenance requirements.</p> <p>The company's decision that its' current solution was likely to offer the best value for money for customers was agreed based on the small size of the projects, however,</p>	We expect Yorkshire Water to undertake further work to review detailed costs and commitments to ensure delivery is via the most efficient route, and to re-assess delivery via DPC if there are significant changes to these schemes or the value for money assessment, to ensure that customers continue to receive the best value.

						a single treatment works may demonstrate greater value for money through delivery via DPC.	
	YKY.CMI.B1	Advised	The company should consider how it can collaborate with other companies to maximise the opportunities for research to address common challenges (eg leakage detection, water efficiency and wastewater treatment processes) rather than companies progressing research independently.	1 April 2019	The company discussed collaborating with various organisations including Anglian Water, University of York, Trading Partners, Customers and international organisations. However, they provided no details or evidence of outputs which have resulted from this collaboration, resources invested in terms of financial, people or time and no details of future outputs expected.	No intervention required. We remain concerned that the company is not maximising the opportunities available from collaborating to address common challenges. We will promote innovation in the sector as part of our on-going work on innovation.	

Table 2: Further interventions for draft determinations

Intervention reference	Our assessment and rationale	Interventions
N/A	N/A	N/A

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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