

Yorkshire Water
Reporter's Report on the
June Return 2011 Submission

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1. Introduction

1.1 General

We are pleased to submit our June Return report as Reporter to Ofwat for Yorkshire Water Services Ltd (Yorkshire Water). For the sections of the Company's submission we have considered, in our view, the Company has submitted a June Return that meets the requirements of Ofwat.

We have audited Yorkshire Water's June Return 2011 and have commented on the adequacy of the Company's methods and procedures in Section 4 of this report. We also comment on each of the tables by exception on the implementation of these methods and procedures.

The Company's June Return has been, in general, compiled using procedures that are appropriate to meet the Reporting Requirements. Based on our audits we are of the opinion that the data for the Return has been prepared by suitably experienced staff. We have scrutinised the Board Overview and discussed the Company. We have confirmed that the figures referred to therein have been correctly derived from other tables in the June Return. The Board Overview has generally been compiled by Yorkshire Water in such a way that it is as well-founded and consistently supported by the June Return tables.

1.2 Structure and content of this report

Our report follows a similar structure as Yorkshire Water's Board Overview document for ease of cross reference within the sections described below.

In Section 2 we comment on the process we have followed to confirm Board Engagement in the process for approving the June Return submission and our report to the Kelda Audit Committee.

In Section 3 we comment on the Board Overview and provide an overview of our findings.

In Section 4 we comment on the Yorkshire Water reporting processes and on material issues or exceptions that relate to the Company's Commentary and Information on the tables. We also respond to specific information requests in the JR11 Reporter's Requirements. The Company prepared the report by drawing on the table data and its commentaries prepared for internal purposes. Our comments draw upon the information gathered and opinions formed at audit.

Annex A contains the General Information, as directed by the Reporter's Reporting Requirements

Annex B contains the Reporter's Level of Service Certificate.

The Company has submitted a separate report on 'Leakage 2010-11'. We have provided a separate commentary on this document.

1.3 Consistency between the Board Overview and supporting documents

We have reviewed Yorkshire Water's Board Overview in detail and have discussed any apparent discrepancies with supporting documents with the Company. Overall, we consider that the information given is reliable and represents a reasonable statement from the Company's standpoint. It is consistent with the textual and numerical information given in the June Return document.

1.4 Effectiveness of the June Return process

This is the first year of my appointment as Reporter. Our team undertook a familiarisation of the Company's systems and reporting processes in January 2011. Our audits mainly in May 2011 focussed on the application of processes and methodologies and the submitted data. We have followed data trails to Corporate systems used for reporting but have not audited or tested the systems themselves. We have provided feedback to the Company. All material issues from this process have been resolved.

These processes have been implemented for most or all of the report year depending on the subject area and have been clarified and adjusted to reflect current practice and interpretation of Ofwat guidelines. The removal by Ofwat of the requirement for the Company to provide comment on its data submissions has not impacted on the processes applied in drawing up the tables.

We noted that the Company has responded positively to the challenges made and issues raised. In many areas the Company is taking action to enhance some reporting processes to be more comprehensive, to undertake further studies to improve the extent and quality of data and review methodologies and assumptions used to prepare data.

We also noted that the Company has effective and auditable systems for the management of capital investment and related activities and outputs. The use of SAP across many reporting areas provides a high confidence in consistent reporting.

2. Board Engagement

2.1 The Company's processes and systems of control

The Company has demonstrated to us its commitment to working within the regulatory regime. It has implemented reporting processes across the operational business units through the processes and controls it describes in the Board Overview using its ISO 9001 certification. We noted the commitment of data providers, data managers and senior managers in the review of data and commentary which the Company describes in Section 2.1 of its Overview.

The Company embraces audit and Reporter input as an integral part of its processes for the production of its June Return submission and we believe the Company recognises the added value of the Reporter's input beyond it being a regulatory requirement.

We can confirm that throughout the June Return process, the Company has always given us full access to staff and Company data and systems. We consider Yorkshire Water to be open in its dealings with the Reporter and his team.

Yorkshire Water Services Ltd is a subsidiary of the Kelda Group. Functions such as the Management Team and the Audit Committee form part of the Group and are directly engaged in the approval process although sign off is devolved to Yorkshire Water Services Ltd.

2.2 Yorkshire Water Regulatory Issues Group

We reported to the Regulatory Issues Group (RIG) of Yorkshire Water Services Ltd (YWS) on 31 May 2011 on the main findings of our audit of the YWS June Return submission. The RIG is chaired by the Director of Finance and Regulation for both Kelda and YWS and includes the YWS Head of Regulation and representatives across the business. Our report explained our audit process and discussed reporting processes and key issues from the audit. The RIG meeting was made fully aware of all the material issues identified at audit.

We explained that the audits have generally gone well, the auditees were well prepared and knowledgeable and information was, with a few exceptions, clear and auditable. The Reporter team were generally impressed with the level of ownership and the response to challenges was good. The response to our requests for clarification and the provision of further information was timely. Our findings are set out in Section 4.

The Reporter team prepared an Issues Log which we shared with the Company. The Log included all the issues arising from our audits. The Company was able to provide satisfactory responses to enable us to close down all issues. Material issues and responses are presented in the report.

2.3 Kelda Management Team

We confirm that all Executive Directors have made statements that insofar as each Director is aware, there is no relevant audit information of which the Company's Auditor or Reporter are unaware; and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor and Reporter are aware of the information.

2.4 Kelda Audit Committee

We can confirm that we provided a report to the Kelda Audit Committee on 6 June 2011 on the adequacy of the processes the Company used in preparing its June Return submission.

We explained to the Audit Committee the role of the named Reporter under Ofwat's Reporters Protocol (Issue 2 – March 2003). We presented our report which provided the observations of the Reporter team concerning the processes involved in the audit of the Yorkshire Water June Return 2011 submission. We answered questions on our report and the Committee was satisfied with our responses.

We confirmed that subject to final close-off, the information presented was complete, reliable and within the accuracy grades stated. Where we had identified gaps and weaknesses, the Company had addressed them, was addressing them or had made clear its position. We explained that we had seen no evidence of strategic positioning of numbers or methodologies which might have presented JR11 data favourably in the context of the completion of the AMP5 period.

Our report noted that the Reporter works within time and budgetary boundaries. He must make judgements about the level scrutiny to be applied to the various elements of the company submission. Data production processes that involve manual data handling carry a risk of transcription error and data derived from reports must have the integrity of system and input data challenged.

2.5 Director Engagement

We have been afforded access to the Regulatory Issues Group, the Finance and Regulation Director and to the Audit Committee as a whole. Through this interaction, we have formed the view that that the Audit Committee, Board and Executive Committee of Yorkshire Water, are fully engaged in the process of preparing and assuring the content of the June Return submission.

3. Overview of 2010-11

3.1 Overview of Company

The Board Overview has been compiled by Yorkshire Water in such a way that it is well-founded and consistently supported by the June Return tables.

The year started with a dry early summer which increased water demand which was within the planning assumptions in the Water Resources Management Plan. The winter period in December 2010 and January 2011 was exceptionally cold with significant snowfall as confirmed by the Met Office. The Company responded well to the difficult operational challenges of maintaining supply to customers over this period. The response from staff across the business over the Christmas and New Year period confirmed that resilience plans were generally effective at a time when water treatment and network assets were stressed. The benign rainfall patterns through the year resulted in a lower level of sewage flooding than forecast.

A restructuring of the business into Customer Service & Networks and Production Directorates was completed at the beginning of the year. This has combined water and sewerage services and resulted in changes in staff deployment and responsibilities. While this restructure has not had a material impact on performance and reporting, there has been a need to retrain teams in their new roles and reporting processes. The restructure has also required changes to the accounting separation methodology which the Company has addressed. The introduction of new corporate systems such as Netbase and the greater use of SAP contribute to a greater confidence of reporting. Further work is underway to link corporate systems to enhance reliability.

The high performance against customer service measures has continued. Where we have found some inconsistencies in reporting against GSS the Company has responded positively and timely as it describes in the Overview.

The Company has failed to meet its leakage target and this has resulted in the Security of Supply Index (SOSI) being marginal. The Company has developed a leakage management programme of work to address this performance shortfall. This is detailed in a separate report.

We support the Company's assessment of marginal serviceability for water infrastructure. A planned programme to resolve properties with low pressure has reduced DG2 properties to the lowest ever achieved; however, performance against DG3 unplanned interruptions is significantly above the FD target. While some of the interruptions related to the exceptional weather in December 2010 and January 2011, performance would have exceeded target in a typical winter. The extended duration of unplanned interruptions is attributed mainly to operational management of events. Mains burst rates continue at a high level but, with adjustment for the exceptional winter are within control limits. The Company is implementing a serviceability action plan to improve operational management and asset information. A programme of enhanced mains replacement is being carried out. It will take time to deliver benefits of lower risk of extended interruptions as the primary focus is to reduce leakage where more intensive detection will identify further bursts.

The Company has demonstrated that serviceability assessments for sewerage infrastructure and both water and sewerage non-infrastructure are stable. The definition of the pollution incidents measure for sewerage has increased the number reported but does not reflect a change in serviceability

Operating expenditures for both water and sewerage services are marginally less than the FD assumption after taking into account the exceptional costs related to the winter period and confirmed by the financial auditors. Analysis for accounting separation continues to enhance the robustness of costs and fixed assets.

Capital expenditure for the water service is generally consistent with the FD with a greater focus on infrastructure expenditure. Sewerage service expenditure shows a material reduction compared with the FD mainly related to lower supply/ demand and quality programme expenditure. Comprehensive processes are in place to manage, monitor and report capital expenditure. A process is also in place to identify and monitor capital efficiencies across the programme. The extent of efficiencies being achieved will become apparent in later years of the AMP5 period.

The Company has delivered all the quality outputs defined in the FD. One resilience scheme for the East Coast Pipeline has been delayed with a revised completion date of September 2011. We confirmed that the Company should achieve this completion date.

The Company has changed its strategy for the revised Bathing Waters Directive from the Business Plan. It plans to progress straight to the 'excellent' standard in bathing waters affected by its discharges. The move to a 'sound science' approach involves more extensive modelling and investigations. This has resulted in a deferment of some works and a significant reduction in capital expenditure this year. An early approval by the Environment Agency is required soon to ensure that compliance dates can be achieved.

We confirm that the data shown for the report year in Tables A to C are consistent with the JR11 tables which we have audited.

3.2 Reporter Overview

We have commented upon material issues concerning the Yorkshire Water June Return 2011 submission in this report. We have carried out audits and have formed the opinion, unless indicated otherwise in the body of this report or annexes, that:

- the Company's methods and procedures are adequate for providing the data that Ofwat is seeking in JR11;
- the Company has prepared its JR11 data in accordance with its stated methods procedures, policies and assumptions;
- there are coherent links between the current and earlier relevant Company submissions;
- the methods and procedures are adequate for producing estimates of expenditure needs or records of costs incurred; and
- the methods and procedures applied provide a credible system of quality assurance

We comment in Section 4 on any changes to company systems and processes where the Company has not included in its Board Overview. We report by exception and respond to the specific queries in the Reporter requirements. We comment on confidence grades where we consider the grades shown are inappropriate.

4. Commentary and information on the Tables by exception

4.1 Reporter process

This is the first year of our appointment as Reporter. Our team undertook a familiarisation of the Company's systems and reporting processes in January 2011. Our audits mainly in May 2011 focussed on the application of processes and methodologies and the submitted data. We bring our own structured approach to the reporting process which has been new to the Company. We have provided timely feedback to the Company. All material issues from this process have been resolved. We describe our process in Annex A.

The Reporter is required to *inter alia*:

- *direct Ofwat to the material issues using his expertise and experience;*
- *decide on the level of audit that is appropriate for the reporter to be satisfied:*
 - *as to the adequacy of the company's methods and procedures in providing the data that Ofwat is seeking in JR11;*
 - *that the company has prepared its JR11 data in accordance with its stated methods procedures, policies and assumptions; [Ofwat Reporter's Guidance]*

In directing Ofwat to material issues in the following sections, we disclose and comment on areas of reporting:

- Not meeting AMP5 Targets;
- Non-compliance with the Reporting Requirements;
- Changes to systems, processes, assumptions, data quality and/or confidence grade;
- Material differences in the value when the change is greater than the confidence grade percentage attributed to it
- Adverse trend or improved trend;
- Inconsistency with Final Determination or other regulatory reporting, (EA, DWI);
- Any other circumstances which the Reporter deems to be material or requiring explanation.

Where Yorkshire Water has clearly commented on these material issues and we support these explanations, we may have nothing further to add.

Where we have not provided any commentary, the data submitted and information provided at audit contains no material issues to note, is in line with expectations and satisfies regulatory commitments.

We have held meetings with the financial auditors PWC in advance of and during the audit process. PWC attended one of our audits for tables 21 and 22 and accounting separation. PWC have confirmed that there are no issues that they are aware of which impact on the JR11 tables for which we report.

4.2 The Company's methods and procedures

The Company takes a structured and thorough approach to JR reporting. Reporting Procedures are in place for all tables and table owners are identified. We found areas where reporting processes were good. In several other areas we found that these processes were not sufficiently documented to show: the means of abstraction of data from sources and data collation; the assumptions applied; and to provide a view on the confidence in the information. The Company has agreed to revisit the structure of documents as required to ensure clear and comprehensive processes from source to table. Where we found shortfalls in documentation we were able to confirm the final data presented through audit trails and further explanation from the Company.

Particular but not exhaustive examples of high quality reporting were DG3 Interruptions through SAP, DG5 Sewer Flooding, GSS and Investment tables.

We confirmed that the information presented was complete, reliable and within the accuracy grades stated. Where we have identified gaps and weaknesses, the Company has addressed them, is addressing them now or has made clear its position.

Where in a few instances we identified non-compliance with the Reporting Requirements this has been disclosed and the Company has taken timely action to address.

4.3 Key Outputs (Tables 1 to 6)

Water efficiency -Table 1

Assumed savings:
The reasons why a company has not used the assumptions provided in the appendix to the table 1 reporting requirements.

Additional assumptions that the Company has used relating to non-household water efficiency activity had been approved by Ofwat via email correspondence.

Any claimed savings towards l/p/d targets from the provision of information to its consumers where the guidance in the UKWIR Report - Ref No: 09/WR/25/4: 'Estimating the water savings for baseline efficiency activities' has not been followed.

We consider that the Company could report some additional savings next year for example by increasing the level of activity associated with behavioural change impacts of its external communications activities, where appropriate. We also support the Company's intention (which was verbally communicated at audit) to report a 'High' level of engagement associated with its website at JR12, moving up from 'medium' this Report Year to reflect the operation of its online water savings and energy savings calculator for what will be the entirety of the next Report Year.

Water service -Table 2: DG2 and DG3

DG2 Low Pressure

Where the methods used by the company are not as the company has described or where the methodology has changed or is inappropriate.

This is the first year that Netbase has been used to analyse pressure data and report on pressure violations. This is a significant improvement in consistent data analysis and reporting.

Pressure data is continuously monitored with loggers at critical points with substantial coverage across Distribution Management Areas (DMAs). We noted that data from 70% of loggers are downloaded every three months. This lag in data provision means that any violations of the pressure and GSS standard may not be evident until after this period. Reporting for JR11 includes some data from the previous year but may miss pressure breaches later in the report year. The Company responded as follows:

"There is a programme to install a new RTnet system to enable real time monitoring of pressure. The system is planned to provide substantial real-time coverage by the end of 2011/12."

The DG2 methodology has not been applied to properties on common services, reported as forming some 16% of total properties. There is a likelihood that some properties on common services do not meet the pressure threshold criteria in the Reporting Requirements and, because the DG2 reported value is low, cannot be said to be within the accuracy band of the confidence grade. We suggest that there is a need in the current year to start to identify the extent of this likely issue through targeting likely DMAs using higher pressure thresholds. The Company responded as follows:

"Following the challenge we commit to carrying out an investigation into the issue and to improve on our understanding for JR12'."

Other exceptions

Step change in performance

There is a significant reduction in DG2 properties over the year to below the FD target. This is as a result of a planned programme of capital and operating cost solutions to remove properties from the register. Because of the small number reported, it is sensitive to changes from better information from local areas which may not necessarily be identified from the continuous pressure logging process.

The Company has reduced the number of DG2 properties to below the FD target. However the number is sensitive to a hot summer where peak demand is likely to show a significant increase in properties. One reason for the low number of DG2 events may be as a result of applying the 25 day/ 5 year exclusion. We suggested that the Company should investigate those DMAs/ properties where violations have occurred but are within the 5 to 25 events. The Company responded as follows:

"The company has always adopted Option 1 of 25 day/5 year exclusion and our targets have been set on this basis so we do not believe that this approach is the reason for our low number of properties on the register. We applied for ELOS funding as part of FD to allow us to target DG2 reduction and deliver better service for our customers."

A review of the DMA's which are between 5 and 25 events is planned as part of a pro-active approach to maintaining a low number of properties on the register."

DG3 Unplanned Interruptions

AMP5 target

Performance against DG3 has deteriorated. The number of unplanned interruptions has increased significantly this year and was above the FD reference level of 220 properties >12 hours before the cold winter period. We found the reasons for the extended duration of interruptions related mainly to the operational management response to interruptions. We noted that a root cause analysis has been undertaken and an internal action plan is being implemented. One of the causes of extended durations is the limited information on the performance of networks. The Company responded as follows:

"We recognise the poor performance for DG3 unplanned interruptions this year and had already raised this with Ofwat in advance of the June Return. In this discussion we were clear that whilst the absolute number was dominated by the winter period, performance was above the reference level prior to the winter period. Our analysis, and the material used for the pre JR discussion with Ofwat have been shared as part of the serviceability audits. Also, as part of the serviceability audit, a ppt presentation dated 28 February 2011 was presented which described actions planned to address this shortfall in performance."

The internal action plan covers a wide range of activities including improvements to asset management and records, identification of vulnerable assets and development of contingency plans, better incident management processes and associated education and training, and application of innovative techniques. These represent a wide range of activities to manage and implement. The DG3 target is challenging and, given the uncertainties of the measure, it is likely to take some time to deliver benefits.

Sewerage service -Table 3 and 3a: DG5

- Where data collection methods are inappropriate to meet Ofwat's Reporting Requirements;
- Where the methodologies used by the company are unsuitable to identify severe weather events.

We offer two caveats to the figures:

- As noted by the Company the weather was better than average in terms of rainfall events and this followed another good year in JR10. We therefore caution that the apparent excellent trend needs to be considered within the context of the recent run of benign weather.
- The Company's methodology for identifying severe weather appears robust and appropriate and we found no shortcomings. However inevitably it does not necessarily identify all intense localized rainfall events.

Customer service -Table 5 DG8 and special assistance register

Where the methods used by the company are not as the company has described or where the methodology has changed or is inappropriate.

The Company's documented methodology for DG8 is applied but we do not believe that it fully aligns with the Reporting Requirements. Yorkshire Water has what it refers to as an "ignored" category. In this category there are properties that are shown as metered on its billing system but that have no meter fitted, boundary/check/division meters as well as other categories including complex accounts, metered customers who are on assessed charges

and customers who were metered but reverted to unmeasured billing within 12 months of meter being installed. We would normally expect most (though not all) of these types of exclusions to be included in Line 6 (total metered) and Line 7 (exclusions); they are not included in either line. We believe the Company's decision not to include the numbers does not materially affect the Company's performance against its AMP target. The Company has no plans to change method of reporting.

Customer service standards - Table 6

Where the methods used by the company are not as the company has described or where the methodology has changed or is inappropriate.

The exceptions that we noted related to GSS appointments, payment arrangements, exclusions in regulations and external sewer flooding.

Line 1

We identified that the Company was potentially offering all day appointments which is not in line with the GSS regulations. There are two key points to note. Firstly, this practice was confined to one discrete part of the business. Secondly, from the relatively small sample we reviewed, it was unclear whether there was always customer presence required, so there is the potential that Company agents were incorrectly recording the activity as an appointment. The Company is carrying out a detailed investigation to establish if this number is a true reflection of all day appointments. We agreed that the most appropriate action for JR11 was to state the total number of events identified in Line 1 with an AX confidence grade; any payments made will subsequently be reported in JR12 based on the Company's findings of whether the activity constituted an appointment or not. We believe that Yorkshire Water's response to the issue was both reasonable and appropriate.

Line 3

The Company has made an improvement to its process for JR11. Appointments re-negotiated to a later time slot on the same day or to a later date at less than 24 hours notice are captured as events and GSS payments are being applied. We concurred that the Company's approach is in line with the GSS Regulations.

Lines 13, 15 and 17

In previous years the Company had only reported payments made, and is now reporting events. The material increase in events reported in Line 15 relates to the greater unplanned interruptions reported in Table 2.

Line 20

Yorkshire Water has been incorrectly reporting zeroes historically. We believe that the Company is reporting appropriately for JR11.

Line 21

We challenged the Company about the lines it has been reporting historically events relating to exclusions and payment arrangements. We identified that the Company has not been including the Line 21 exclusions in the above lines relating to the events. This was as a result of a misunderstanding of the line definitions and the Company re-stated the events in the appropriate lines for JR11. We also highlighted to the Company that reporting for DG6 Payment Arrangements should be moved from Line 8 to Line 7 as this was not in fact an enhancement to the regulations.

4.4 Vulnerable customers (Table 6b)

We have no comment to make.

4.5 Non financial measures (Tables 7, 8, 10, 10a, 10b, 11, 11a, 12 to 16, 16a, 16b)

Water properties and population - Table 7

The company's population and property estimates if the methodology for calculating the estimates has changed.

For JR10 the Company used in error the Experian 2007 trend based population estimate only unadjusted for local policy, For JR11, it has reverted back to the policy based population estimate as forecast in the Water Resources Management Plan (WRMP). This results in a total population decrease in the Report Year of 74,149. We consider the policy based estimate to be more appropriate. The Company's methodology for estimating property numbers in the Report Year is unchanged since JR10.

Water metering - Table 8

Time lags between carrying out and recording activities;

The Company's use of mobile working devices by both its own staff and contractors means delays between carrying out and recording activities are minimised.

Changes to the company's metering policy/procedures.

The Company no longer operates a dedicated DMO installation team; instead DMOs are installed by a multi-tasking team of staff.

Water delivered - Table 10

Exceptions and areas of concern in calculating the water balance for example, where policies do not meet the reporting requirements;

Water Balance

The Water Balance process is unchanged and consistent with the Reporting Requirements. A water balance has been achieved within 2%. We challenged the confidence intervals applied as these did not represent the likely variance of components viewed at audit. The Company agreed to revisit the statistical basis of confidence intervals applied to input components in the MLE analysis in advance of JR12. We have yet to test impact of changing these confidence intervals on post MLE leakage.

Unmeasured pcc and water delivered unmeasured households

The Company's unmeasured pcc is higher than some other companies adjoining Yorkshire Water. In addition, the difference between this and the Company's' measured pcc is larger than typical industry values.

The Company balances property-derived population estimates with its total population estimate by using measured non-household population as a balancing item. With reference to the Environment Agency 2007 publication '*Methods of estimating population and*

household projections, we consider it inappropriate to use measured non-household population as a balancing item. If population were reconciled by apportioning the balance across unmeasured and measured household populations, the Company's measured pcc would increase, and reduce the difference between it and the unmeasured pcc. The Company, following our challenge, provided additional analysis that suggests the increase in measured pcc resulting from this would only be 2 l/c/d and not a significant volume. The Company has committed to consider its methodology for reconciling populations as part of its next Water Resources Management Plan.

We raised a concern with the Company relating to how representative the Company's District Consumption Monitor (DCM) is of its wider unmeasured population as the Company does not undertake any statistical analysis of its DCM consumption data from Netbase to remove potential bias. The Company responded as follows:

"The DCM properties have been compared to available census household data which gives details of property type, occupancy and tenure in Yorkshire. However, the census data makes no distinction between measured and unmeasured properties. It is believed that the majority of flats and rental properties in Yorkshire will have a measured supply. Many city centre flats in the major cities have been constructed in the last 10 years and will therefore have a measured supply. Similarly, many rental properties are fitted with a meter to allow control of water bill payment. Therefore, it is not considered significant that these property types are under represented on the DCM when compared to the regional data as the majority of these properties receive a measured supply. Smaller properties are represented – we have many smaller terraced properties on the survey. These have limited gardens and therefore represent properties with low garden watering use."

Distribution Input

We noted that 40% of the distribution input volume is reported from meters which have not been verified because they are not suitable for the checking equipment used for the remainder of meter stock. The impact is reflected in the B2 confidence applied. The Company showed us schemes being implemented to install new meters at sites during 2011/12 and 2012/13 to improve the reliability of reporting. We understand that the Company undertakes cross-site checks to validate information gained from non-verifiable meters.

Comment where the companies have not populated this table in a way that shows the true trend in components such as total leakage and where this is not the case comment;

Unmeasured pcc

A comparison of monthly values of unmeasured pcc over the last four years has shown an increasing trend in pcc from July 2009 and continuing over the current year. While the increase is within the reported confidence grade it does represent a sustained increase above previous years. The Company considered this increase as responding to weather conditions.

Measured pcc

The approach to calculating measured household population, with measured non-household population being used as a balancing item, may result in the Company's measured pcc trend being unrepresentative of actual consumption.

Any changes to the water balance and quantify what the impact of that change on leakage is

There are no material changes to the water balance methodology and assumptions. Data changes in distribution input, leakage and unmeasured households represent real operational changes or customer behaviour over the year. There are no material changes to other components.

Total leakage where it has not been reported in a way that is consistent with the leakage targets.

Total Leakage

This is the first year that the Company has reported leakage from Netbase. This provides a more comprehensive and consistent basis to leakage reporting. We comment below on the way leakage is reported.

Other exceptions

AMP5 Target

Total leakage reported as 325 MI/d which is above the leakage target. The Company has submitted a separate in-confidence report to explain leakage management and performance in the report year. We comment separately on this report.

Change in Methodology

'There is no change in methodology from 2009/10'. We consider there is a need to revisit several of the assumptions including night use allowance for households and non-households, hour to day factor, property reconciliation and supply pipe losses to provide a more robust assessment of leakage. It will take some time to undertake these studies and make improvements to systems. We suggested that any changes to assumptions which might increase or decrease estimated leakage should be considered after these reviews and studies have been completed. The Company responded as follows:

"As part of the project on pressure management we have employed [contractors] to carry out maintenance and optimisation activities on pressure management assets. As part of this work we will be asking them to collect the data necessary to enable the dynamic calculation of hour day factors on an individual DMA basis to be calculated within the Netbase system. This work will be ongoing throughout 2011-12.

We also provided the documentation for BOZO replacement, the property seed point project and for Netbase which we are planning to link together to provide robust property counts and consumptions based on data from YorBill."

Trunk main leakage is estimated from a 2.15% of the Distribution Input based on the study carried out for JR10. We had reviewed the report in advance of the audit and noted that the report identified a range of leakage values with +/- 20% confidence limits. We challenged the Company to explain how it is to improve this estimate using field data. The Company responded as follows:

"We are currently in the process of identifying and configuring the trunk mains within the Netbase system. It is estimated this work will be substantially complete by the end of Dec 2011. Once completed we will be working with [consultants] to develop an appropriate method of determining and reporting on trunk main losses through the Netbase system. Once this report is available we will be undertaking some field activity to confirm the numbers being produced within Netbase are correct. The

extent of the field work required will be determined following completion of both these projects."

The Company recognises the need for continued improvement, and seeks to align improvements with the next WRMP and Price Review planning.

Security of supply index – Table 10a

Any difference between the figures used in the water resource plan updates and those used to calculate the index;

The Company refers to 2008/09 as its most recent normal year from which it calculates its 'dry year effect'; it is therefore not directly relating Report Year distribution input used to calculate SOSI to its 2009 Water Resources Management Plan. However, the Company responded that it prefers to use 2008/09 as representative of a dry year because 2007/08 was particularly wet.

Any inconsistencies between the reference level of service used to calculate the index and that used in the Environment Agency '1997 Reassessment of Water Company Yields'.

We understand from the latest version of the Ofwat Reporting Requirements published in April 2011 that companies are no longer required to calculate the SOSI for the reference level of service. This was therefore not presented at audit.

Any dry year adjustments if the company uses a different ratio to adjust the report year to a dry year than it uses in its resource plan.

The Company bases its dry year adjustment on the maximum allowance of 50Ml/d as used in its 2009 Water Resources Management Plan. Based on our experience elsewhere, we would expect the dry year uplift to be represented as a dry year factor; an additional percentage of normal year demand that would be experienced in a dry year. Addition of a fixed volume each year as applied by Yorkshire Water (we understand agreed with the Environment Agency at PR09) implies that the dry year uplift is in fact reducing over time as distribution input increases in response to population growth.

The Company responded as follows:

"We agree to review the dry year effect for AA and CP for the next WRMP. To estimate a dry year effect we would exclude leakage from demand to ensure we were identifying increased demand due to dry weather only and not increase due to dry weather and leakage. The dry year effect would then be applied to the normal year distribution input to provide the dry year annual average. Leakage will be included in the normal year distribution input hence the dry year also".

The company's progress against its SOSI AMP4 profile if it looks, in the Reporter's opinion, unlikely to be achieved.

The Dry Year Annual Average SOSI reported by Yorkshire Water is '*marginal*', and below the AMP5 SOSI profile in the FD09. Based on our review of supporting climate data provided by the Company against its Report Year monthly distribution input, we consider the reasons given by the Company in its exception commentary to be appropriate. This was a combination of high demand in a dry Spring/Summer of 2010 and high leakage experienced during the 2010/11 winter. Leakage is considered to be the primary driver behind this

reduction in SOSI. We comment on the Company's plans to address leakage during the next Report Year in our separate report.

The shortfall in SOSI relates to the large Grid zone. The smaller East Groundwater and East Surface Water zones report no deficits against their critical period criteria.

Water balance component data by resource zone – Table 10b

Material differences between out-turn data and corresponding water resources plan data.

There has been no significant change to the Company's methodology to estimate treatment works operational use but it has recently re-calculated the figure for the Report Year. This results in a significant increase in operational use, mainly in the Grid zone.

Company-wide, a 30% increase is noted in distribution system operational use from that forecast in the Final WRMP.

Both measured and unmeasured household water delivered is 6% lower than the company level forecast at a Company level in the WRMP. These decreases are predominantly observed in the Grid SWZ. The Company level unmeasured pcc is some 5% lower than forecast in the final WRMP. The equivalent measured pcc is 6% lower than forecast; however, in the East SWZ, measured pcc is 6% greater.

The Company is reporting JR11 supply pipe losses across all types of property supplied that are from 30 to 40% greater than in the WRMP.

The Company reports outage based on actual events at its sources, both planned and unplanned consistent with the Reporting Requirements. The WRMP incorporated a forecast outage allowance based on Monte Carlo probabilistic modelling.

Water service activities – Table 11

The distribution studies carried out and/or updated conform with the guidance given in the definitions;

We confirm that the Company's procedures have not changed from previous years, however during the report year; the Company changed its modelling software from Aquis to InfoWorks. We note that for AMP5, the driver for distribution studies has changed from discolouration schemes to operational issues such as leakage and serviceability issues.

Other exceptions

Mains Bursts

The number of bursts per km is consistent with the JR10 figure (267 in JR11 vs. 265 in JR10). The absolute value for JR11 is 8320 bursts, similar to JR10. This is above the upper control limit of the FD target, which was set at 7710. This indicates a deteriorating trend for this indicator. The Company is assessing this indicator as marginal. The deterioration in performance has been attributed in part to the cold weather, experienced between November and December 2010. The Company has carried out its own analysis, which it has shared with Ofwat, to determine the impact of the severe weather.

Based on this analysis, we support the Company's view that the deterioration in performance is mainly as a result of the severe weather experienced in December 2010 and January 2011

The analysis shows that if there had been a typical winter, as experienced in 2003 to 2008, the performance trend for bursts will have been within tram lines.

Nevertheless, the marginal serviceability shows that the Company should be taking action to address this performance in the short term and develop further plans for the future Periodic Review. We note that a serviceability action plan including focussed mains replacement has commenced in the current year and expenditure on infrastructure renewals is planned to increase in 2011/12.

Water service serviceability indicators - Table 11a

The validity of the serviceability assessment made by the company for these indicators and the overall sub-service assessment;

The Company has demonstrated to us from the component indicators that the water non-infrastructure serviceability assessment is stable.

Based on its DG3 and bursts performance, the Company is assessing the serviceability of its water infrastructure sub-service as marginal. We agree with this assessment and can confirm that the Company has internal action and recovery plans in place to improve performance of these measures. These plans include initiatives such as:

- DMA Optimisation Programme;
- Pressure Management;
- Structural Programme;
- Operational Training.

There is a dichotomy in that further leakage detection and repair is likely to result in continuing high burst rates. The Company advised that its first priority is to achieve the leakage target. This may mean that serviceability is likely to continue as marginal over the short term.

The Company advised Ofwat in April 2011 on the underlying reasons behind the poor performance on burst frequency and DG3 indicator and the impact on water infrastructure serviceability. The action plan being implemented by the Company was explained.

The Company also informed us that it will be in regular communications with Ofwat, regarding the progress of its internal action plans.

The Companies' exclusion of non-routine samples and reviews the exclusion of works on the basis of insufficient data or gaps in the data. Comment where the criteria have been incorrectly applied or there are inconsistencies or where exclusion of samples is having a material effect on results;

The Company has correctly applied the exclusion of results in accordance with the Reporting Requirements. This exclusion of samples is having a material effect on the results, as two large works at Chellow Heights and Highfield Lane contributed to 93% of the total exclusions as they were out of service for a substantial period due to maintenance work. This is reflected in Line 3.

Any inconsistencies or inappropriate reporting of unplanned, planned maintenance work and the suitability of the company definition of unplanned maintenance.

The Company has agreed dual reporting with Ofwat for this measure, for two years and JR11 represents the second year. One measure looks at all unplanned maintenance regardless of criticality and the other looks at emergency unplanned maintenance only.

Both measures report completed jobs only. Although unplanned maintenance as a whole has declined, the number of emergency jobs has increased. Using both measures the Company has been able to interpret the data correctly in respect to its performance.

Other exceptions

The Company changed its laboratory services provider partway through the Report Year. Potentially there could be differences in the limits of detection between the old and the new supplier, although as both use methods accredited to UKAS/DWI standards the change is not believed to be material.

Water explanatory factors – Table 12

Material changes to source and treatment types from the last June Return;

Yorkshire Water is reporting a 13% increase in pumping head for the Report Year from JR10. This is due to a combination of weather effects increasing distribution input and a variation in water sources with an increase in abstraction from river sources).

Sewerage properties and population – Table 13

Any inappropriate systems and methodologies for estimating the table components. In particular the linkages with the equivalent components in the water service and consistency with billing records should be scrutinised.

Average property numbers for water and sewerage are calculated by summing the opening (31 March 2010) and closing (31 March 2011) numbers and dividing them by two. To be in line with best practice, we would expect to see average property numbers calculated on the basis of a monthly rolling average, to reflect the increased optant property numbers often observed during the first months of each year. The Company responded that it will review this and consider for JR12.

Sewerage collected – Table 14

Inappropriate or poorly applied methodologies adopted to estimate the sewage volumes.

The Company calculates reported measured sewage volumes in the same way as measured water volumes: derived from revenue. We challenged the Company as to why it does not derive measured volumes directly from the billing system as we consider this would be more appropriate and efficient. We were provided at audit with a summary indicating that measured volumes calculated from the billing system as a checking item were in total 4.3% lower than those obtained from the revenue figures. We found that there was a need for greater clarity in the reconciliation of measured water volumes and revenue.

Other exceptions

Yorkshire Water has made three minor changes to its methodology this report year, all of which we consider to be appropriate, relating to:

- Sewage volumes associated with WaterSure customers as a separate component;

- Measured household sewage volumes of properties billed by other water companies on the Company's behalf; and
- The way in which it applies accruals for the Report Year.

Sewage treatment – Table 15

Other exceptions

There is a 23% reduction in the reported figures for treatment capacity available (Line 9) between JR10 and JR11. The Company informed us that this was due to the fact that WRA consent figures were used to calculate the BOD capacity in JR10. To be consistent with the approach used for Table 17b, the BOD capacity for JR11 has been calculated using the more stringent consent between the WRA and UWWTD consent. The analysis was also informed by observed performance at some of the larger sewage treatment works.

Sewerage service activities – Table 16

Serviceability assessments for sewer collapses and blockages where the company has not used data which reconciles with the data provided in the 'serviceability tool kit';

We confirm that the Company has used data which reconciles with the data provided in the 'serviceability tool kit'. The Company has assessed these two indicators as stable and we agree with this assessment.

Drainage Area Plans studies or the methodologies used to prepare them where they do not conform with the guidance in the definitions or where there have been material changes since the last June Return;

We note that the Company has changed its approach and moved from Drainage Area Studies for specific schemes to Drainage Area Plans, which will be used to assess the serviceability of all the sewers in a given drainage area zone. This change of approach is in alignment with the guidelines given in the new WRC Sewerage Risk Management website.

Sewerage service serviceability indicators – Table 16a

The serviceability assessment made by the company for these indicators and the overall sub-service assessment;

Sewer Collapses

The Company has assessed this indicator as stable, as performance is below the stable reference levels. However, the reported value for JR11 is a 19% increase in the value reported at JR10.

Pollution incidents

The Company has not assessed the performance of pollution incidents as this is not comparable with historical data. This is due to changes to the Environment Agency's (EA) Common Incident Classification Scheme (CICS) guidance for pollution incident classification, EA reporting improvements and improvements to the Company's self reporting process.

The key change is that the EA now requires companies to assess any potential pollution incident as a minimum of a Category 3 Pollution Incident. Prior to this guidance change, the category of the pollution incident was by default a Category 4, and it was up to the EA to demonstrate an environmental impact. The Company has worked with the EA to establish the impact of the policy change.

The Company has advised Ofwat of the significant impact of this change in classification on the serviceability assessment.

Flooding due to other causes

This indicator has been assessed as stable, as performance is below the FD reference line.

Flooding due to overloaded sewers excluding severe weather

This indicator has been assessed as stable, as performance is below the FD reference level.

Sewer Blockages

This indicator has been assessed as stable, as performance is at the FD reference level.

Equipment Failures

This indicator has been assessed as stable, as performance is within the tram lines. However, the JR11 value is at the upper control limit and is a 22% increase in comparison to the value reported at JR10. Following an internal review, the Company identified it had been over-reporting equipment failures since 2008, as the reported figures included jobs that were not equipment failures. Tankering jobs were picked up in error, with electrical and mechanical work orders. The Reported figure for JR11 is 8073; this is a significant increase in the number of equipment failures from previous year (actual and corrected following exclusion of tankering jobs). The Company stated that this is because there was a decrease in work orders issued to the service providers last year, as the contract was coming to an end. Jobs were delayed and done in 2010/11 instead of 2009/10.

Overall Assessment

The performance of all the indicators, excepting pollution incidents which we discuss above is below or at the stable reference level. We agree with the Company's stable assessment for sewerage infrastructure.

Any inconsistencies or inappropriate reporting of unplanned, planned maintenance work and the suitability of the company definition of unplanned maintenance.

As agreed with Ofwat in JR10, the Company has continued its dual reporting for unplanned maintenance. The new method of reporting now excludes operational and repeat work orders. This indicator has been assessed as stable, as the JR figure is below the FD reference level, which was estimated using the old method. Using the new method, the Company has reassessed the reference level using the same years as the original FD reference and the JR11 performance is below this reference level. Ofwat has informed the Company that the reference levels will be reviewed in 2012.

Sewerage service serviceability indicators – Table 16b

The Company has demonstrated to us from the component indicators that the sewerage non-infrastructure serviceability assessment is stable.

Systems and procedures for the collection and recording of works operating costs at works level which in the reporter's opinion are not "fit for purpose".

Table 16b does not consider systems and procedures for the collection of works operating costs.

Other exceptions

The Company has identified four failing works due to a change in assessment by the EA. Without this change (and using the same basis as JR10) the number of failing works would be two.

4.6 Sewerage explanatory measures (Tables 17, 17a, 17b, 17c, 17d, 17f)

Sewerage explanatory factors – sewerage sub area – Table 17a

Inappropriate methods used by the company to record and allocate costs for each area;

The Company methodology is in principle consistent with JR10 and consistent with the cost allocation assumptions underpinning Tables 22 and 22a reflecting the changes in allocations to cost categories summarised in the Board Overview.

In the context of Table 22a we raised the issue of the treatment of terminal pumping stations and the Ofwat response to the query SWT/001. We understand that the Company has continued to allocate terminal pumping station costs to sewage treatment consistent with JR10 in Tables 22, 22a and 17a, b and f. In the context of Tables 17a, b and f we believe this to be consistent with Ofwat reporting requirements but for table 22a inconsistent. We discuss this issue further in the Table 22a commentary.

It should be noted that while there has been more direct allocation of General and Support (G&S) costs compared to JR10 in the context of Tables 22a and 22 and reflected in Table 17a, remaining G&S costs are apportioned to sewerage areas pro rata to direct costs. Thus as direct costs move year on year so G&S costs will follow.

Sewerage explanatory factors – sewage treatment works database – Table 17b

The methods used to record the costs of individual treatment works where they have changed or are in the reporter's opinion inappropriate.

The Company methodology is in principle consistent with JR10 and the cost allocation assumptions underpinning Tables 22 and 22a, reflecting the changes in allocations to cost categories summarized in the Board Overview.

Other Exceptions

We reviewed the Company's explanations of significant year on year variances which are likely to be material in the analysis of this data. We found that the explanations provided included changes in the number and classification of sewage treatment works, movements in direct and General & Support expenditure. Explanations were provided where functional expenditure varied by more than 30% on the previous year. These were clearly explained and related to specific activities. We found that these explanations were well founded.

Sewerage explanatory factors – sewage treatment works costs – Table 17f

- Changes to the methods used to allocate costs to the various sizes and types of STWs
- The reasons for any material inconsistencies with figures in tables 17b (line 9 and 22) of the June return if the company has not made clear in the overview.

The Company methodology is in principle consistent with JR10 and the cost allocation assumptions underpinning Tables 22 and 22a reflecting the changes in allocations to cost categories summarized in the Board Overview.

It should be noted that while there has been more direct allocation of G&S costs compared to JR10 in the context of Tables 22a and 22 and reflected in Tables 17b and f, remaining G&S costs are apportioned to sewage treatment works pro rata to direct costs. Thus as direct costs move year on year so G&S costs will follow.

The Company confirmed the reconciliation of Tables 17b and f in respect of large works and consistency with Tables 22 and 22a.

4.7 Regulatory Accounts (Tables 21, 21a, 21b, 22, 22a, 25a, 25b, 25c)

Activity costing analysis – Water service 1 – Table 21

Activity costing analysis – Sewerage service 1 – Table 22

- Significant changes in costs where these have not been commented on by the company in the overview, particularly where they relate to changes in operating conditions such as drought or cold weather.
- Inappropriate or inconsistent cost allocation procedures or cost drivers being applied or where the methodology has changed from the previous year.

For JR11 the Company has undertaken its primary cost allocation in the context of accounting separation tables and then mapped these across to Tables 21 and 22. Thus, there is consistency between Tables 21 and 22 and 21a, 21b and 22a in the allocation of costs to reporting lines.

The Company has reflected its organizational change to Customer Service & Networks and Production Directorates in the allocation of costs across the business units. This particularly impacts employment costs where it has introduced a new process with the aim of providing a more robust and consistent allocation. This has involved a comprehensive review by management accountants with business managers in identifying the proportion of costs to be allocated to business units. Whilst this may be viewed as a management estimate, the Company explained that there was a significant degree of mapping costs directly to business units. The Company provided a sample of the documentation supporting this process. We believe this represents a significant change in methodology although we understand it has not resulted in material variances across the business units.

The basis of allocation of centrally held costs and overheads has been reviewed and is now in line with Accounting Separation allocation assumptions. In previous JR Tables 21 and 22 the Company largely allocated G&S expenditure pro rata to direct costs. The Company was able to demonstrate clear mapping from General & Support activities to the JR11 assumptions and the previous JR10 methodology in the context of accounting separation and which are reflected in Tables 21 and 22. We believe this enhances the robustness of the allocation of costs.

In its Board Overview the Company summarises the key variances to JR10 by reference to the JR10 Ofwat reporting thresholds. We note that the Company now accounts for all leakage expenditure, apart from capital items, as opex. This is consistent with its interpretation of FD09 resulting in a significant increase in Table 21 opex. We think the

Company approach is consistent with FD09. We are also aware that there may still be differing approaches to the accounting for leakage expenditure in the industry.

We discussed with the Company the allocation of some £5.9m of severe weather costs as exceptional items. The Company confirmed that the financial auditors were comfortable with the allocation and thus we have not reviewed the issue further. We did note that in JR10 severe weather costs were identified by the Company as atypical in the Table 21 commentary. The severe winter weather affected much of the UK and we think it important there should be clarity across the industry as to how additional costs arising have been allocated.

Activity costing analysis – Water service 2 – Table 21a
Activity costing analysis – Retail services – Table 21b
Activity costing analysis – Sewerage service 2 – Table 22a

Inappropriate or inconsistent cost allocation procedures or cost drivers being applied or where the methodology has changed from the previous year.

The comments we make in relation to Tables 21 and 22 also apply to these tables.

We discussed with the Company the importance of maintaining its accounting separation methodology in the context of the Ofwat JR11 guidance including the basis of assumptions underpinning the cost allocations. The Company has updated its methodology to reflect the changes it has made and which we refer to above in our comments on Tables 21 and 22.

Given that the primary allocation of costs is undertaken for accounting separation we asked the Company to clarify its treatment of terminal pumping stations in the context of the revised JR11 Ofwat Reporting Requirements. The Company explained that it had allocated terminal pumping stations consistent with JR10 and thus the associated costs have been allocated to the sewage treatment business unit and reflected in the same way in Table 22 and in Tables 17a, 17b and 17f. The Company has reviewed the materiality of the issue within the region and found that this represents 3% of total operating expenditure; thus any adjustment is not considered to be material. The Company is reviewing this issue further for JR12.

In the accounting separation appendix tables the Company has revised its approach to the allocation of costs. We comment on this in Tables 21 and 22. This revised approach has led to greater confidence in the allocations of costs, in particular employment costs, through management estimates. There is a significant direct mapping of such costs to business units. As a result, these tables are likely to understate the proportion of costs by direct mapping.

Analysis of fixed assets by business unit – Table 25 a/b/c

- Inappropriate systems and processes or where a company has made changes to systems and processes.
- The allocation of the fixed assets, CCD and population of the table where any changes to the systems and process seem inappropriate or inconsistent;
- Inconsistencies with the guidance and assets identified at boundary points;
- Inappropriate assumptions or adjustments underlying the allocations and population of the fixed assets table.

The Company methodology is essentially unchanged from JR10 although there have been some improvements in the basis of the allocation of some of the management and general assets, in particular related to IT and Research and Development. We discussed with the

Company the importance of maintaining its accounting separation methodology in the context of the Ofwat JR11 guidance including the basis of and assumptions underpinning the asset allocations. The Company has updated its methodology to reflect the changes it has made.

The Company explained that as part of the business restructure into "Production" and "Networks" business units, work has been done to identify which assets sit within each unit. The assumption has been made that assets owned by "Production" are within an STW and will be allocated to treatment and assets owned by "Networks" are remote and will be allocated to collection. The list from Production identified that approximately 10% of terminal pumping stations will sit within treatment and 90% within collection.

In the accounting separation appendix tables the allocation of values to business units highlights the very significant levels of direct allocation, which is what we would expect given that most assets map directly to business units. Boundary point issues related for example to pumping stations are, in the context of the overall GMEA values, unlikely to be material.

4.8 Financial Measures (Tables 32, 33, 34, 35, 36, 37, 38)

The methods used to calculate proportional allocation of expenditure where they are not the same as those used at the PR09 final business plan. This includes changes to both capital and operating cost methodologies

The Company uses the same methods to calculate proportional allocation of expenditure as at PR09 for most of the submission. The Company used to apportion M&G expenditure 50/50 across water and sewerage, although now it allocates expenditure directly to each service where possible and then splits out the remainder 50/50. It uses an estimated value for the inclusion of assets adopted at nil cost which were not included for JR10.

Analysis of fixed asset additions and asset maintenance by asset type (Current Cost Accounting) - Table 32

Other exceptions

The Company has included assets adopted at nil cost for the first time. It has included adopted pumping stations in the non-infrastructure element of Line 12. It believes (and we agree) that adopted pumping stations should appear in Lines 12-13 rather than the non-infrastructure column of Line 7 as indicated by the Reporting Requirements and subsequent clarifications.

Analysis of non-infrastructure fixed asset additions by life categories (Current Cost Accounting) - Table 34

Other exceptions

The Company has noted a change in profile weighted towards the short life assets reflecting the AMP5 business plan delivery. Although this represents a change from JR10, this is as expected.

Water service - expenditure by purpose - Table 35

Any change in the company's policy of allocating leakage expenditure from that adopted for previous years;

We note that the Company now accounts for all leakage expenditure, apart from capital items, as opex consistent with its interpretation of FD09. This is a change from JR10 and results in a significant increase in opex. We think the Company approach is consistent with FD09.

Water compliance - expenditure report - Table 37

Any non-trivial changes to works or schemes that have not been completed to the schedules for the report year as laid out in Ofwat's quality enhancement project schedules (Annex 4-W) not identified in the overview. Where the outputs do not match expectations the reporter should ascertain and give an opinion on the reasons for any shortfalls;

The Company has delivered the Quality programme regulatory outputs for JR11. It is showing a 17% variance on the Quality programme from the FD. This increase in expenditure relates to AMP4 programmes (line 1) and lead supply pipe renewal (line 11) because of increased replacement costs. This increase is partly offset by lower expenditure on the raw water deterioration schemes and SEMD expenditure.

Operating costs from the quality programme

We note that the main components of opex effects of capital reported under enhancement related to full year effects of completion of AMP4 schemes including Miex water treatment schemes. These are correctly reported in Table 37 Block A.

Sewerage compliance - expenditure report - Table 38

Where the outputs do not match expectations the reporter should ascertain and give an opinion on the reasons for any shortfalls.

The Company has not missed any year 1 quality outputs although expenditure to date is 37% less than the FD. We have discussed the reasons why in our commentary for Tables 36a and 36b.

The cumulative effect of trivial changes (e.g. minor delays) and any material impact on the delivery of the quality enhancement programme or the ability of the company to meet statutory completion dates;

The Company has spent less on its revised Bathing Water Directive (rBWD) programme compared to the FD, as the Company has spent more on studies to support its alternative rBWD strategy. We have discussed this in more detail under our commentary for Tables 36a and 36b.

4.9 Expenditure by Purpose (Tables 35a, 35b, 36a, 36b)

Water Service - table 35a

- The company's progress with the delivery of outputs as set out in the 2010 supplementary report where there is a significant risk of any of the outputs not being achieved to time or scope and where these programme changes have not been noted in the overview;
- Unreasonable variations in expenditure observed in audit.

The Company has commented on the delays to the East Coast pipeline which has not met its regulatory compliance date of 31 March 2010. We have reviewed this scheme and confirm that on the basis of information provided to us the Company is likely to achieve forecast completion by 30 September 2011.

The delivery of the AMR scheme is on programme. The Company is focusing on the easier meter installations first which results in the achievement of the annual output with total cost below the FD. The programme is likely to become increasingly challenging to cost and programme as the more complex installations are carried out.

We note that the Company has identified no enhancement opex related to new meter connections and meter optants. We would have expected to see a number new meters x unit cost approach, consistent with what we have seen elsewhere in the industry, but the Company explained that there did not appear to be an FD09 allowance for such costs and that they are reported in JR11 as part of base as indeed are the benefits of the AMR programme, although the benefits of this will not be realised fully until towards the end of the AMP period.

Other exceptions

Material variance to FD09 assumptions

Total Water Service expenditure is within 1% of the FD allowance. Base maintenance expenditure is marginally below the FD with a 10.1% reduction in non-infrastructure capex offset in part by a 12% increase in infrastructure renewals. The Company advised us that this represented a change in strategy to focus on infrastructure expenditure to address the marginal serviceability.

The increase in quality enhancement expenditure is explained in our Table 37 commentary. While enhanced Service Level expenditure is similar to the FD, the delay in the delivery of the East Coast pipeline has deferred some expenditure to 2011/12.

The reduction in Supply Demand expenditure is mainly due to the lower meter option take-up and less demand for new mains.

Water Service - Capex variance from 2009 final determination - Table 35b

- *Where there are any cases where savings have been achieved now but where this will result in additional capital expenditure being necessary in the future;*
- *Lines 25 – 30 whether the variances are associated with expenditure of delayed AMP4 outputs and state whether the outputs have been delivered.*

This is the first year of reporting for the AMP5 period. Allocations of variance to delivery of Outputs, timing and efficiency savings are therefore indicative.

Sewerage Service - Table 36a

The company's progress with the delivery of outputs as set out in the 2010-15 supplementary report where the reporter considers there to be a significant risk that any of the outputs will not be delivered to time or scope and these programme changes have not been noted in the overview;

The Company has not missed any regulatory outputs for JR11. It is however showing a -37% variance on the Quality programme from the FD.

From our audits we understand that this is partly due to Water Framework Directive (WFD) investigations costing less than planned, but mainly because more investigations were completed for the revised Bathing Waters Directive (rBWD), delaying the expenditure of capital works.

The Company has changed its strategy for rBWD from the PR09 final Business Plan. We understand that it has informed Ofwat directly of this change and the potential implications for the programme. We have summarised the position and our concerns below.

There are two main changes in strategy:

- Straight to "excellent" standard;
- Sound Science compared with empirical approach.

Straight to "excellent" standard

We understand that the Company has agreed with the EA that it can progress directly to the works required to contribute to "excellent" standard in bathing waters affected by its discharges. This has a regulatory output date of 2014. The works required to contribute to "sufficient" standard with a 2012 regulatory output date in the EA National Environmental Programme (NEP) will now be on the basis of best endeavours. Best endeavours covers work that would be required regardless of the standard and the approach. The Company believes this represents better value for money for its customers, and we are supportive of the strategy.

Sound science compared with empirical approach

The Company presented conventional solutions in its final Business Plan for PR09 to meet EA requirements on an "empirical spills per bathing season" approach. The Company is concerned that this does not truly reflect the impact that its assets are having on bathing water quality. It therefore embarked on a "Sound Science" approach, involving extensive modelling and investigations work, to fully understand its impacts. Solutions are therefore being developed in this vein. Again, the Company believes this represents better value for money for its customers, and we are supportive of the approach.

The problem is that the EA has not yet given approval to the Sound Science approach. In the meantime the Company has progressed tandem solutions based on spills per bathing seasons and Sound Science. It is now at the stage where a decision from the EA is required as it will have to commit to one of the approaches to avoid missing the regulatory deadline.

Operating costs from the quality programme

We note that the main components of opex effects of capital reported under enhancement related to full year effects of completion of AMP4 waste water quality schemes including Knostrop and Spen Valley. These are correctly reported in Table 38 Block A.

Variations in expenditure given in the company's commentary that in the reporter's opinion seem unreasonable.

The Company reports (as in previous years) efficiencies on credit; that is before they have actually been incurred. We note it only does this where it is confident that a saving will be realised, as a way of highlighting the positive management actions it has undertaken to generate efficiencies.

We have not seen this practice elsewhere, and we believe the purpose of the tables is to highlight variances on expenditure that has actually been delivered. We consider that, if the Company is to claim efficiencies before schemes have been implemented, it should at the very least do so pro-rata on the expenditure incurred to date. The wastewater efficiencies being claimed for JR11 are for two batches, where it is confident that its innovative procurement strategy will generate efficiencies. We agree that the procurement strategy is innovative and likely to deliver savings once the schemes are completed even though we consider the claiming of these efficiencies to be premature.

Furthermore, we note that the efficiencies by programme line are not net of any overspend. In our view any overspend needs to be accounted for to assess the real efficiencies on each programme. This issue requires clarification in the Reporting Requirements.

The impact for JR11 is not material. The Company carries out an annual reconciliation to account for the efficiencies claimed but not realised upon scheme completion. The cumulative effect at the end of the AMP period may not be material because of this reconciliation. Nevertheless, we believe in the intervening period that it could distort the view of the Company's capital programme delivery which is why we have raised it as an exception.

The Company has always disclosed its methodology to Ofwat and the previous Reporter. It does not consider the methodology to be incorrect as it has not been raised as an issue by Ofwat in the past.

Sewerage Service - capex variance from 2009 final determination - Table 36b

Lines 25 – 30 where we will examine the causes of variances associated with expenditure of delayed AMP4 outputs and report by exception on delivery of outputs.

The Company has only reported AMP4 Quality expenditure in Block E of T36b. Expenditure delayed into AMP5 has been agreed with the EA.

Other exceptions

The Company has discussed in its commentary its position on DG5 Hydraulics outputs.

4.10 Climate Change (Table 42)

Inappropriate and/or poorly documented systems to derive greenhouse gas emissions (i.e. those that are being incorrectly implemented or managed);

We identified weaknesses in the Company's methodology for the extraction and processing of the relevant information from Company systems. The Company has agreed to make improvements in the methods and documentation for JR12.

Material omissions and or poorly justified or evidenced assumptions;

During the audit, inconsistencies were found in the data supplied to support the carbon footprint assessment. The Company responded positively and errors were subsequently resolved; some data were confirmed, other numbers changed.

ANNEX A: GENERAL INFORMATION

This Annex has been excluded from the public domain version

ANNEX B: REPORTER'S LEVELS OF SERVICE METHODOLOGIES

The Reporter must comment on any discrepancies between the methodology described and that actually practised by the company. The reporter should pay particular attention to areas of the methodology that do not meet the reporting requirements and any changes in methodology or systems from the previous June return.

DG2 Low Pressure

Yorkshire Water has updated its methodology 'DG2 properties receiving pressure/ flow below the reference level'. The latest version is dated February 2011. The methodology has been updated to reflect the application of Netbase to collect and analyse pressure data in the distribution network. We reviewed the methodology as part of our JR audit process. We did not identify any discrepancies between the methodology described and that actually practised by the Company.

The continuous pressure monitoring system provides substantial coverage of the distribution network. The system enables the Company to report through Netbase on pressure violations with confidence. This is the first year that Netbase has been used to analyse pressure data and report on pressure violations. This provides a significant improvement in consistent data analysis and reporting.

Pressure is reported from 2600 data loggers located at critical points in DMAs. Pressure loggers are also placed in pressure managed areas. Sometimes more than one pressure logger is used in a DMA. Data from some 70% of loggers are downloaded every three months. This lag in data provision means that any violations of the pressure and GSS standard may not be evident until after this period. Reporting for JR11 will therefore include some data from the previous year but may miss breaches later in the report year.

The remaining loggers are on RTnet and are downloaded daily. There is a programme to complete the placing of all pressure loggers onto RTnet by the end of 2011/12.

The DG2 methodology has not been applied to properties on common services, reported as forming some 16% of total properties. There is a likelihood that some properties on common services do not meet the pressure threshold criteria in the Reporting Requirements and, because the DG2 reported value is low, cannot be said to be within the accuracy band of the confidence grade. The Company has agreed to investigate this area of reporting.

Following audit, the Company agreed to investigate logger availability reporting during 2011/12.

DG3

Yorkshire Water has updated its methodology 'DG3 properties affected by supply interruptions'. The latest version is dated February 2011. We reviewed the methodology as part of our JR audit process. The DG3 Register is in place and consistent with the Reporting Requirements. We did not identify any discrepancies between the methodology described and that actually practised by the Company.

There has been a change in methodology for JR11 compared with previous years. All unplanned and planned interruptions are reported through SAP. The process is detailed in the methodology. Each element of the process from initial contact to restoration is captured

on SAP. Contractors (Service Partners) are issued with 'tough books' and input data directly onto the system.

Roles and responsibilities are clearly defined in the document. There was evidence of checking of DG3 events at audit. It would be helpful to document the checking process carried out by all teams who enter interruptions data directly onto SAP.

The SAP reporting system will flag any inconsistencies such as overrun of planned events, failure to warn and starting work early. These are then investigated by analysts and, where appropriate, events are reclassified for reporting purposes. All events greater than 5 hours are investigated and a report prepared. The SAP form also allows events to be reported where action is taken to repair without the need to isolate companies.

The Company assumes that an interruption occurs if the pressure falls below 7m in an adjacent main. Similarly, supply is not considered as restored until pressure achieves 7m.

The DG3 Register is maintained on a database and downloaded to excel for analysis and reporting. Data access for entries and deletions to the register is controlled by the DG3 Team Leader and nominated staff. Entries are generally clearly documented but there is scope for further improvements to provide a clear trail for the property count and the logic in the inclusion or exclusion of areas. Events are investigated and reports prepared to include, in electronic format, an event log, pressure and flow information from Netbase, ICE information and plans from Odyssey showing areas affected and property count.

DG5 Sewage Flooding

The Company has detailed methodologies for both internal and external flooding which we were told were unchanged from JR10. The wording of the methodology was, we considered, unclear in how properties that flooded for the first time due to hydraulic incapacity were allocated. The issue was the use of the phrase "appropriate probability category" without defining fully what this would be for different circumstances. We found that in practice appropriate and consistent procedures were being followed but that the methodology was unclear.

The Company accepted that there were shortcomings in its written methodologies and revised them to address the issue. We consider that the revised methodologies both reflect the actual procedures being followed and are in accordance with Ofwat's Reporting Requirements.

DG6 Response to Billing Queries

We have not observed any discrepancies between the methodology described and that actually practised by the Company; there are no material areas of the methodology that do not meet the Reporting Requirements and no changes in methodology or systems from the previous June return.

DG8 Billing of Metered Customers

We note that Yorkshire Water applies what it refers to as an "ignored" category though this has not been fully exposed or explained in its Level of Service Methodology. We would normally expect the majority (though not all) of these types of exclusions to be included in Line 6 (total metered) and Line 7 (exclusions); they are not included in either line. We do not believe that this fully aligns with Ofwat's Reporting Requirements but any deviations do not appear to be material in relation to AMP targets.

We have not observed any discrepancies between the methodology described and that actually practised by the Company; there are no material areas of the methodology that do not meet the reporting requirements other than that cited above and no changes in methodology from the previous June return.

ANNEX B: REPORTER'S LEVELS OF SERVICE INFORMATION CERTIFICATE

LICENCE CONDITION J

LEVELS OF SERVICE INFORMATION CERTIFICATE

I refer to the documents dated 10 June 2011 prepared by Yorkshire Water Services Ltd as the June 2011 return to the Water Services Regulation Authority, which have been reviewed under my direction.

The June return, for which Yorkshire Water Services Ltd is solely responsible, includes Condition J (of the Instrument of Appointment) Levels of Service information.

In my professional opinion, based on and to the extent disclosed by sample monitoring carried out and as described in my Report to the Authority dated 17 June 2011:

1. the June Return, in so far as it relates to Condition J Levels of Service information, has been properly compiled by Yorkshire Water Services Ltd), and in accordance with reasonable methods and procedures which are adequate for providing information to the appropriate degree of accuracy and to enable the Authority to make a fair assessment of the company's performance against Levels of Service indicators; and
2. subject to the qualifications expressed in my Report referred to above, the June 2011 Return, in so far as it relates to Condition J Levels of Service information, has been prepared in accordance with the methodologies described in the submission dated 10 June 2011 to the Authority and that these methodologies are adequate for the purpose of obtaining Levels of Service information in accordance with the relevant reporting requirements.
3. in reviewing information and materials for my report I was not required to review information and materials for the SIM.



Signed
For and on behalf of Atkins Ltd
Date 17 June 2011

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