



YorkshireWater

# YORKSHIRE WATER BOARD OVERVIEW





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## 1. ENDORSEMENT OF THE BOARD'S OVERVIEW

The Board has confirmed that it has sufficient processes and internal systems of control to fully meet its obligation for the provision of information to Ofwat.

So far as the Directors are aware, there is no relevant audit information of which the company's Auditor or Reporter are unaware. The Directors have taken all the steps that they ought to have taken as Directors 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.

**Signed on behalf of the Yorkshire Water Services Limited Board of Directors**



Richard Flint, Chief Executive



Roger Hyde, Non-Executive Director



## 2. BOARD STATEMENT

The Board (including Non-Executive Directors) have considered a paper and received a presentation explaining the nature of the company's procedures and practices for compilation of the June Return as detailed below. The Audit Committee, on behalf of the Board, has also received an overview of the process and any key issues from both the financial auditors, PwC and the Ofwat approved Reporter, Atkins.

In 2006-07, we received ISO 9001:2000 for our June Return process. We have maintained our certification throughout 2010-11, now ISO 9001:2008, and continue to use an automated document management system (ECM) to compile our June Return submission.

### 2.1. INTERNAL CONTROLS

The production of the June Return at Yorkshire Water involves all areas of the business. The process is coordinated by the Regulation Team who also act as advisor and challenger to the business and compile the final documentation for submission to Ofwat.

Our reporting procedures are updated annually as part of our ISO 9001 system. These set out the roles and responsibilities for collecting and verifying data and commentary for the overall Quality Plan. The financial data is audited by PwC and all other data, together with accounting separation information, is reviewed by Atkins (our Ofwat approved Reporter).

Within the business there are data providers, data managers and senior managers, all of whom are accountable for the content of the June Return submission. The data providers are responsible for the processes and collection of the relevant data for the June Return. These data providers are located within the operational business units, the Asset Delivery Unit and the customer contact centre, LOOP.

All text and data, supported by appropriate audit trails, is signed off by the relevant accountable senior manager prior to the audits being carried out by the Reporter or Auditor. Issues that arise from these audits are reviewed and resolved (where possible) by the Regulation Team and relevant data providers and managers.

The Reporter verifies the data provided by our computer systems, databases and reporting software, which we have established are suitable for the task. The Reporter is informed if new systems and databases are being used to compile the data and they are available to audit if the Reporter feels this is necessary. The Reporter is also informed of any changes in the way systems and databases are populated.

As well as providing the Reporter with data to meet Ofwat's requirements, we also seek confirmation that, in the Reporter's view, we are compliant with the Reporting Requirements. The Reporter will give advice or make recommendations where improvements are considered necessary. The review meetings are used to seek agreement from the Reporter that we have followed procedures and made valid assumptions, particularly where there have been changes in the report year to reporting requirements or procedures. Where a confidence grade is changed we will seek confirmation from the Reporter that the change is appropriate.

In summary: the process undertaken for the June Return submission is in line with our ISO 9001 system and includes audit checks and challenges to be undertaken by data providers, data managers, senior managers, the internal Regulation Team, external auditors and the Reporter.

The June Return submission is signed off by the Chief Executive and one independent Non-Executive Director on behalf of the Yorkshire Water Board, before submission to Ofwat.

In particular the Board has taken note of the following:

- The existence of a lengthy Quality Plan, which has received ISO 9001:2008 certification. The Quality Plan details the protocols for the collection of data and allocates responsibility to relevant individuals for both collection and verification of data.
- That the June Return process and key issues raised by both internal audits and the Reporters report, is reviewed annually by the Audit Committee and the Yorkshire Water Regulatory Issues Group.
- That the process undertaken includes audit checks and challenges by data providers, data managers, senior managers, Executive Directors, the internal Regulation Team, June Return Management Group, external auditors and the Reporter.
- That data is allocated an appropriate confidence grade.
- The basis for assigning confidence grades.
- The processes by which the company's auditor, PwC and the company's Reporter, Atkins, review the June Return submission and that there is considerable dialogue between PwC, Atkins and the company as to issues raised by the data.
- The text of the June Return submission adds explanation to and explains assumptions behind the data submitted where necessary.

### 3. OVERVIEW OF 2010-11

The first year of AMP5 was a notable year for Yorkshire Water.

We pride ourselves on strong customer service, and in April 2010 we completed the move to even greater customer focus by completing the significant business restructure which we started in early 2010. This created the new Directorates of Production and Customer Service & Networks, which were complemented by a new Asset Delivery Unit.

Further to this, the Electrical and Mechanical (E&M) functions were fully embedded into the business, having been in-sourced in the previous year.

As with other parts of the UK, during 2010-11 we faced the twin challenges of a dry start to the year, followed by a severe winter period.

The summary of performance in the year is presented in Tables A to C below, (Water Service, Sewerage Service and Customer Service).

Table A: Water Service Measures		2006/07	2007/08	2008/09	2009/10	2010/11
Measure						
DG2 - water pressure:	nr of props	78	102	86	115	11
DG3 - unplanned supply interruptions:						
>6 hours	nr of props	2028	2388	4227	6370	32043
>12 hours	nr of props	26	532	1034	282	13590
>24 hours	nr of props	0	88	27	20	1172
Index		0.09	0.14	0.26	0.29	2.08
DG4 - restrictions on water use		0	0	0	0	0
DWI - Mean Zonal Compliance	%	99.92	99.95	99.96	99.97	99.97
Total leakage	MI/d	294	294	295	295	325
Security of Supply Index	%	100	100	100	100	98
Cat 1 & 2 pollution incidents water	nr	1	3	0	0	0

**Table A: Water Service**

Table A shows a strong performance on DG2 and no restrictions on water use. Once again there were no category 1 or 2 pollution incidents attributable to the water service activities. However, DG3 performance in the year was substantially poorer than in previous years. Information on DG3 is provided in Section 4.

As notified previously in 2011, our leakage increased to 325 MI/d, an outcome which we take extremely seriously. During the year we entered an Informal Undertaking with Ofwat which describes the actions we are taking and commitments we have made to bring leakage back within target.

We provided a continuous supply of water to our entire customer base with no restrictions on water use throughout both the dry period at the start of the year, and the challenging winter conditions in December 2010. We also met our water conservation target. However, the Security of Supply Index (SoSI) for 2010-11 has outturned slightly below target at 98. Further detail is provided in Section 4.

For the purposes of Ofwat's serviceability assessment we have assessed our water non infrastructure performance as 'stable', however our water infrastructure remains at 'marginal'. More detail can be found in Section 4.

Table B: Sewerage Service Measures		2006/07	2007/08	2008/09	2009/10	2010/11
Measure						
DG5 Property flooding:						
Capacity	Nr props	96	102	71	46	34
Other causes	Nr props	463	374	443	355	340
At risk of flooding 2 in 10	Nr props	65	61	61	67	41
At risk of flooding 1 in 10	Nr props	156	135	129	126	121
WWTWs in breach of consent (LUT)*	%PE	0.01	0.48	0	0	0.29
Cat 1&2 pollution incidents sewerage	Nr	17	3	10	3	10
Cat 3 pollution incidents sewerage	Nr	78	87	58	59	201**
Unsatisfactory sludge disposal	%	0	0	0	0	0

\* At year end

\*\* Figure reported is reflective of the change in EA reporting for Cat 3 incidents

### Table B: Sewerage Service

Table B shows improved performance in all areas of DG5. At our waste water treatment works (WwTW) we were in breach of LUT consent at Danesmoor and Sherburn in Elmet WwTWs in 2010.

The waste water service experienced a disappointing start to the year with an increased number of category 1 and 2 pollution incidents, however the total for the year was retained at the same outturn level as 2008-09. The large increase in Category 3 incidents is due to a change in reporting procedure at the Environment Agency (EA).

For the purposes of Ofwat's serviceability assessment we have assessed both our sewerage infrastructure and non infrastructure as 'stable' performance.

Table C: Customer Service Measures	Actual to March 2011
Measure	
SIM Qualitative	4.36
SIM Quantitative	194

### Table C: Customer service (YW measures)

Our replica satisfaction surveys for SIM qualitative scores have shown a positive improvement in customer satisfaction over the year. We are particularly pleased with our quantitative score when the challenges of the winter period are considered, as we made significant efforts to ensure that the best customer service was maintained; LOOP, our Contact centre, resourced to manage call volumes which reached between three and four times normal levels, to ensure that our customers could always speak to us.

Our customer service reporting is aligned to both Ofwat guidance and the GSS Regulations, however, we have identified that we can improve some processes in relation to appointments and an initiative to refresh GSS awareness is planned for the coming year. The annual audit process identified a specific issue relating to the offering of appointments, which has been resolved for the report year. Further detail is in section 4.

We set out below an overview of our wider performance for 2010-11 against our Company strategy of Operational Excellence and Best People and Technology.

### 3.1. OPERATIONAL EXCELLENCE

#### Most efficient, lowest cost

We remain a financially robust and resilient business. In 2010-11 we invested an additional £6.2m to fund improvements in our leakage performance and incurred an additional £5.9m of expenditure due to the impact of the severe winter which gripped the Yorkshire region over the Christmas and the New Year period. These additional costs were off-set by revenue generated from increased consumption earlier in the year due to the prolonged dry weather. We did not see the decline in business customer demand that was forecast at the start of the year against the backdrop of a challenging, national, economic climate.

#### Best customer experience

Our customers are at the heart of our business and despite operational challenges faced by the company during prolonged periods of dry or severe weather, there were no restrictions on water use in Yorkshire in 2010-11. High summer demand combined with below average long-term rainfall saw the region's reservoir stocks fall to 60% at the end of August, with all reservoirs falling below their normal control lines. Working closely with the EA we were able to increase the amount of water we put into supply to meet customer demand without adversely impacting on the region's water environment.

The prolonged cold spell and subsequent thaw over the Christmas and New Year period resulted in an unprecedented amount of water being put into supply. On 28 December 2010 output peaked at 1,795 Ml/d, with an average daily demand that week of 1,633 Ml/d; this was some 333 Ml/d more than we would normally expect. To maximise production, many of our treatment works were manned around-the-clock and abnormal treatment processes were put in place at Elvington Water Treatment Works (WTW) near York and Chellow WTW in Bradford to protect customers' supplies.

In April 2010, we launched a major communications campaign to demonstrate to customers what good value for money their water charges represent. The campaign involved TV, radio and billboard advertising, as well as direct mail and social media. Our 'Bin It, Don't Flush It!' campaign won a national award from the Chartered Institute of Public Relations. Our One Million Green Fingers environmental campaign won The Guardian newspaper's Public Service Award for Citizenship and Volunteering. In October 2010 we launched 'The Green Classroom' a brand new educational resource to teach children about the water cycle and how to use water wisely.

### 100% compliance

We continued to drive for operational excellence at our WwTW and in three of the four quarters we recorded our lowest number of determinand failures ever.

We significantly increased the resources available to find and fix leaks, and adopted a more proactive approach to pressure management on the water distribution network. We developed the mains renewal programme for 2011-12 and plan to give more than 700 colleagues and partners additional technical training to minimise the risk of future bursts and leaks. We saw a significant increase in the number of burst pipes in our region over the winter. Over the five week period from November to the first week in January we repaired more than 3,500 bursts.

### Zero accidents

Over the past year our health and safety activity has centred around three areas; performance, people and process. We have developed a single, company-wide health and safety performance report to improve the visibility of performance across the business. We have also reviewed our ability to provide the business with coaching and leadership on hazard identification, risk control systems and incident prevention.

We have made improvements to health and safety databases to allow better processes for collection and analysis of information and we have simplified the root cause analysis documentation process. This will speed up the reporting and documenting process, improve investigation quality and allow for greater clarity of learning from the incidents that do occur. In 2010-11, 15 RIDDOR events were reported to the Health and Safety Executive.

We have also been reviewing and developing our occupational health and safety management systems to understand our gaps and to make sure that we are aligned with the HSE's 'Successful Health and Safety Management' approach.

### World class asset management

During 2010-11 we have delivered a capital programme of £311m (gross) and £300.3m (net of all grants and contributions), including £0.2m preparation for the transfer of private sewers. This is 7% out-performance from the capital expenditure allowed in PR09 Final Determination Price Limits (the FD).

Within the year, we have made good progress on our drinking water quality programme (concessionary supplies, cryptosporidium and lead communication pipe replacements) and are slightly ahead in our automated meter reading programme. Six AMP4 overhang schemes have completed, including Spen Valley, one of the largest Freshwater Fish Directive projects started in AMP4. We have made a step change improvement in DG2 (pressure) performance and are on track with our improvements to DG5 other causes incidents and the DG5 at risk register improvements.

In November 2010, Yorkshire Water officially launched its £110m programme of investment to not just meet but exceed the requirements of the revised Bathing Water Directive. The company has created a new partnership board consisting of representatives from the EA, Welcome to Yorkshire and several Local Authorities.

In May 2011 it was announced that Yorkshire has 17 award-winning beaches, including five that have been awarded the prestigious Blue Flag which recognises those coastal destinations with the highest standards of water quality, cleanliness, safety and environmental management. This recognised achievements and performance in the 2010-11 reporting year.

### *3.2. THE BEST PEOPLE AND TECHNOLOGY*

In 2010-11 we completed the implementation of a new organisational design centred around two key business units – Production and Customer Service & Networks. We also insourced 174 employees from Carillion, the company previously responsible for delivering our E&M contract.

The dedication and commitment of colleagues across the business was demonstrated during the prolonged cold spell over December, Christmas and the New Year. We were committed to ensuring that our customers could contact us, and speak to us, and that we would ensure that all customers had access to water services or bottled water regardless of where the problem lay. Many colleagues worked tirelessly to answer customers' calls for help and to protect their water and sewerage services. Many sacrificed their holidays and festive celebrations to do whatever was required to maintain customers' water supplies. Our contract partners responded in a similar fashion, quickly identifying additional resources to deal with the increase in operational activity.

## 4. COMMENTARY AND INFORMATION ON THE TABLES BY EXCEPTION

### 4.1. DESCRIPTION OF INCLUDED INFORMATION / METHODOLOGY

The commentary information included in this Board Overview is the product of our annual review and Reporter scrutiny process. It has been identified through a thorough system of data production using agreed procedures.

To ensure identification of items deemed material for reporting, for each line information was provided covering the following areas:

- Changes to systems / processes / calculation / assumptions / initiatives used
- 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 FD or other regulatory reporting, (EA, DWI)
- Any other circumstances which the reporting manager deems to be material or requiring explanation.

**Where there is no commentary provided in this Board Overview, the data submitted and information provided at audit contains no material issues to note, is in line with expectations and satisfies regulatory commitments.**

### 4.2. COMMON ITEMS TO NOTE

To avoid repetition, we describe here events which have impacted on all or a high number of activities in the business during the 2010-11 reporting year.

#### Business reorganisation

Over the last ten years Yorkshire Water has established a reputation as a leader in the UK water industry, however, we are also facing new external challenges and opportunities, including AMP5, climate change, rising customer expectations, regulatory and political change, and preparation for AMP6.

We recognise that we must evolve as a business to adopt new, more sustainable ways of working and ensure that we retain and build upon the support of our customers and the wider community. If we are to continue our leading performance and achieve our aspirations, we need to take timely action to make us fit for the future through a wave of new business and service improvements by 'Taking responsibility for the water environment for good'.

In order to help deliver the operational excellence and step change in performance we are looking for, we have re-organised our current operational business into two new areas - Production and Customer Service & Networks, and concentrated capital delivery into a new Asset Delivery team. These changes came into effect on 01 April 2010.

We believe that these changes, together with further investment in our people and technology, will help to create the right platform for further improvements in customer service, asset management and capital out-performance.

The changes described above have, by definition, impacted on both the business operations, and reporting processes. Business operations have experienced short term challenge with long term benefits, by virtue of people and systems from the two previous business units coming together in the new teams. The reporting systems have been reviewed and restated to enable the new shape of the business to function efficiently. For regulatory reporting purposes however, the new shape is not clearly aligned to the June Return Reporting requirements, (we are now broadly organised as above ground assets and below ground assets & customers, compared to a water / waste water split), and so our internal reporting procedures have been revised to enable us to report accurately.

### Weather events

During 2010 the Yorkshire region experienced a dry summer. In terms of rainfall, the year started typically, but became drier from April onwards. At several of our rain gauges April was one of the 10 driest in over 80 years of record. May and June were similarly dry, and by June, despite the average rainfall in January to March, several rain gauges showed one of the driest January to June periods on record, (74-130 years of record). According to the hydrological summary data, Yorkshire as a whole received 50% of average rainfall from April-June, with an associated return period of 30-50 years, although there were variations within the region, with some gauges experiencing only 30-40 % of average rainfall in this time, (e.g. Scar House had 38% of average rainfall, with a return period of 50-100 years).

The high temperatures and low rainfalls had the effect of both reducing river flows and reservoir inflows (combined effect of low rainfall and high evaporation), and of increasing demand for water.

The dry summer was followed by a prolonged and severe winter period with snowfall arriving in the Yorkshire region during November 2010. A Met Office report commissioned by ourselves has demonstrated that this snowfall was the most significant and widespread since 1981, with indications that the conditions were the second most severe in the last 50 years at this time of year. Persistent low temperatures following the falls of snow led to two prolonged periods of snow lying. In addition, the Met Office also recorded that at a soil depth of 10cm, soil temperatures dropped below -1°C and prolonged spells of bitterly cold air temperatures in December resulted in lower than average soil temperatures at 10cm, 30cm, and 100cm soil depths examined.

The operational and financial impact of these weather events can be seen throughout sections of our June Return report.

### 4.3. KEY OUTPUTS (TABLES 1 TO 6)

Table 1

This year we have had a change in initiatives used to meet the water efficiency target. In previous years water efficiency (non statutory) targets were mainly met through non household measures. In JR11 the majority of savings have been through household water efficiency activity.

Following our JR10 submission Ofwat guidance stated savings due to supply pipe leakage could not be included as water efficiency. This meant we could no longer include savings from leaks identified on supply pipes during non household leakage detection surveys. We do still include plumbing losses and other non supply pipe leaks identified during the surveys (reported in Line 13). This reduced the volume of non household water efficiency activity we now report in Table 1.

This year, over 75% of savings were made through household water efficiency activity and behaviour change (1.69 MI/d). We increased the household activity through summer campaigns in city centres and the introduction of free water savings packs offered to our household customers, a new initiative this year. The packs were distributed to over 20,000 customers and produced savings of 0.76 MI/d. Additionally, in accordance with Ofwat guidance, we are claiming savings for behaviour change for the first time this year. The behaviour change has met 23% of our annual target of 2.05 MI/d, providing savings of 0.48 MI/d.

Throughout 2011-12 we plan to trial other activities, such as non household audits and working with energy companies. This will provide us with a greater range of household and non household activities to ensure we continue to meet our target during the AMP period.

Table 2

The unplanned interruptions to supply section has shown a significant increase from 51,983 in 2009-10 to 77,879 in 2010-11. This increase is reflected in substantial increases in the properties affected in the 6-12 hour and 12-24 hour time bands compared to last year.

The number of properties affected in the 6-12 hour time band, when viewed discretely, has increased this year from 6,088 to 18,453. However 8,842 of this year's total was reported in the single month of December. This compares to 557 for the same period in 2009-10. The severe winter conditions experienced can be seen to account for the majority of this increase.

There is a significant increase in the number of properties with interruptions in the 12-24 hour time band from our position of 282 for 2009-10 to over 13,590. December alone contributed 9,114 properties over 12 hours which equates to 67% of the total for the year to date.

The increase in the number of properties with interruptions over 24 hours can also be directly correlated to the severe winter. All but one of the 1,172 properties reported against this line occurred in during the severe winter period.

The performance presented in these lines is directly related to the increased number of mains bursts, and the effect of the severe winter. However, prior to the severe winter we had identified that there had been an increase in the number of properties experiencing an interruption of greater than 12 hours. Through discussions with Ofwat, a serviceability plan was put in place for these issues to be addressed and moved forward. Consequently, Yorkshire Water's performance on the DG3 measure has been assessed as 'deteriorating' for the purpose of the serviceability assessment.

#### Tables 3 and 3a

The number of overloaded internal sewer flooding incidents and properties added to the Register, and the number of areas affected by overloaded sewer flooding is less than forecast and reflects the benign rainfall events experienced during the year. Removals from the Register are therefore less than the FD forecast, however the number of properties on the 2 in 10 and 1 in 10 Register have exceeded the target.

The number of overloaded external sewer flooding incidents and areas added to the Register is in line with the FD forecast. Total removals from the Register are more than the FD forecast; and the number of linked outputs delivered has exceeded the AMP total and will continue to increase.

The properties affected by overloaded sewers net of severe weather and properties affected by other causes flooding are both assessed as 'stable' for the purposes of the serviceability assessment.

#### Tables 5, 5a, 5b

Both Ofwat's one-year measure and the two year measure for DG8 show a reduction in performance during 2010-11 compared to 2009-10. The performance was affected by the severe winter period that significantly impacted the meter reading programme. The heavy snowfall and freezing conditions made it extremely difficult to read meters for a number of weeks, and during this period colleagues from Metering Services focussed on supporting customers who were without water as a result of frozen supply pipes.

During 2010-11 the company completed the first year of the three year AMR retrofit programme and is in line with achieving the FD target. The AMR programme will bring lasting benefits to customers, and when completed will help to deliver an improved and sustainable level of performance on DG8.

DG9 call handling performance improved from previous years due to extra resource being employed. This had a positive effect on the experience received by customers, reducing the number of abandoned calls. A temporary change to call handling was implemented during the cold weather in December to ensure those most at need were able to speak to a person to resolve their issue.

During the 2010-11 reporting year we conducted a full review of the categorisation of written complaints with CCWater. As a result, we are now recording more complaints as 'charges and billing' rather than 'other activities'.

Ofwat updated the JR11 Reporting requirements for escalating complaints in February 2011. Our policies and procedures for escalating complaints have been changed from April 2011 but could not be implemented retrospectively to allow for the new complaint process. The number of complaints escalated for this reporting year has reduced from previous years.

We have seen a 28% reduction in unwanted calls demonstrating an improvement since 2009-10. Accuracy of recording through a programme of quality assurance and training has helped contribute to improved reporting.

#### Table 6

An improvement to our reporting has been made with effect from 1 April 2009 relating to appointments changed within 24 hours of the original appointment time. All customers who have agreed to a later appointment now receive a GSS payment whether or not they are happy with the change.

The cold weather experienced caused interruptions to customers' supplies through burst and frozen pipes. Our priorities during this time were to protect those who were vulnerable; offer assistance to all customers who were without water; and to ensure our water supply could meet the increased demand. The amount of money paid under our Customer Charter reflects the impact of the winter weather.

Customers whose supplies were not restored on time during the severe weather between 25 December 2010 and 05 January 2011 have not received an automatic GSS payment. We have, however, made a separate payment to 970 of these customers who we know were without water for 24 hours or more. We have also paid compensation to customers on a claimed case by case basis.

External sewer flooding events are recorded in Line 20. In previous years payments were made to the customer in respect of the failures and were included in Lines 32 and 33 as Customer Charter payments.

The GSS Regulations require us to offer either an afternoon or morning appointment, or a 2 hour appointment window. Examination in review meetings discovered cases where all day appointments have been made. This requires further investigation to establish the accuracy of this number and the extent of this practice in previous years. We are reporting 9,701 events in line1 with a confidence grade of AX (+/-100%). We have notified Ofwat of our approach.

Confidence grades on Line 19 and 20 have been amended to reflect the confidence grades from the relevant lines in Table 3 and 3a.

#### 4.4. *BAD DEBT (TABLE 6A)*

##### Table 6a

Table 6a shows that arrears, bad debts and write offs have increased compared to 2008-09, (i.e. the base year for opex assumptions in the 2009 FD). This is due to economic conditions prevailing both nationally and in the Yorkshire region. We have processes and measures in place which mitigate this to an extent, without which the increase would have been greater.

#### 4.5. *VULNERABLE CUSTOMERS (TABLE 6B)*

##### Table 6b

We have experienced an increase in successful 'Vulnerable Customer' applications demonstrating the benefit of our internal training and awareness programme as well as external promotion.

#### 4.6. *NON FINANCIAL MEASURES (TABLES 7, 8, 10, 10A, 10B, 11, 11A, 12 TO 16, 16A, 16B)*

##### Table 7

Table 7 reporting is consistent with previous reporting years. However, further to a review of our methodology by our Reporter a potential improvement could be made to our methodology for estimating measured household populations. We will consider this as part of our next Water Resource Management Plan.

##### Table 8

Yorkshire Water no longer actively operates a selective meter installation process.

The Domestic Meter Optant (DMO) scheme is customer driven and, as a result of decreased customer demand, fewer meters have been installed during 2010-11. The decrease in demand for water meters directly correlates to the decrease in movement of change of address.

There has been an increase in the number of meters which have taken greater than 90 days to install despite fewer meters being installed overall. This is due to the combination of an unintended consequence of our work prioritisation system, and customer delays and time lags between internal and external visits. We have reviewed the promotion priority of work orders for DMO activity, and taken action, increasing the priority of individual orders to 28 days from 90 days to reduce the number of DMO fits over 90 days.

##### Tables 10, 10a, 10b

The methodologies and assumptions used to derive data reported in Table 10 are consistent with those agreed with Ofwat during 2010-11, unless noted below.

Raw water losses have been reassessed for JR11. A review of the transmission system (raw trunk mains, tunnels and aqueducts) indicates that there is more ingress than loss accounted for within the raw water system. Therefore the raw water losses continue to be reported as zero MI/d.

Bulk supply import and export volumes have been updated for JR11 and agreed with the relevant water company to ensure consistent reporting. Similarly potable water imports and exports have been updated for JR11. These volumes have been agreed with the relevant water company.

As in JR10, Distribution Input has been obtained from our WIS (water into supply) meters, adjusted to account for process water losses downstream of the WIS meter at a number of WTWs. This process water loss volume has been updated for JR11.

Treated water operational use, i.e. water lost as process or washwater or through sludge disposal, has been reassessed for JR11. This gave estimated regional operational use water of 15.93 MI/d. This has been reported as estimated treated water operational use for each resource zone.

For the first time Netbase has been used obtain the volume of leakage in Distribution Management Areas. This is a system which is also used by others in the industry. The change to its use incorporates a change to the nightline assessment methodology, and to the treatment of 'non-reporting' DMAs.

The same percentage used in JR10 has been applied to give an estimate of supply pipe leakage.

We have seen a direct impact on our performance of the dry summer and the severe winter experienced during the 2010-11 reporting year. These weather events caused demand to reach unprecedented levels. We are continuing to manage the effect that the 2010-11 period had on our operational activity and we are committed to investing additional resource into active leakage control. The calculated total leakage exceeds the annual average leakage target. We have communicated this to Ofwat, and shared our plans to address leakage through-out the year since the end of summer 2010. Our specific plans and assessments are provided to Ofwat by separate report, which is reviewed by our Reporter.

Each year we assess the summer demand and rainfall to determine the dry year effect for security of supply. The maximum allowance is 50 MI/d as used in the Water Resources Management Plan. This year has been determined a partial dry year increasing annual average demand by 15 MI/d. This was between April and July when rainfall was 66% of the long term average. SoSI for the dry year annual average is below 100 due to the high volume of leaks resulting from the cold weather, when demand reached unprecedented levels.

#### Table 11

As a result of a significant increase in developer activity we have seen a large increase in main laying activity for the year as reported in Table 11.

The number of mains bursts is outside the upper reference level for serviceability reporting. This is mainly due to the significant impact of the severe winter. As discussed with Ofwat, we have been carrying out a review in order to take account of this impact, and allowing for the winter weather this would be assessed as 'marginal' for the serviceability assessment.

As part of our Final Determination we committed to proactively replace 250,000 customer meters over the AMP period. This is a significant increase compared to previous AMP periods and is driven by the need to replace meters as they approach the end of their expected asset life of 12 years.

During 2010-11 we proactively replaced 69,200 meters, exceeding the regulatory milestone of 50,000 proactive exchanges for the year. In addition, the severe winter contributed to an increase in damaged meters and during 2010-11 we replaced 15,214 damaged meters on a reactive basis.

Primarily as a result of the Customer Meter Replacement scheme the number of meters renewed during 2010-11 is significantly higher than in previous years.

#### Table 11a

Our 'marginal' serviceability assessment for water infrastructure assets reflects the combination of mains repairs (bursts) and DG3 (interruptions to supply) performance in conjunction with understanding the impact of the cold weather period. Mains repairs are above the upper reference level in 2010-11 for the second year. Analysis of the winter effect, using a range of assumptions of more 'typical' winter performance indicates performance would have been between the 'stable' and upper reference level. DG3 performance was dominated by the winter period, but had already reached the upper reference level prior to the winter period. All water quality indicators continue to perform well and we have made a step change improvement to our DG2 (low pressure) performance. Our serviceability recovery plan is in progress and we will continue to liaise with Ofwat on progress until 'stable' serviceability is resumed.

Our 'stable' serviceability assessment for water non infrastructure assets reflects our continued water quality performance with WTW coliform non compliance, Service Reservoir non compliance and turbidity all performing well against reference levels and with zero DWI enforcements.

Following on from our discussions with Ofwat last year regarding unplanned maintenance reporting, we changed our reporting procedure to align reporting for both water and waste water assets. We committed to dual report for a period of two years and this represents the second year of that dual reporting. The new method is reported as part of Table 11a however, using the old method of reporting, the number of water unplanned maintenance jobs for 2010-11 is 1,488. This indicates an adverse trend from previous years' data. The old method of reporting picked up only emergency unplanned maintenance and this is reflective of the impact the severe winter had upon promotion of emergency works

#### Table 12

Table 12 reporting is consistent with previous reporting years. We have observed a larger proportion of water being abstracted from river sources and less from impounding reservoirs. This has resulted in greater use of the grid pumping stations that in turn contribute to the increase in pumping head.

#### Table 14

This year the volume of trade effluent returned to sewer has seen a small increase compared to previous report years. This is a change from the decreasing trend seen in previous reporting years which we believe is the result of waste minimisation practices coming to an end, as companies reach a point where further waste minimisation is starting to slow.

Table 15

There has been a reduction in the trade effluent load receiving secondary treatment compared with the value reported in JR10. It is thought that the decrease in trade effluent load is due to trade effluent customers that have ceased discharging during the report year and changes in the strength of the remaining discharges.

A reduction in the available treatment capacity has been reported in this year's June Return compared to 2009-10. This is due to a number of factors; we have improved our reporting methodology for JR11 to report using the more stringent of the Water Resources Act or Urban Waste Water Treatment Regulations BOD consent; there has been tightening of existing consents, particularly to meet Freshwater Fish Directive; and we have also seen a variation in BOD performance at our larger WwTW which have a greater impact on the overall capacity calculation.

In 2010-11 we have used dual processes of sludge data collection and analysis in order to improve the accuracy of sludge data reported. Dual data collection and analysis has occurred at a selection of sites across the region and began in January 2010. Using the new methodology, data is collected daily at a selection of sites using flow meters and dry solids meters measuring anaerobic digester throughput. Dual data collection has highlighted sites where green waste is added to sewage sludge as a bulker. These sites demonstrate significant variation in sludge processed between the two methodologies. The lack of measurement of the quality of green waste additions is likely to cause a significant degree of variability in the sludge produced figure for these sites.

We recognise the new methodology as being more representative of the operational situation at our sludge treatment facilities. We have continued to use our existing methodology for JR11 and will review our methodology for JR12 based on 27 months of dual data collection from the majority of our sites.

Based on the variation of the data seen in both methodologies the variation of 12% from JR10 to JR11 data for sludge production using our current methodology has led us to reduce our confidence grade for this data to B4. This is due to that fact that there are three aspects in calculating the 'produced' figure: a) the amount disposed, b) the stocks onsite and c) the addition of green waste.

Using our existing methodology for calculating total sewage sludge produced, the volume of material produced in 2010-11 has reduced to 145.2 ttds. This is a reduction from our JR10 figure of 163.3 ttds. A proportion of this reduction is due to the severe winter period. This caused significant quantities of sludge to be held within process units on WwTW and has led to a backlog in sludge processing.

The amount of sewage sludge reported to be disposed was 131.6 ttds, a reduction of 24 ttds from JR10.

The most significant change in disposal in 2010-11 from JR10 was the amount of material recycled which is defined as 'other'. This is material which is recycled into soil product. Due to external market forces soil production outlets have significantly reduced in 2010-11, leading to a reduction in disposal.

## Table 16

There have been some adjustments to Confidence Grades on Lines 4, 23 and 24, reflecting increased confidence in the methodologies employed to deliver accurate data.

The sewer collapse data is close to the reference level and therefore 'stable' for the serviceability assessment.

## Table 16a

Our 'stable' serviceability assessment for sewerage infrastructure assets reflects that sewer collapses, blockages, DG5 other causes and DG5 overloaded sewers have all performed well against their serviceability reference levels. As a consequence of EA Common Incident Classification Scheme changes (CICS), other reporting improvements with the EA and Yorkshire Water reporting improvements, the pollution incident reports are not comparable to previous years. Detailed analysis carried out jointly with the EA has confirmed that it is the EA changes that have had the dominant impact. We are in continued discussion with the EA and Ofwat in order to understand the implications for the remainder of AMP5.

The sewer blockages data is assessed as 'stable' for the purposes of serviceability reporting.

An apparent increase in the total number of equipment failures from last year is due to controls imposed during the E&M insourcing process in the previous year. The outturn is within the sewerage infrastructure serviceability tramlines, and is assessed as 'stable'.

Our 'stable' serviceability assessment for sewerage non infrastructure assets reflects that WwTW indicators performed against their serviceability reference levels. In particular the lead indicator, WwTW non compliance, over achieved against the 'stable' reference level for a third consecutive year, with four non-compliant WwTW against a stable reference of five non-compliant WwTW. Two of these WwTW are included following notification from the EA that they have revised their non-compliance assessment method for JR11 for look up table failures.

Following on from our discussions with Ofwat last year regarding unplanned maintenance reporting we changed our reporting procedure to align reporting for both water and waste water assets. We committed to dual report for a period of two years and this represents the second year of that dual reporting. The new method is reported as part of Table 16a however, using the old method of reporting, the number of unplanned maintenance jobs for waste water 2010-11 is 44,052. This indicates an adverse trend from previous years' data. The old method of reporting picked up jobs on only sewage treatment works and included reactive work by operations. This deteriorating trend is reflective of the impact the severe winter weather had upon promotion of reactive works.

## Table 16b

BOD performance in terms of the 95%ile and Mean measures has had a difficult year following the dry summer and severe winter events of 2010-11. These conditions increased pressure on treatment works capacities and led to a slight increase in the numbers reported. The changes to both the Mean and 95%ile BOD measures are more a reflection of external pressures than a deterioration of asset performance.

The Failing Works Look up Table (LUT) assessment used by the EA has changed significantly. This has impacted adversely on the number of works reported.

Works are no longer assessed purely against their end of year position. Instead, their position against the sampling frequency operating at the time of the failure is used. This means that a works which incurs three determinand failures against a frequency of twelve samples would be classed as a Failing Works, despite potentially performing within the subsequent look up assessment for the increased sampling frequency.

The impact for this June Return is that we have reported four failing works, two of which are as a result of this change in assessment. This is within the acceptable performance tramlines.

#### 4.7. SEWERAGE EXPLANATORY MEASURES (TABLES 17, 17A, 17B, 17C, 17D, 17F)

##### Table 17a

Table 17a reporting is consistent with previous reporting years. The total variances after inflating 2009-10 expenditure by 5% are consistent with those detailed in Table 22 as the methodology of expenditure allocation is consistent and has been aligned to Accounting Separation guidelines.

Specific variances are as follows;

- Direct costs:
  - East and West areas have experienced increased expenditure due to specific high value Repair and Maintenance activity
  - North and South areas have incurred additional power costs due to increased consumption due to increased effluent volume flows
  - Staff costs have increased due to additional pensions costs.
- Power costs have reduced in total due to a reduction in average unit price (see Table 22).
- General and support expenditure has reduced due to expenditure that has historically been allocated to Operational Technical Support now being allocated to direct costs in accordance with Accounting Separation guidelines.

##### Tables 17b and 17f

In accordance with Table 22, Table 17b and Table 17f exclude exceptionals of £647k.

Movements in costs from the last financial year after inflation are due to improved alignment with accounting separation. Costs that have been re-categorised are Direct costs and General and Support expenditure. Due to the increase in guidance on accounting separation, costs have been more accurately coded to Direct costs for each Service Type resulting in a reduction in costs in General and Support Expenditure, for example; staff costs historically coded to Operational Technical Support and Vehicle and Plant.

Costs have moved within categories due to WwTWs moving treatment category, costs follow the site to which category they have moved to resulting in variances in costs between categories.

We have seen specific increases in direct cost in total for some of the works and this is mainly due to aligning allocation of costs with accounting separation

The total power costs have reduced due to the average reduction in unit price. However, consumption at specific sites and across service types has increased. The most significant movement is in Tertiary A1: The effect of combining Knothrop Low Level WwTW, previously in Secondary Activated Sludge, and High Level WwTW, previously in Secondary Biological, into a single works has promoted it into the Tertiary A1 category. This has created an increase of £2,043k in the A1 power costs, an effect of movement out of both activated sludge and biological columns.

#### 4.8. *REGULATORY ACCOUNTS (TABLES 18, 18C, 18D, 19 TO 21, 21A, 21B, 22, 22A, 23, 24, 25A, 25B, 25C, 26 TO 39)*

##### Table 18

Retained profit for the year has increased by £156.1m, driven by a £75.7m tax credit in 2010-11 and lower dividends. The current tax credit of £16.4m is due to adjustments in respect of previous years and a change in policy to transfer tax losses between restricted group companies free of charge. The deferred tax credit has arisen largely as a result of changing corporation tax rates (from 28% to 26%).

Dividends have reduced from £211.0m in 2009-10 to £46.9m in 2010-11. Ofwat approved an upstream loan from Yorkshire Water to Kelda Holdco during 2009-10 up to £1,047m. Therefore during 2010-11, distributions from Yorkshire Water have largely been made via up-stream loan rather than dividend.

Operating costs are covered in detail in Tables 21 and 22. Interest is covered further in Table 18d.

##### Table 18d

Interest charges include an exceptional £40m charge relating to the increase to an onerous contract provision representing the ineffective portion of index linked swaps with a nominal value of £1,289m.

##### Table 19

The movement in the profit and loss reserve is made up of retained profit of £69.9m, as stated in Table 18, plus a £0.6m transfer from the revaluation reserve as re-valued assets are depreciated or sold (in line with Financial Reporting Standard 15).

During April 2010 Yorkshire Water Services Bradford Finance Ltd raised £635m of new debt, including £450m of Class B debt. The proceeds were lent on to Yorkshire Water, who subsequently distributed £550m to Kelda Holdco (in line with Ofwat approval) to re-finance debt within that company. As a result of these transactions, borrowings in Yorkshire Water increased by £635m and loans to group companies increased by £550m.

### Table 23

2010-11 appointed income outturned £0.6m higher than the income anticipated within the FD when restated for actual RPI.

An increase on main charges income against the FD is largely offset by a decrease in other income. The main charges income increase reflects:

- A lower level of DMOs than assumed
- Improved income generation activities
- A lower level of decline on our commercial customers than assumed.

### Table 24

The Ofwat Reporting Requirements identify that 'other reserves', should be consistent with Table 19. The effect of this is that the Table 24 balance sheet is out of balance because Table 19 includes the revaluation reserve which is not applicable under current cost accounting, and is replaced by the current cost reserve. Consequently this is not consistent with the Regulatory accounts, as agreed with our auditor.

### Tables 25a, b, c

There has been no change to the fundamental processes and procedures used to complete the tables. There have, however, been a few small enhancements to improve the way some Maintenance and General assets are allocated between accounting separation categories, as included in the JR10 improvement plan.

Asset additions in these tables do not equal the capital expenditure in Table 32 (excluding base infrastructure) due to the assets adopted at nil cost (£57.3m) included in Table 32. Assets adopted at nil cost are not currently accounted for under Financial Reporting Standard 15 and so are excluded from the fixed asset value in Tables 24 and 25.

### Table 26

Short term capital creditors show a £75.3m increase from the previous year. This is due to the start of the new capital programme in AMP5. The work carried out in 2010-11 has included a significant amount of feasibility work at the beginning of the year, with many schemes moving into the build phase in the latter part of the year. Payments resulting from work carried out at the end of the year had not been made at 31 March 2011. The longer term trend (since 1999-2000) shows that a high level of capital creditors is quite common at the start of an AMP.

### Table 32

Material issues associated with the capital expenditure tables are highlighted under Tables 35, 35b, 36, 36b.

### Table 34

The average lives of the assets we are investing in move over time in line with areas of focus for the capital programme. A change in investment strategy may have an impact on the type of assets we invest in. For example higher investment in telemetry and AMR will increase the proportion of spend in short life assets. There are no changes to the life profile of the assets we invest in for any other reason. The percentage of expenditure between the different asset lives is consistent with our final business plan expectations.

There is a difference between the non infrastructure capital expenditure included in Table 32 and the total non infrastructure capital expenditure included in Table 34 due to the inclusion of pumping stations adopted at nil cost. These assets have been included in Table 32 but not in Tables 24, 25b and 34 as they are not on the fixed asset register and are not being depreciated. There is also a difference between Tables 34 and 32 due to Management and General (M&G) allocation. Although there has been an improvement in allocation of expenditure being specifically direct to the service that it relates to, (this includes investments such as SEMD, and IT for the revised Bathing Water Directive, as per Table 32), the remaining M&G / IT investments have been apportioned as last year based upon the drivers used for the accounting separation tables. This differs slightly from the apportionment of M&G when it is allocated on a 50/50 split in Table 32.

### Tables 35, 35a, 35b

All regulatory outputs and activities have been achieved in the report year with the exception of the East Coast Pipeline (Phase 2) which has not met its regulatory compliance date of 31 March 2011. The project has been impacted by reviews of flood risk by the EA and in addition, following experience in Phase 1, where there were significant archaeological finds along route incurring extra cost and time delays. Phase 2 of the scheme has been reviewed following these experiences and risks. The project is now forecast to be complete on 30 September 2011. These reasons have been discussed with Ofwat.

In compensation for this missed output we are reviewing where other resilience schemes can be accelerated within the five year period.

### Tables 36, 36a, 36b

All regulatory outputs and Register positions have been achieved in the report year with the exception of the DG5 Hydraulics outputs where, due to the lower number of expected additions in the year, we did not complete the target number of capital solutions in 2010-11. Given the weather variation between years, we have already discussed with Ofwat that reviewing the cumulative position in 2012-13 is appropriate. Notwithstanding this we have met our DG5 register position.

We have highlighted preparation for the Private to Public sewer transfer in Line 17 of Table 36, as a new obligation not included in PR09 FD. This is base non infrastructure expenditure and therefore double counts to the value of £0.167m in Table 36 total, consequently this differs from Table 32.

#### Table 37

Material issues associated with the capital expenditure tables are highlighted under Tables 35, 35b, 36, 36b.

#### Table 38

Material issues associated with the capital expenditure tables are highlighted under Tables 35, 35b, 36, 36b.

### 4.9. HEALTH AND SAFETY (TABLE 41)

#### Table 41

We have seen an 11% increase in total number of employees during the 2010-11 reporting year, this can be directly attributed to the insourcing of our E&M contractor on 01 April 2010 along with normal business recruitment activity. Consequently, we have seen a reduction in the number of total contractors.

The increase in reported numbers across the table are consistent with the increase in employee numbers as well as improvements to reporting processes internally ensuring more accurate data reported in a timely manner. Our top sickness issues continue to be attributed to depression / stress mainly impacted by non work related factors due to current external environment, as well as muscular skeletal incidents.

We have seen an increase in employee RIDDORs from 11 to 15. The cause of these remains personal safety related and mainly slips, trips, falls and manual handling. However, we remain focussed on our target to eliminate RIDDOR incidents during this AMP period.

### 4.10. GREENHOUSE GAS ACCOUNTING (TABLE 42)

#### Table 42

We continue to recognise the importance of effective and accurate greenhouse gas accounting as a corner stone of our approach to carbon mitigation. We have estimated our total operational carbon footprint since 2004, and reported this in the June Return since 2008. From July 2011 we will also be reporting our energy carbon footprint to the EA as a participant in the Carbon Reduction Commitment Energy Efficiency Scheme (CRC).

As in previous years, we have continued to use the latest version of the Carbon Accounting Workbook (CAW). The CAW is used by most water companies to accurately estimate their operational carbon footprints, thereby supporting a consistent approach. We were an active member of the steering group which led the development of the latest version of the CAW in early 2011, now version five. As a member of the steering group we were able to ensure a number of specific improvements in the workbook which increase the accuracy of our footprint.

In JR10 we demonstrated improvements which enabled more accurate inclusion of our largest contract partners. We have continued to drive improvements in data accuracy across all aspects of carbon accounting, however the reporting process for JR11 did highlight the need for complete documentation of procedures in this area due to the complexity of data collation and sources.

Energy and fuel consumption data shows inherent variability from year to year. This is driven by many factors, particularly the weather. For example dry/wet periods impact on our electricity consumption which forms the vast majority of our emissions. In addition, our compliance with new environmental water quality standards result in a general trend for increasing electricity consumption due to the need to introduce more intensive treatment assets and processes.

Overall, our total operational footprint has increased by 2.4% compared to last year. This is primarily due to an increase in electricity consumption due to the dry summer and severe winter in 2010-11. The impact of the weather has proved highly challenging, so further focus will need to be applied in the remaining years of the AMP.

