
Appendix

YKY59_Reconciliation of past performance



YorkshireWater

PR19 Reconciliations

At PR24, Ofwat will need to reconcile companies' 2020-2025 performance against the PR19 final determination. Reconciliation mechanisms form an important part of how water companies are regulated and are important in ensuring that the right amount of revenue is collected over the price control period.

Ofwat requires companies to submit specific data and information in order to reconcile companies' performance during 2020-25. This information consists of a number of defined data tables, reconciliation models and commentaries.

The reconciliation of performance through 2020-2025 consists of a suite of completed and audited data tables and reconciliation models submitted in accordance with the requirements of the PR19 reconciliation rulebook and the PR24 Final Methodology, including the detailed data table guidance.

The reconciliation mechanisms provided alongside the October 2023 PR24 Business Plan submission for Yorkshire Water are set out below:

- **Revenue forecasting incentive model**
 This model shows how the Revenue Forecasting Incentive (RFI) is applied. The RFI is a symmetric revenue adjustment applied in-period to reconcile any revenue under or over-recovery in an earlier year. Where differences between actual and allowed revenues are greater than 2%, the RFI applies a financial penalty. The RFI is applied to the network plus and water resources controls.
- **Residential retail reconciliation model**
 This model shows reconciliation of retail revenues over 2020-25.
- **PR19 Water trading incentive model**
 This model calculates PR19 water trading incentives for qualifying trades starting in 2020-25.
- **Developer services model**
 This model is designed to reconcile developer services revenues within the network-plus control for PR19.
- **Water industry national environment programme (WINEP) reconciliation model**
 The purpose of this model is to account for the impact of ministerial decisions on the scale of companies' environmental enhancement programmes where this differs from the assumptions made at final determinations.
- **Cost of new debt reconciliation model**
 This model will index the cost of new debt by reference to a market benchmark in 2020-25, with an end of period reconciliation adjustment.
- **Tax reconciliation.**
 PR19 methodology introduced a tax true-up mechanism
 This will take account of any changes to corporation tax or capital allowance rates after the final determinations, as these are significant drivers of the tax allowance.
- **Land sales**
 This model calculates the adjustment to the Regulatory Capital Value (RCV) as at 1 April 2020 (the RCV midnight adjustment) for any disposal of land by the regulated business in the years from 2019-20 to 2024-25.
- **RPI-CPIH Wedge True Up model**
 This is the model used to reconcile for the difference between the actual RPI-CPIH (measures of inflation) wedge observed over the price control period, and the RPI-CPIH wedge included in the final determination.
- **Strategic regional water resources reconciliation model**
 This is the model that illustrates reconciliation of revenue allowances for the strategic regional water resource options. The reconciliation is required to account for the progression of strategic options through the gated process.

Ofwat requested an early submission of two of the reconciliation models. These were submitted to Ofwat on 07 August 2023 and included:

- **Bioresources revenue reconciliation model**
This model shows how bioresources revenue reconciliation work over 2020-25. The model shows how the average revenue control is modified each year based on the difference between outturn and forecast sludge production. In addition, the model shows the adjustment of allowed bioresources revenue in one year to correct for any under or over-recovery of revenue in earlier years. Finally, it also shows the application of the bioresources forecasting accuracy incentive.
- **Cost reconciliations model**
This is the model used to reconcile actual performance against the totex allowances from PR19.

Other reconciliation models have been previously submitted alongside our Annual Performance Report (APR23) and include:

- **In-Period Adjustments Model**
This model adjusts price controls to reflect in-period outcome delivery incentives including the customer measure of experience (C-MeX) and the developer services measure of experience (D-MeX).
- **C-MeX**
The customer measure of experience (C-MeX) is designed to incentivise companies to provide excellent levels of service to their residential customers. Based on their relative performance, each company can receive outperformance or incur underperformance payments each year.
- **D-MeX**
The developer services measure of experience (D-MeX) is designed to incentivise companies to provide excellent levels of service to their developer customers. Based on their relative performance, each company can receive outperformance or incur underperformance payments each year.
- **ODI performance model**
These models determine how we will reconcile the outcome delivery incentives (ODIs) that have been accrued by companies in each year of performance, based on the performance commitment set in the PR19 final determinations.

The following reconciliation models are not applicable for Yorkshire Water:

- **Bilateral entry adjustment (BEA)**
This model adjusts relevant companies' revenues should bilateral entry in the water resources market occur.
- **Gearing outperformance sharing mechanism**
This reconciliation model contains the calculations that underpin the updated mechanism.
- **Green economic recovery reconciliations**
This consists of three models that allow reconciliation of the additional package of investment agreed in July 2021 to support the Green Economic Recovery at PR24. Yorkshire Water does not have any green recovery schemes.
- **Innovation competition**
The model calculates the total amount of unused funds to be redistributed to individual companies' customers. This is done in line with the original allocation methodology set out in PR19 Final Determinations.

There are data tables supporting the reconciliation models.

For more information on the commentary supporting the data tables and information on the reconciliation models, please refer to the separate document titled PR24 Data Table Commentary - Section 12. Past Delivery.