

December 2014

Setting price controls for 2015-20
Final price control determination notice:
company-specific appendix – Yorkshire Water



OFWAT

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Overview

This appendix sets out the details of the final determination of price controls that are specific to Yorkshire Water. As set out in the [‘Policy chapter A1 – introduction’](#) (‘policy chapter A1’), the final determination protects customers in accordance with our statutory duties (summarised in policy chapter A1) and [‘Setting price controls for 2015-20 – final methodology and expectations for companies’ business plans’](#) (our ‘final methodology statement’). We have also had regard to relevant guidance from the UK Government and the principles of best regulatory practice to be transparent, accountable, proportionate, consistent and targeted.

We published [‘Draft price control determination notice: company-specific appendix – Yorkshire Water’](#) (the ‘draft determination’ for Yorkshire Water) on 29 August 2014. Yorkshire Water is a non-enhanced company. The company has been treated in the same way as the other non-enhanced companies.

The customer challenge group (CCG) played an important role in both the development of the company’s original plan and the company’s revised proposals in response to our challenges and published guidance.

Since the first submission of its business plan in December 2013, Yorkshire Water’s proposals have evolved to take into account the outcome of our risk-based review (RBR), [‘Setting price controls for 2015-20 – risk and reward guidance’](#) (our ‘risk and reward guidance’), our draft determination and other relevant policy consultations. Its revised business plan, which sought to close the gaps we identified during the RBR, addressed our key concerns around National Environment Programme (NEP) expenditure and input price pressure.

Overall, there were only a limited number of areas where we considered it necessary to intervene to protect the interests of consumers in the draft determination. The most significant of these affected the company’s decision in its revised business plan not to pass on to customers today the benefits of the lower cost of capital. Although these benefits would still be delivered to customers over time, we were concerned that the company took the decision without adequate customer engagement.

The company’s representation on the draft determination focused mainly on:

- some of its outcomes, with a focus on water quality compliance and water quality contacts;
- providing updated information in relation to its performance during 2010-15; and
- providing further evidence to support the use of financial levers (pay-as-you go (PAYG) and regulatory capital value (RCV) run-off rates) to re-profile customer bills in 2015-20.

We have also received representations from Yorkshire Water's CCG and the Consumer Council for Water (CCWater). Both were broadly supportive of the draft determination, but the CCG raised a concern about bills in the longer term. The Environment Agency also raised a small number of specific issues in relation to some of Yorkshire Water's performance commitments (PCs).

In reaching the final determination, we have carefully considered all representations we received on the draft determination (which was based upon the latest business plan submitted to us) and taken account of the most up-to-date information available where appropriate. As a result, this has led to changes which we consider are in the interests of customers and in line with our other statutory duties. These changes include the following:

- Accepting the company's bill profile adjustment, following further engagement by the company with its customers. We have made the adjustment through RCV rather than PAYG (as the company proposed) to be more consistent with the evidence in the company's December business plan.
- In line with all non-enhanced companies, reducing the weighted average cost of capital (WACC) to 3.6% for the wholesale business to reflect the significant movement in the cost of new debt since the publication of our risk and reward guidance in January 2014.
- Slightly increasing the size of the shortfall we applied to wholesale wastewater to reflect some aspects of performance in 2010-15.

We provide a summary of the key elements of Yorkshire Water's final determination in section A1 of this document. The remainder of this document sets out our final determination in more detail¹ and is structured according to the binding price controls we are setting for the wholesale and retail elements of the appointee (the whole regulated business):

- wholesale water;
- wholesale wastewater;
- household retail; and
- non-household retail.

As we explained in our final methodology statement, these controls are binding, confirmed through the modifications already made to the price setting elements of companies' licence conditions. This means that the companies cannot recover more revenue than allowed under each specific price control and cannot transfer costs between the controls. The revenue allowance for each price control is determined by the costs specific to that particular price control. This provides the companies with more effective incentives. It also helps to avoid

¹Figures stated in this document (including wholesale costs and bill information) are in 2012-13 prices; retail data is stated in nominal prices. This is consistent throughout this final determination unless otherwise stated.

distortion to the non-household market, which will be fully open to competition from 2017, as provided for in the Water Act 2014.

To support these binding controls, throughout this document we also provide details on:

- the responses that we have received to our draft determinations and any consequential adjustments that we have made;
- the outcomes for the company to deliver and associated outcome delivery incentive (ODI);
- the efficient costs that we consider the company can achieve;
- the adjustments we are making to the wholesale water and wastewater price controls to reflect the company's performance in 2010-15;
- the allowed return for the wholesale water and wastewater controls, and the retail household and non-household net margins;
- the return on regulatory equity (RoRE) range;
- the financial ratios under the notional capital structure;
- the uncertainty mechanisms that form part of each price control; and
- where appropriate, we set out the assumptions we have made to arrive at the allowed revenue for each price control.

Implementing these price limits

Yorkshire Water must deliver its obligations as required by the Water Industry Act 1991, other relevant legislation and its Instrument of Appointment ('licence'). This price control determination has been made under the terms of Yorkshire Water's licence and the Water Industry Act 1991. We consider that Yorkshire Water must act in an economic and efficient manner in delivering all of its obligations.

Policy chapter A1 sets out the milestones leading up to 1 April 2015 that will ensure effective business plan delivery. These cover menu choices, charges approval, reporting and assurance requirements during 2015-20, and 2014 price review (PR14) reconciliation.

In [IN 14/15: '2014 price review – timetable for setting charges for 2015-16 and making menu choices'](#) we set out the requirement for companies to notify us of their menu choices by 16 January 2015. We will make any adjustment to the company's allowed revenues that result from its menu choice as part of the price review in 2019 (PR19). A company's menu choice will be influenced by our decisions in this final determination. We confirm in annex 4 of this document a commitment that the ODIs will be recalibrated in the true up calculations, based on a sharing rate that is consistent with the company's menu choice. To facilitate this, we expect the company to publish its ODIs with the cost sharing rate that is implied by its menu choice on 16 January 2015. This will allow inclusion of the recalibrated ODIs within the framework for reporting and assurance from 1 April 2015, which we will publish on

9 February 2015. We require companies' Boards to provide assurance that the recalibrated ODIs conform with the final determination and are consistent with their menu choice. Any modifications should be confined to correctly adjusting the incentive rates for the difference between the FD assumption on the cost sharing rate and the rate associated with their final menu choice.

This price determination sets out the allowed revenues that Yorkshire Water can recover from its customers in the period 2015-20. Yorkshire Water is responsible for converting the allowed revenues into charges. In [IN 14/17: 'Approval of charges 2015-16 – our approach, process and information requirements for large and small companies'](#) and the accompanying policy document, we set out the timeline and process for charging approval. Companies are required to provide us with their charges schemes, associated assurances, and the other information requirements, and to provide any new appointees in their area with their charges schemes by 16 January 2015. By 2 February 2015, each company is required to publish its charges scheme.

A1 Final determination – at a glance

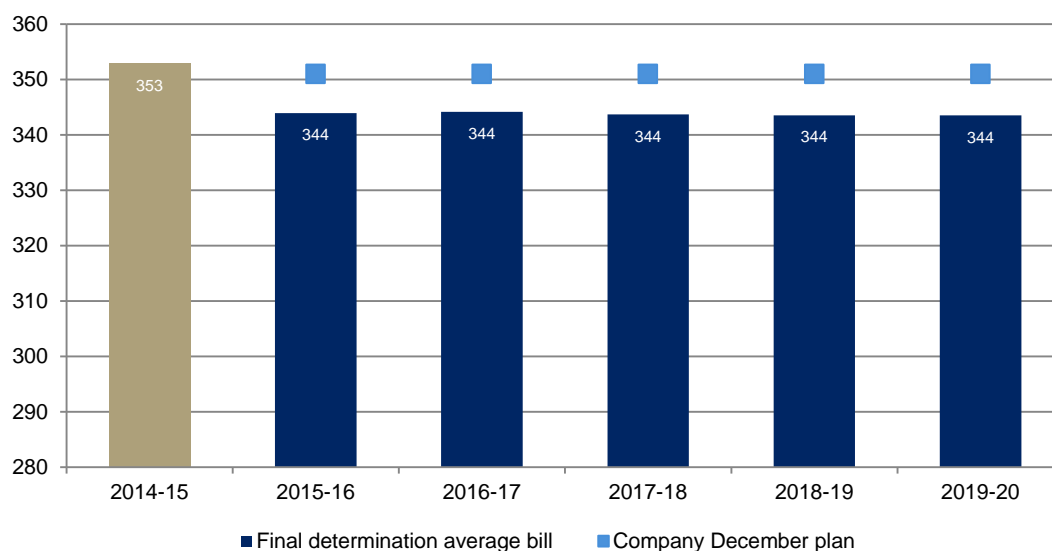
This chapter provides a summary of the final determination for Yorkshire Water. It summarises what the final determination will mean for customers, with respect to the average bills they will pay and the outcomes that the company will deliver in return. For the company, it covers its allowed costs and revenues, RoRE and financeability ratios. We also summarise the interventions we have made to the company's revised plan in order to protect the interests of customers.

Combined average household bill (£)

The chart below shows the average bills proposed in the company's December plan; the average bills in our final determination; and the level of current bills (2014-15). All bills are shown without the impact of inflation and are indicative as final bills will depend on the growth in the number of customers, changes in their usage and the specific charges that the company sets each year within the overall price controls that we have determined.

Our final determination means that average bills in 2019-20 will be £344, which is around 2.5% lower than current average bill levels (of £353).

The difference between the company's December plan and our final determination is the result of the company's acceptance of our risk and reward guidance, other revisions to its plan and the interventions we have made in its plan. This represents a cumulative saving of £36 for the average customer over the 2015-20 period.



Note:

The comparative bills from the company's December plan is based on the data submitted in the business plan but projected using our financial model, thereby ensuring consistency with the final determination projection. So the company's proposed bills illustrated above may not necessarily be the same as those described in the December business plan.

The outcomes committed to by Yorkshire Water

Yorkshire Water has committed to delivering outcomes that reflect its customers' views. These are supported by 33 associated PCs that identify the company's committed level of performance under each outcome. For 17 of these PCs the company is subject to associated financial ODIs where it will incur a penalty for performance that is worse than its commitments, but for some can earn a reward for performance better than its commitments during the period from 2015 to 2020.

The table below sets out Yorkshire Water's outcomes. These outcomes reflect the priorities of customers set out in research and engagement with the CCG. We have undertaken comparative assessment of outcomes where it was possible to draw comparisons across the sector and, where necessary, we have intervened to challenge companies to deliver an upper quartile level of performance. Details of the types of incentives and level of PCs associated with these outcomes are set out in annex 4.

Wholesale water	Wholesale wastewater
We provide you with water that is clean and safe to drink	We take care of your wastewater and protect you and the environment from sewer flooding
We make sure that you always have enough water	We protect and improve the water environment
We protect and improve the water environment	We understand our impact on the wider environment and act responsibly
We understand our impact on the wider environment and act responsibly	
Retail	
We provide the level of customer service you expect and value	
We keep your bills as low as possible	
We understand our impact on the wider environment and act responsibly	

Allowed costs and revenue for Yorkshire Water

The table below shows the wholesale total expenditure (totex) we have allowed over the period from 2015 to 2020. The final determination allows Yorkshire Water to receive revenues of £4,555 million (over the period from 2015 to 2020). This combines allowed revenues for the wholesale and household retail controls. For non-household retail, we have also set average revenue controls per customer for each of the customer types proposed by the company. The £56.9 million of non-household revenue shown in the table below is indicative as it does not assume any gains or losses from competition or the company charging customers at levels different to the relevant default tariffs.

Wholesale	Water	Wastewater
Totex 2015-20 total (£m)	1,516.4	1,938.5
Allowed return (%)	3.60%	3.60%
Allowed wholesale revenue 2015-20 (£m)	1,904.9	2,334.0
Retail	Household	Non-household
Cost allowance – 2015-20 total (£m)	275.2	
Margin (%)	1.00%	2.50%
Retail allowed revenue (£m)	316.0	56.9

Note:

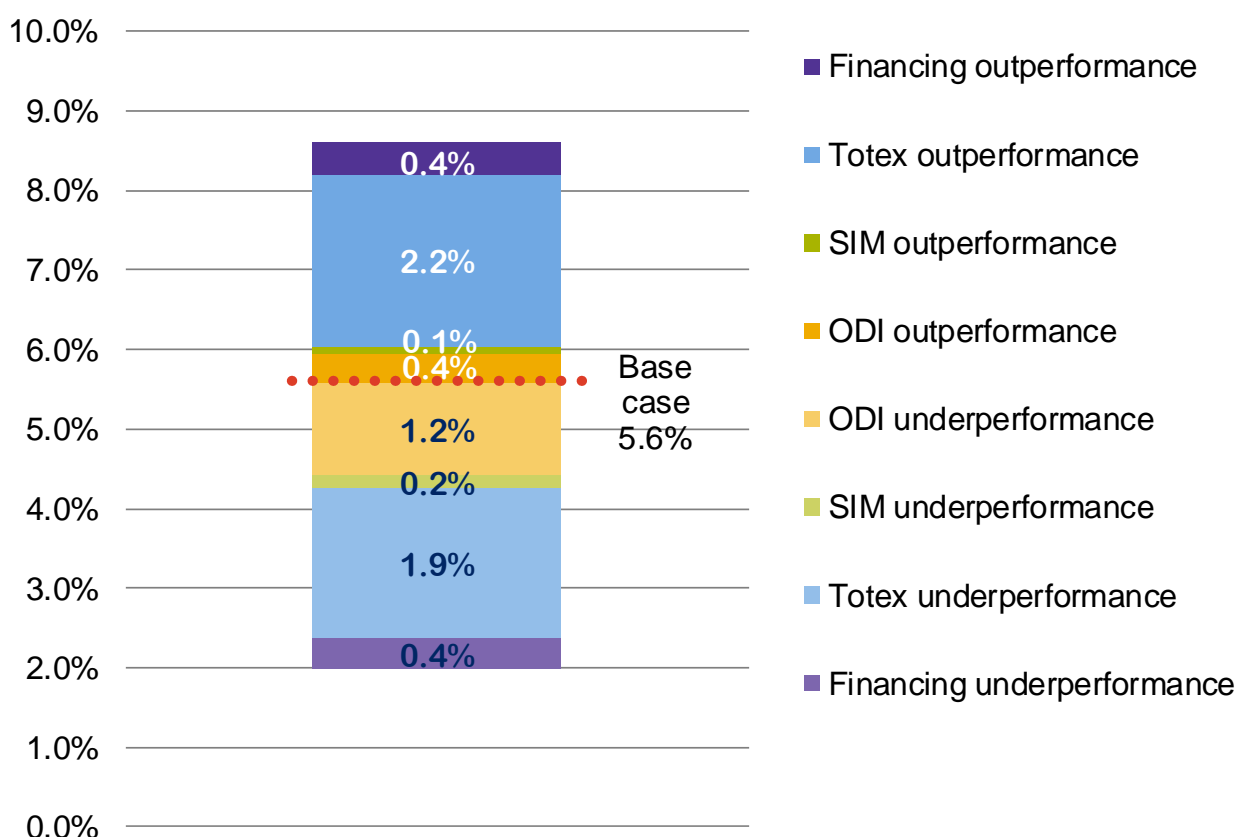
Wholesale figures in 2012-13 prices as revenue will be affected by inflation and retail figures in nominal prices as revenue will not be affected by inflation – this is consistent throughout this final determination unless otherwise stated.

RoRE ranges – appointee

Yorkshire Water has estimated the range of returns on RoRE that it could earn dependent on its performance and external risk factors over the price control period. The RoRE range reflects the company's views and is based on an efficient company with the notional capital structure². We have identified the RoRE impact separately for ODIs, totex performance, financing and the service incentive mechanism (SIM). We note that Yorkshire Water's actual returns may differ from notional returns due to differences between notional and actual capital structure and notional and actual cost of debt and level of cost efficiency compared to allowed totex and household retail average cost to serve (ACTS)

² The notional capital structure is the capital structure which reflects Ofwat's assumption of an appropriate level of gearing to use in determining the allowed WACC.

RoRE range – whole company



Source: Ofwat calculations based on information from Yorkshire Water

Note: Numbers presented based on calibration of the ODIs against an assumed menu choice of a 50% sharing factor

Our calculation of notional financeability ratios

Ofwat has a statutory duty to secure that a company is able to finance the proper carrying out of its functions. We interpret this financing duty as requiring that we ensure that an efficient company with a notional capital structure is able to finance its functions. A company's actual capital structure is a choice for the company and it bears the risk associated with its choices. An efficient company is assumed to be able to deliver its plans based on the expenditure allowance in our final determination.

Yorkshire Water provided assurance that its plan was financeable on the basis of a notional and its actual structure.

The notional financial ratios on which this final determination is based, which take account of our interventions, are set out in section A6 and summarised on a 5-year average basis below. We have assessed this final determination for Yorkshire Water to be financeable on a notional basis.

Financial ratios for notional company	Our calculation (average 2015-20)
Cash interest cover	3.03
Adjusted cash interest cover ratio (ACICR)	1.65
Funds from operations/debt	9.20%
Retained cash flow/debt	6.59%
Gearing	60.49%
Dividend cover (profit after tax/dividends paid)	0.73
Regulatory equity/regulated earnings for the regulated company	17.92
RCV/EBITDA	11.70

Summary of interventions

In reaching our final determination we have intervened in the company's business plan, where necessary, to safeguard the interests of customers. In doing so, we have considered carefully to representations we received on the draft determination and taken account of the most up-to-date information available where appropriate. We summarise the most significant interventions in the table below.

Outcomes	Wholesale costs
<ul style="list-style-type: none"> • Cap: we imposed an overall cap and collar on ODIs of +/-2% of RoRE. • Comparative assessment: We confirm that we will continue to use the upper quartile approach. This results in interventions to Yorkshire Water's PCs for drinking water quality, drinking water complaints, water supply interruptions, and pollution incidents. • Company-specific assessment: We have made interventions to ensure that Yorkshire Water is subject to effective incentives that protect customers in areas that are not comparable across companies. Compared to the draft determination we have made one change in response to stakeholder representations (to reflect 100% compliance with statutory obligations). For all other company-specific PCs we confirm our draft determination position. 	<ul style="list-style-type: none"> • At draft determination stage, wholesale water costs were marginally more than 5% under our cost threshold so we implemented a cap. Due to a minor change in model variables, Yorkshire Water is now within 5% of the cost threshold and the cap no longer applies.
Retail	Reconciling 2010-15 performance
<ul style="list-style-type: none"> • There are no interventions in this area. In this final determination we confirm our draft determination decision to accept Yorkshire Water's proposed adjustment for input price pressure to household retail costs. • We have, however, updated our industry view of the ACTS and we have used 2013-14 prices to set both the household and non-household retail control. 	<ul style="list-style-type: none"> • We are making minor changes in serviceability adjustments based on new evidence and information on Yorkshire Water's performance. In wastewater, we have removed the shortfall we proposed at draft determination on sewer blockages and applied a new shortfall on sewer flooding. • Overall, the revenue adjustments for wholesale water have changed from £84.2 million to £81.1 million • Overall, the revenue adjustments for wholesale wastewater have changed from £73.5 million to £62.0 million.

Risk and reward	Financeability and affordability
<ul style="list-style-type: none">• We have reduced the company's allowed return from 3.7% to 3.6%	<ul style="list-style-type: none">• We have accepted Yorkshire Water's proposed bill profile adjustment, but have made the adjustment via RCV rather than PAYG.

A2 Wholesale water

A2.1 Consideration of representations on our draft determinations

In policy chapter A1, we provide a list of the respondents to the draft determinations published in April, May and August of this year. We have fully considered all of the responses received, and where appropriate, we have made either consequential adjustments to our price control methodology or company-specific interventions.

Our general policies relevant to the wholesale water control are set out in the following policy chapters that accompany our final determinations. These include our responses to representations on sector-wide issues.

- ‘Policy chapter A2 – outcomes’ (‘policy chapter A2’).
- ‘Policy chapter A3 – wholesale water and wastewater costs and revenues’ (‘policy chapter A3’).
- ‘Policy chapter A4 – reconciling performance for 2010-15’ (‘policy chapter A4’).
- ‘Policy chapter A7 – risk and reward’ (‘policy chapter A7’).
- ‘Policy chapter A8 – financeability and affordability’ (‘policy chapter A8’).

Table A2.1 lists the representations we have received that are specific to Yorkshire Water’s wholesale water control and sets out where to find more information on our responses in this document.

Table A2.1 Representations specific to the wholesale water control of Yorkshire Water

Area	Company-specific representations	Detailed commentary in this company appendix
Outcomes, PCs and incentives	Yorkshire Water CCWater CCG	Annex 4
Outcome delivery and reporting	None	Annex 4
Calculating allowed wholesale water expenditure	None	Section A2.3.1 and Annex 1

Area	Company-specific representations	Detailed commentary in this company appendix
Calculation of revenues: PAYG and RCV run-off	None	Section A2.3.2 and A6.5
Return on the RCV	None	Section A2.3.3
Reconciling 2010-15 performance	Yorkshire Water	Annex 3
Uncertainty mechanisms	None	Section A2.4

A2.2 Company outcomes, performance commitments and delivery incentives

A2.2.1 Outcomes, performance commitments and incentives

In policy chapter A2, we discuss our approach to outcomes for the wholesale and retail controls. Yorkshire Water has developed and committed to delivering outcomes which reflect its customers' views. These are supported by specific PCs and associated incentives (ODIs) whereby the company can be rewarded or penalised for its performance during the period from 2015 to 2020.

The company's outcomes have been developed through customer engagement, with input from its CCG. The CCG's role was to challenge how well the company's outcomes, PCs and delivery incentives reflect the views and priorities of customers, both now and in the future, as well as environmental priorities.

Consistent with the draft determination our assessment of the specific PCs proposed by each non-enhanced company for wholesale water has focused on:

- comparative assessments where it was possible to compare PCs and incentives across the sector and so challenge companies to deliver an upper quartile level of performance so that companies are focussed on delivering benefits for customers and the environment; and
- company-specific assessments to ensure that the PCs proposed by each company are challenging, appropriately incentivised and supported by customer engagement.

We summarise the outcomes, PCs and ODIs for the wholesale water control for Yorkshire Water in table A2.2 below.

For some PCs and incentives types, we have intervened to change the underlying performance level or incentives. Where we have intervened, we have done so to ensure that companies are subject to effective incentives that protect customers against under-delivery and where merited, reward companies for outperformance. We summarise our interventions in table A2.2 and set out whether they are the result of our comparative assessment or company-specific assessment.

Consistent with our proposal at draft determination we are intervening to impose an overall cap and collar on ODIs for the 2015-20 period, thereby limiting total rewards and penalties. The cap and collar will apply in line with the approach set out in policy chapter A2.

Table A2.2 Wholesale water outcomes, performance commitments and incentives

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
We provide you with water that is clean and safe to drink	Drinking water quality (overall compliance)	Financial – penalty only	We revised our comparative assessment proposals for final determination. Our revised assessment has led to a slightly less demanding penalty deadband.
	Significant drinking water events which require corrective action	Non-financial incentive	No intervention
	Drinking water complaints (taste, odour and discolouration)	Financial – reward and penalty	We revised our comparative assessment proposals for final determination. Our revised assessment of upper quartile levels and deadbands has led to minor changes as set out in annex 4.

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
	Water quality stability and reliability factor	Financial – reward and penalty	Company- specific – We confirm our draft determination intervention to remove the reward
We make sure that you always have enough water	Leakage	Financial – reward and penalty	Company- specific – We confirm our draft determination intervention to make the reward deadband more demanding.
	Water supply interruptions	Financial – reward and penalty	We revised our comparative assessment proposals for final determination. Our revised assessment of upper quartile levels and deadbands has led to minor changes as set out in annex 4.
	Water use	Non-financial incentive	No intervention
	Water network stability and reliability factor	Financial – reward and penalty	Company-specific – We confirm our draft determination intervention to remove the reward
We protect and improve the water environment	Length of river improved (against WFD component measures)	Financial – reward and penalty	No intervention
	Solutions delivered by working with others	Financial – reward only	No intervention

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
	Amount of land we conserve and enhance (total cumulative area)	Financial – reward and penalty	No intervention
	Recreational visitor satisfaction measure	Non-financial incentive	No intervention
We understand our impact on the wider environment and act responsibly	Energy generated through renewable technologies	Non-financial incentive	No intervention
	Waste diverted from landfill (re-used and recycled)	Non-financial incentive	No intervention

A2.2.2 Outcome delivery and reporting

Yorkshire Water's proposed approach to the measurement, reporting and governance of outcomes and our assessment of this approach is summarised in annex 4.

A2.3 Calculating the wholesale water price control

A2.3.1 Calculating allowed wholesale water expenditure

The cost of delivering wholesale water and wastewater services is a major driver of customer bills, comprising more than 90% of the value chain. In order to protect the interests of customers, we have determined the efficient level of costs for the company to deliver the outcomes that matter to customers both today and tomorrow and to allow it to meet its statutory obligations.

Our approach to determining efficient wholesale expenditure is set out in policy chapter A3.

Following representations, the company's proposed wholesale water totex is £1,487 million over 2015-20 (versus £1,428 million in its December plan). This is 5% below the final determination threshold (post additions) of £1,561 million.

The wholesale water allowed expenditure for Yorkshire Water is detailed in Table A2.3 below. We provide a further breakdown of some of the calculations in annex 1. Further information about our assessment of each claim is set out in the [populated version of the final determination cost threshold models](#).

At draft determination, we adapted our draft determination threshold by capping our view of the cost threshold at 5% above the company plan view of totex for water. For final determination, we have updated the projections of cost drivers used in conjunction with the supply demand balance water unit cost enhancement model to reflect the latest information in final Water Resource Management Plans for Yorkshire Water. This update reduces our final determination threshold compared to the draft determination threshold and capping the threshold is no longer required for Yorkshire Water.

Table A2.3 Wholesale water allowed expenditure (£ million)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total 2015-20
Final determination cost threshold						1,560.5
Costs excluded from menu	11.3	11.0	11.0	11.0	11.0	55.5
Menu cost baseline ¹	344.3	309.1	281.4	281.9	288.3	1,505.0
Company's view of menu costs ²						1,419.7
Implied menu choice						94.3
Allowed expenditure from menu	339.5	304.8	277.4	277.9	284.2	1,483.7
Costs excluded from menu	11.3	11.0	11.0	11.0	11.0	55.5
Total allowed expenditure ³	350.7	315.8	288.4	288.9	295.3	1,539.1
Less pension deficit repair allowance	4.5	4.5	4.5	4.5	4.5	22.7
Totex for input to PAYG	346.2	311.3	283.9	284.4	290.7	1,516.4

Notes:

1. Menu baseline is equal to the final determination threshold less pension deficit recovery costs, third party costs and market opening costs related to 2014-15 (see annex 1).
2. Based on company plan totex (reflecting its representation on its draft determination) minus costs for items excluded from the menu. The company will make a final menu choice by 16 January 2016 and any difference between this and the implied menu choice will be reconciled as part of PR19.
3. Includes pension deficit recovery costs.

A2.3.2 Calculation of revenues: PAYG and RCV run-off

In section A6.5 we discuss financeability at an appointee (whole regulated company) level.

Table A2.4 shows the PAYG rates and the amount of totex recovered for wholesale water, which we have used as the basis for this final determination. The 'Resulting PAYG (£m)' is the amount of money recovered from customers in the short term. Table A2.5 shows the RCV run-off amounts included within the wholesale water charge. This is the amount of money recovered in the long term through the company's RCV.

Table A2.4 Yorkshire Water's wholesale water PAYG rates

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Totex (£m)	346.2	311.3	283.9	284.4	290.7	1,516.4
PAYG (%)	59.8%	60.2%	64.5%	65.7%	64.8%	63.0%
Resulting PAYG (£m)	206.9	187.3	183.0	186.8	188.3	952.2

Note: The figures in this table reflect the change in PAYG rates as described in section A6.5 on financeability.

Table A2.5 Yorkshire Water's wholesale water RCV run-off (£ million)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Run-off of 2015 RCV	52.7	66.4	70.8	75.3	72.9	338.1
RCV run-off of totex additions	2.0	5.8	9.0	11.9	14.7	43.4
Total RCV run-off	54.8	72.2	79.8	87.2	87.6	381.6

Note: This reflects a run-off rate of 3.23% for the RCV as at 31 March 2015 and 35 years for the totex additions to the RCV over 2015-20. It also reflects the change in RCV run-off rates as described in section A6.5 on financeability.

A2.3.3 Return on the RCV

As stated in policy chapter A3, the return on the RCV is a key component of allowed wholesale revenues. The return on the RCV is the wholesale WACC applied to the RCV during the 2015-20 period. The RCV is calculated as the RCV at the start of the period plus totex that is not funded on a PAYG basis minus RCV run-off (or regulatory depreciation).

In our risk and reward guidance we set out a single industry cost of capital for both wholesale water and wastewater services based on market evidence, which at the time was 3.7%. The company accepted this guidance in its revised business plan. As set out in policy chapter A7, based on the latest market evidence for the cost of new debt we have set the wholesale cost of capital at 3.6%. This results in a return on capital of £425.3 million over 2015-20.

Table A2.6 shows our calculation of the opening RCV at 1 April 2015 taking account of the adjustments for 2010-15 performance discussed in section A2.3.4 below. The average RCV, set out in table A2.7 for each year, takes into account the proportion of totex additions to the RCV determined by the PAYG rate and RCV run-off as set out in tables A2.4 and A2.5 above.

Table A2.6 Yorkshire Water's wholesale water opening RCV (£ million)

	2015-16
Closing RCV 31 March 2015	2,343.3
Land sales ¹	-1.3
Adjustment for actual expenditure 2009-10 ²	2.3
Adjustment for actual expenditure 2010-15 ³	-109.2
Net adjustment from logging up and logging down ^{3,4}	0.0
Adjustment for shortfalls ^{3,4}	0.0
Adjustment for serviceability shortfalls ⁵	0.0
Other adjustments ⁶	0.0
Opening RCV 1 April 2015	2,235.1

Notes:

1. Land sales adjustment is set out in table AA3.19.
2. 2009-10 actual expenditure adjustment is set out in table AA3.19.
3. A component of the capital expenditure incentive scheme (CIS) adjustment as set out in table AA3.16.
4. The net adjustment from the change protocol is set out in table AA3.7.

5. The serviceability shortfall adjustment is set out in table AA3.11.

6. Other RCV adjustments are set out in table AA3.19.

Table A2.7 Yorkshire Water’s wholesale water return on RCV (£ million)

	2015-16	2016-17	2017-18	2018-19	2019-20
Opening RCV	2,235.1	2,319.7	2,371.5	2,392.5	2,402.9
RCV additions (from totex)	139.3	124.0	100.9	97.6	102.4
Less RCV run-off	54.8	72.2	79.8	87.2	87.6
Closing RCV	2,319.7	2,371.5	2,392.5	2,402.9	2,417.8
Average RCV (year average)	2,277.4	2,345.6	2,382.0	2,397.7	2,410.3
Return on capital	82.0	84.4	85.8	86.3	86.8

A2.3.4 Reconciling 2010-15 performance

When we last set price controls in 2009 (PR09), we included a number of incentive mechanisms designed to encourage companies to improve and deliver services more efficiently, and to manage uncertainty. Consistent with the broad approach set out in the PR09 proposals we have made adjustments at this price review (PR14) to 2015-2020 revenues to take account of company performance in the 2010-2015 period.

Our approach to reconciling 2010-15 performance is set out in policy chapter A4.

The company proposed adjustments to the opening RCV and allowed revenue for the wholesale water services to reconcile performance in 2010-15. We have intervened and, as a result, the revenue adjustments for wholesale water have changed from £84.2 million to £81.1 million. We summarise these interventions in table A2.8 below. The impact on the opening RCV of 2010-15 adjustments is shown in table A2.6 and we discuss our interventions in this area further in annex 3.

When making these final determinations we do not have the full information on companies’ performance in 2014-15. We set out in ‘[Setting price controls for 2015-20 – further information on reconciling 2010-15 performance](#)’ that we would reconcile for the revenue correction mechanism (RCM), change protocol and serviceability in 2015, and in 2016 for the capital expenditure incentive scheme, when we have the company’s actual performance for 2014-15. In carrying out this reconciliation, we will take a proportionate approach (for example, applying materiality thresholds where

appropriate) to making adjustments for company's actual performance and implement these changes at the next wholesale price control review in 2019.

Table A2.8 Yorkshire Water's wholesale water revenue adjustments to reflect 2010-15 performance (£ million)

Area of intervention	Intervention	Total revenue adjustment 2010-15 (post intervention)		
		Company view	Draft determination	Final determination
SIM	There are no interventions in this area	0.0	0.0	0.0
RCM	<p>As for all companies, we have made changes to ensure there was consistency between business plan tables and RCM models in the following areas:</p> <ul style="list-style-type: none"> FD09 (Final determination 2009) assumptions Number of non-households billed <p>Combined these changes increased revenue by £0.3 million compared with the company's revised business plan.</p>	50.6	51.1	50.9
Opex incentive allowance (OIA)	We have not accepted the company's 'Other adjustment' in 2013-14 to reduce actual opex by £1.1m for equipment reliability and serviceability. This intervention reduced revenue by £2.5 million.	16.0	13.6	13.6
Capital expenditure incentive	As for all companies, we have used the post-tax basis of the PR09 cost of	17.6	17.3	16.6

Area of intervention	Intervention	Total revenue adjustment 2010-15 (post intervention)		
		Company view	Draft determination	Final determination
scheme (CIS)	<p>capital for the discount rate when calculating the future value of the revenue adjustment in the 2010-15 period.</p> <p>In carrying out our assessment, we have used the values from table A9.</p> <p>Combined these interventions reduced revenue by £1.0 million compared with the company's revised business plan.</p>			
Other adjustments	There are no interventions in this area.	0.0	0.0	0.0

The main changes we have made in the final determination in reconciling the company's 2010-15 performance result from our revised adjustment to the RCV for actual expenditure in 2009-10 and our move to using the post-tax cost of capital as the discount rate when calculating the future value of revenue adjustments in the CIS.

A2.3.5 Calculation of allowed revenue

We set out the calculation of the allowed revenue for Yorkshire Water's wholesale water control in Table A2.9.

Overall, the company's wholesale water revenue allowance will be £372.4 million in 2015-16, increasing by 4.5% to £389.3million in 2019-20.

Table A2.9 Yorkshire Water's wholesale water allowed revenue (£ million)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Totex	346.2	311.3	283.9	284.4	290.7	1,516.4

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
PAYG rate (%)	59.8%	60.2%	64.5%	65.7%	64.8%	
Totex additions to the RCV	139.3	124.0	100.9	97.6	102.4	564.2
RCV (year average)	2,277.4	2,345.6	2,382.0	2,397.7	2,410.3	
Wholesale allowed revenue build up:						
PAYG ¹	211.4	191.8	187.6	191.3	192.8	974.9
Return on capital	82.0	84.4	85.8	86.3	86.8	425.3
RCV run-off	54.8	72.2	79.8	87.2	87.6	381.6
Tax ²	1.4	6.6	4.9	5.7	6.3	24.9
Income from other sources ^{3,4}	-7.0	-7.0	-7.0	-7.0	-7.0	-35.1
Reconciling 2010-15 performance	21.7	19.5	19.7	10.2	10.2	81.1
Ex ante additional menu income	2.4	2.1	1.9	2.0	2.0	10.4
Wholesale allowed revenue adjustments:						
Capital contributions from connection charges and revenue from infrastructure charges	5.8	6.9	8.7	9.8	10.6	41.8
Final allowed revenues	372.4	376.5	381.3	385.4	389.3	1,904.9

Notes:

1. PAYG includes the PAYG calculated from totex and the pension deficit repair allowance.
2. Including tax on adjustments for reconciling 2010-15 performance and ex-ante additional menu income.
3. We have adjusted other income values to remove the deferred income element relating to IFRIC18, as this is an accounting adjustment.
4. Our assessment of income from other sources is discussed in policy chapter A3.

A2.4 Uncertainty mechanisms

We have set the company's allowed revenues for the 2015-20 period. All companies face uncertainty about future costs and revenues and this is reflected in the rate of return and the established framework in the licence. We outline our approach to incremental uncertainty mechanisms in policy chapter A7, where we set out our response to the representations made by stakeholders in support of sector wide uncertainty mechanisms.

We have allowed all companies an uncertainty mechanism for business rates, as the revaluation of business rates in 2017 is a material risk that is largely outside the control of companies. This mechanism allows a proportion of the costs to be passed through to customers, reflecting the fact that companies have more control than customers in managing the risk.

In table A2.10 below, we set out Yorkshire Water's proposed wholesale water uncertainty mechanisms and our final assessment of these proposals.

Table A2.10 Yorkshire Water's proposals for wholesale water uncertainty mechanisms

Assessment at draft determination	Our final assessment
In the draft determination we accepted Yorkshire Water's proposed uncertainty mechanism for water business rates but adjusted the proposed sharing rate from 100:0 to 75:25 (customer:company). Yorkshire Water made no representations about our revised sharing rate.	For our final determination, we confirm the uncertainty mechanism included in our draft determination. The specific text of this Notified Item is in the annex to the final determination letter. The rationale for its inclusion in the final determination is set out in policy chapter A7.

A3 Wholesale wastewater

A3.1 Consideration of representations on our draft determinations

In policy chapter A1, we provide a list of the respondents to the draft determinations published in April, May and August of this year. We have fully considered all of the responses received, and where appropriate, we have made either consequential adjustments to our industry-wide approach or company-specific interventions.

Our general policies relevant to the wholesale wastewater control are set out in the following policy chapters that accompany our final determinations. These include our responses to representations on sector-wide issues.

- Policy chapter A2.
- Policy chapter A3.
- Policy chapter A4.
- Policy chapter A7.
- Policy chapter A8.

Table A3.1 lists the representations we have received that are specific to Yorkshire Water's wholesale wastewater control and sets out where to find more information on our responses in this document.

Table A3.1 Representations specific to the wholesale wastewater control of Yorkshire Water

Area	Company-specific representations	Detailed commentary in this company appendix
Outcomes, PCs and incentives	Environment Agency	Annex 4
Outcome delivery and reporting	None	Annex 4
Calculating allowed wholesale water expenditure	Environment Agency	Section A3.3.1 and Annex 1
Calculation of revenues: PAYG and RCV run-off	None	Section A3.3.2 and A6.5
Return on the RCV	None	Section A3.3.3
Reconciling 2010-15 performance	Yorkshire Water	Annex 3

Area	Company-specific representations	Detailed commentary in this company appendix
Uncertainty mechanisms	None	Section A3.4

A3.2 Outcomes, performance commitments and incentives

In policy chapter A2, we discuss our approach to outcomes for the wholesale and retail controls.

The company's outcomes have been developed with input from its CCG. The CCG's role was to challenge how well the company's outcomes, PCs and delivery incentives reflect the views and priorities of customers, both now and in the future, as well as environmental priorities.

Similar to the wholesale water control, our assessment of the specific PCs proposed by each company for wholesale wastewater has focussed on a horizontal review of outcomes and a company-specific assessment.

For some PCs and incentives types, we have intervened to change the underlying performance level or incentives. Where we have intervened, we have done so to ensure that companies are subject to effective incentives that protect customers against under-delivery and where merited, reward companies for outperformance. We summarise our interventions in table A3.2 and set out whether they are the result of our comparative assessment or company-specific assessment.

Similar to the water wholesale control, we are intervening to impose an overall cap and collar on ODIs for the 2015-20 period, thereby limiting total rewards and penalties. The cap and collar will apply in line with the approach set out in policy chapter A2. This policy, and our consideration of relevant responses, is discussed further in policy chapter A2.

We summarise the outcomes, PCs and ODIs for the wholesale wastewater control for Yorkshire Water in table A3.2 below. Full detail of the wholesale wastewater outcomes, PCs and incentives, and our consideration of relevant responses, is provided in annex 4.

Table A3.2 Wholesale wastewater outcomes, performance commitments and incentives

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
We take care of your wastewater and protect you and the environment from sewer flooding	Internal flooding incidents	Financial – reward and penalty	No intervention
	External flooding incidents	Non-financial incentive	No intervention
	Pollution incidents	Financial – reward and penalty Serious pollution incidents have a non-financial incentive in all years	We revised our comparative assessment proposals for final determination. Our revised assessment of upper quartile levels and deadbands has led to minor changes as set out in annex 4.
	Sewer network stability and reliability factor	Financial – reward and penalty	Company-specific – We confirm our draft determination intervention to remove the reward.
We protect and improve the water environment	Number of Yorkshire's designated bathing waters that exceed the required quality standard	Non-financial incentive	No intervention

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
	Wastewater quality stability and reliability factor	Financial – reward and penalty	Company-specific – We confirm our draft determination intervention to remove the reward. We have made the reference level for sewage treatment works compliance more demanding in response to stakeholder representations for final determination.
	Solutions delivered by working with others	Financial – reward only	No intervention
	Length of river improved (against WFD component measures).	Financial – reward and penalty	No intervention
	Amount of land we conserve and enhance	Financial – reward and penalty	No intervention
We understand our impact on the wider environment and act responsibly	Energy generated through renewable technologies	Non-financial incentive	No intervention
	Waste diverted from landfill (re-used and recycled)	Non-financial incentive	No intervention

A3.3 Calculating the wholesale wastewater price control

A3.3.1 Calculating allowed wholesale wastewater expenditure

Our approach to calculating allowed wholesale expenditure is set out in policy chapter A3.

Following representations, the company's proposed wholesale wastewater totex of £1,976 million over 2015-20 (versus £2,032 million in its December plan). This is 0.3% above the final determination threshold (post additions) of £1,971 million

The wholesale wastewater allowed expenditure for Yorkshire Water is detailed in table A3.3 below. A further breakdown of some of the calculations is provided in annex 1. Further information about our assessment of each claim is set out in the populated version of the final determination cost threshold models.

At the draft determination, we reprofiled Yorkshire Water's wastewater totex as the costs were front-loaded without sufficient justification. In its response to Yorkshire Water's draft determination, the Environment Agency said it considers that there is a case for Yorkshire Water's programme to be front-loaded to ensure the early delivery of its environmental obligations. Although a front-loaded programme would benefit the environment earlier, we also need to consider the impact on bill payers. As there is no statutory requirement for the programme to be delivered early and Yorkshire Water did not respond to this intervention with further evidence, we have not made a change in response to this representation.

Table A3.3 Wholesale wastewater allowed expenditure (£ million)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Final determination cost threshold						1,970.6
Costs excluded from menu	6.2	5.9	5.9	5.9	5.9	29.9
Menu cost baseline ¹	388.1	388.1	388.1	388.1	388.1	1,940.6
Company's view of menu costs ²						1,931.0
Implied menu choice						99.5
Allowed expenditure from menu	387.6	387.6	387.6	387.6	387.6	1,938.2

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Costs excluded from menu	6.2	5.9	5.9	5.9	5.9	29.9
Total allowed expenditure ³	393.8	393.6	393.6	393.6	393.6	1,968.2
Less pension deficit repair allowance	5.9	5.9	5.9	5.9	5.9	29.7
Totex for input to PAYG	387.9	387.7	387.7	387.7	387.7	1,938.5

Notes:

1. Menu baseline is equal to the final determination threshold less pension deficit recovery costs, third party costs and market opening costs related to 2014-15 (see annex 1).
2. Based on company plan totex (reflecting its representation on its draft determination) minus costs for items excluded from the menu. The company will make a final menu choice by 16 January 2016 and any difference between this and the implied menu choice will be reconciled as part of PR19.
3. Includes pension deficit recovery costs.

A3.3.2 Calculation of revenues: PAYG and RCV run-off

In section A6.5, we discuss financeability at an appointee level.

Table A3.4 shows the PAYG rates and the amount of totex recovered for wholesale wastewater, which we have used as the basis for this final determination. The 'Resulting PAYG (£m)' is the amount of money recovered from customers in the short term. Table A3.5 shows the RCV run-off amounts included within the wholesale wastewater charge. This is the amount of money recovered in the long term through the company's RCV.

Table A3.4 Yorkshire Water's wholesale wastewater PAYG rates

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Totex (£m)	387.9	387.7	387.7	387.7	387.7	1,938.5
PAYG (%)	46.6%	43.6%	45.2%	50.5%	61.3%	49.4%
Resulting PAYG (£m)	180.8	169.0	175.3	195.7	237.5	958.3

Note: This reflects the change in PAYG rates as described in section A6.5 on financeability.

Table A3.5 Yorkshire Water's wholesale wastewater RCV run-off (£ million)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Run-off of 2015 RCV	139.9	143.2	128.5	104.8	58.5	574.9
RCV run-off of totex additions	3.8	11.5	19.3	26.6	32.8	93.9
Total RCV run-off	143.6	154.7	147.8	131.4	91.3	668.8

Note: This reflects a run-off rate of 4.04% for the RCV as it stands on 31 March 2015 and 28 years for the totex additions to the RCV over 2015-20. It also reflects the change in RCV run-off rates as described in section A6.5 on financeability.

A3.3.3 Return on the RCV

As discussed in section A2.3.3, we have used a cost of capital of 3.6% in this final determination. This results in a return on capital of £583.4 million over 2015-20.

Table A3.6 shows our calculation of the opening RCV at 1 April 2015 taking account of the adjustments for 2010-15 performance discussed in section A3.3.4 below. The average RCV is set out in.

Table A3.7 below for each year, takes into account the proportion of totex additions to the RCV determined by the PAYG rate and RCV run-off as set out in tables A3.4 and A3.5 above.

Table A3.6 Yorkshire Water's wholesale wastewater opening RCV (£ million)

	2015-16
Closing RCV 31 March 2015	3,278.4
Land sales ¹	-1.8
Adjustment for actual expenditure 2009-10 ²	-16.8
Adjustment for actual expenditure 2010-15 ³	-159.4
Net adjustment from logging up and logging down ^{3,4}	-14.0
Adjustment for shortfalls ^{3,4}	-3.6
Adjustment for serviceability shortfalls ⁵	0.0
Other adjustments ⁶	0.0

	2015-16
Opening RCV 1 April 2015	3,082.9

Notes:

1. Land sales adjustment is set out in table AA3.19
2. 2009-10 actual expenditure adjustment is set out in table AA3.19
3. A component of the CIS adjustment as set out in table AA3.16:
4. The net adjustment from the change protocol is set out in table AA3.7.
5. The serviceability shortfall adjustment is set out in table AA3.11.
6. Other RCV adjustments are set out in table AA3.19.

Table A3.7 Yorkshire Water's wholesale wastewater return on RCV (£ million)

	2015-16	2016-17	2017-18	2018-19	2019-20
Opening RCV	3,082.9	3,146.4	3,210.4	3,275.0	3,335.5
RCV additions (from totex)	207.1	218.7	212.3	192.0	150.1
Less RCV run-off	143.6	154.7	147.8	131.4	91.3
Closing RCV	3,146.4	3,210.4	3,275.0	3,335.5	3,394.3
Average RCV (year average)	3,114.6	3,178.4	3,242.7	3,305.2	3,364.9
Return on capital	112.1	114.4	116.7	119.0	121.1

A3.3.4 Reconciling 2010-15 performance

When we last set price controls at PR09, we included a number of incentive mechanisms designed to encourage companies to improve and deliver services more efficiently, and to manage uncertainty. Consistent with the broad approach set out in the PR09 proposals we have made adjustments at this price review (PR14) to 2015-2020 revenues to take account of company performance in the 2010-2015 period.

Our approach to reconciling 2010-15 performance is set out in policy chapter A4.

The company proposed adjustments to the opening RCV and allowed revenue for the wholesale wastewater services to reconcile performance in 2010-15. We have intervened and as a result the revenue adjustments for wholesale wastewater have changed from £73.5 million to £62.0 million.

We summarise these interventions in table A3.8 below, and quantify the resulting adjustments within this final determination. The impact on the opening RCV of

2010-15 adjustments is shown in Table A3.6 above and we discuss our interventions further in annex 3.

When making these final determinations we do not have the full information on companies' performance in 2014-15. We set out in '[Setting price controls for 2015-20 – further information on reconciling 2010-15 performance](#)' that we would reconcile for the RCM, change protocol and serviceability in 2015, and in 2016 for the capital expenditure incentive scheme, when we have the company's actual performance for 2014-15. In carrying out this reconciliation we will take a proportionate approach (for example, applying materiality thresholds where appropriate) to making adjustments for company's actual performance and implement these changes at the next wholesale price control review in 2019.

Table A3.8 Yorkshire Water's wholesale wastewater revenue adjustments to reflect 2010-15 performance (£ million)

Area of intervention	Intervention	Total revenue adjustment 2010-15 (post intervention)		
		Company view	Draft determination	Final determination
SIM	There are no interventions in this area	0.0	0.0	0.0
RCM	As for all companies, we have intervened in the following areas: <ul style="list-style-type: none"> • FD09 assumptions • number of non-household billed Combined, these interventions increase revenue by £0.05 million compared to the company's revised business plan.	55.1	55.3	55.1
OIA	We have not accepted the company's 'Other adjustment' in 2013-14 to reduce actual wastewater opex by £4.2m for equipment reliability and serviceability. This intervention removed the company's small OIA of £0.7 million.	0.7	0.0	0.0
CIS	As for all companies, we have used the post-tax basis of the PR09 cost of capital for the discount rate when calculating the future value of the revenue adjustment in the 2010-15 period. In carrying out our assessment, we have included our view of the	17.7	8.7	6.8

Area of intervention	Intervention	Total revenue adjustment 2010-15 (post intervention)		
		Company view	Draft determination	Final determination
	applicable change protocol amounts for wastewater and we have used the values from table A9. Combined these interventions reduced revenue by £12 million compared to the company revised business plan.			
Other adjustments	There are no interventions in this area	0.0	0.0	0.0

The main changes we have made in the final determination in reconciling the company's 2010-15 performance result from:

- our revised adjustment to the RCV for actual expenditure in 2009-10,
- our application of a shortfall for sewer flooding outputs, and
- our removal of the serviceability shortfall for sewer blockages.

We have applied the shortfall on sewer flooding outputs because in 2014 the number of properties on the sewer flooding registers increased by more than was expected. We do not expect the company to achieve the net reduction in the number of properties on the registers that were set in 2009.

We have removed the shortfall for sewer blockages for this final determination because in its representations Yorkshire Water provided sufficient evidence to show that the increase in sewer blockages was due to the transfer of private sewers, and therefore out of its control.

A3.3.5 Calculation of allowed revenue

The calculation of the allowed revenue for Yorkshire Water's wholesale wastewater control is shown in table A3.9.

Overall, Yorkshire Water's wholesale wastewater revenue allowance will be £459.8 million in 2015-16, increasing by 3.5% to £475.8 million in 2019-20.

Table A3.9 Yorkshire Water's wholesale wastewater allowed revenue (£ million)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Totex	387.9	387.7	387.7	387.7	387.7	1,938.5
PAYG rate	46.6%	43.6%	45.2%	50.5%	61.3%	
Totex additions to the RCV	207.1	218.7	212.3	192.0	150.1	980.2
RCV (year average)	3,114.6	3,178.4	3,242.7	3,305.2	3,364.9	
Wholesale allowed revenue build up:						
PAYG ¹	186.8	174.9	181.2	201.6	243.5	988.0
Return on capital	112.1	114.4	116.7	119.0	121.1	583.4
RCV run-off	143.6	154.7	147.8	131.4	91.3	668.8
Tax ²	0.0	0.2	0.2	0.1	1.0	1.5
Income from other sources ^{3,4}	-1.2	-1.2	-1.2	-1.2	-1.2	-5.9
Reconciling 2010-15 performance	13.2	13.3	13.4	11.0	11.0	62.0
Ex ante additional menu income	0.2	0.2	0.2	0.2	0.2	1.2
Wholesale allowed revenue adjustments:						
Capital contributions from connection charges and revenue from infrastructure charges	5.0	5.8	7.3	8.1	8.8	35.0

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Final allowed revenues	459.8	462.4	465.7	470.3	475.8	2,334.0

Notes:

1. PAYG includes the PAYG calculated from totex and the pension deficit repair allowance.
2. Including tax on adjustments for reconciling 2010-15 performance and ex ante additional menu income.
3. We have adjusted other income values to remove the deferred income element relating to IFRIC18, as this is an accounting adjustment.
4. Our assessment of income from other sources is discussed in policy chapter A3.

A3.4 Uncertainty mechanisms

We have set the company's allowed revenues for the 2015-20 period. All companies face uncertainty about future costs and revenues this is reflected in the rate of return and the established framework in the licence.

We outline our approach to incremental uncertainty mechanisms in policy chapter A7, where we set out our response to the representations made by stakeholders in support of sector wide uncertainty mechanisms.

For the wholesale wastewater control, we are not allowing additional uncertainty mechanisms within this framework.

A4 Household retail

A4.1 Consideration of representations on our draft determinations

In policy chapter A1, we provide a list of the respondents to the draft determinations published in April, May and August of this year. We have fully considered all of the responses received, and where appropriate, we have made either consequential adjustments to our industry-wide approach or company-specific interventions.

Our general policies relevant to the household retail control are set out in the following policy chapters that accompany our final determinations. These include our responses to representations on sector-wide issues.

- Policy chapter A2
- [‘Policy chapter A5 – household retail costs and revenues’](#) (‘policy chapter A5’).
- Policy chapter A7.

Table A4.1 lists the representations we have received that are specific to Yorkshire Water’s household retail control and sets out where to find more information on our responses in this document.

Table A4.1 Representations specific to the household retail control of Yorkshire Water

Area	Company-specific representations	Detailed commentary in this company appendix
Outcomes, PCs and incentives	None	Annex 4
Outcome delivery and reporting	None	Annex 4
Allocation of costs	Yorkshire Water	Section 4.3.1 and Annex 1
Adjustments	None	Section A4.3.2 and A6.5
New costs	None	Section A4.3.3
Uncertainty mechanisms	None	Section A4.5

A4.2 Outcomes, performance commitments and incentives

In policy chapter A2, we discuss our approach to outcomes for the wholesale and retail controls. Yorkshire Water has developed and committed to delivering outcomes which reflect its customers' views.

The company's outcomes have been developed with input from its CCG. The CCG's role is to ensure that the company's plan reflects the views and priorities of customers, both now and in the future, as well as environmental priorities.

Our assessment of the specific PCs proposed by each company for household retail has focused on a company-specific assessment to ensure that the performance proposed by each company is challenging, appropriately incentivised and supported by customer engagement.

Table A4.2 below summarises the outcomes, PCs and ODIs for Yorkshire Water's household retail control.

For some PCs and incentives types, we have intervened to change the underlying performance level or incentives. Where we have intervened we have done so to ensure that companies are subject to effective incentives that protect customers against under-delivery and where merited, reward companies for outperformance. We summarise any interventions in table A4.2.

Table A4.2 Household retail outcomes, performance commitments and incentives

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
We provide the level of customer service you expect and value	Customer service – service incentive mechanism	Financial – reward and penalty	No intervention
	Service commitment failures	Non-financial incentive	No intervention
	Overall customer satisfaction (CCWater Annual Tracking Survey)	Non-financial incentive	No intervention

Company proposal			Intervention
Outcome	Performance commitment	Incentive type	
We keep your bills as low as possible	Cost of bad debt to customers (expressed as percentage of average bill).	Non-financial incentive	No intervention
	Number of people who we help to pay their bill	Non-financial incentive	No intervention
	Value for money (CCWater Annual Tracking Survey)	Non-financial incentive	No intervention
We understand our impact on the wider environment and act responsibly	Energy generated through renewable technologies	Non-financial incentive	No intervention
	Waste diverted from landfill (re-used and recycled)	Non-financial incentive	No intervention

A4.3 Costs

Our approach to the household retail control is set out in policy chapter A5. We have adjusted companies' costs to align to the 2013-14 base year. Historic costs are therefore presented in 2013-14 prices, and all future costs and revenues in nominal prices. We set out our final household retail adjustments, the modification factors for household retail allowed revenue and the assumed number of customers we have used to calculate the total revenues in annex 2.

A4.3.1 Allocation of costs

Table A4.3 below summarises our final assessment of Yorkshire Water's cost allocation methodology.

Table A4.3 Our assessment of Yorkshire Water's cost allocation methodology

Area assessed	Our final assessment
No potential material misallocations	Pass
Adequate assurance provided	Pass
Reconciliation to regulatory accounts and December business plan provided	Pass

Yorkshire Water has addressed the cost allocation issues we highlighted in its draft determination. The company provided an external assurance report to support its cost allocations, which we are satisfied with, and has rebased its submission to 2012-13 prices. We have therefore used the company's allocation of costs to set our final determination.

The impact of the company's reallocations, compared to the draft determination, is to decrease household retail for 2013-14 by £0.671m, to decrease non-household retail for 2013-14 by £0.831m and to increase wholesale operating expenditure for 2013-14 by £1.502m (note that £1.379m of this movement is due to the reallocation of investigatory visits).

A4.3.2 Adjustments

In its revised business plan, submitted in June 2014, Yorkshire Water sought adjustments to the ACTS for:

- pension deficit repair costs; and
- input price pressure.

Pension deficit repair costs

In the final determination we have included an adjustment for all companies to reflect the pension deficit recovery costs that our modelling shows is appropriate for household retail as set out in [IN 13/17 'Treatment of companies' pension deficit repair costs at the 2014 price review'](#).

Input price pressure

We have included an adjustment to the ACTS for input price pressure in this final determination. Our final assessment of Yorkshire Water's proposed adjustment is unchanged from the draft determination.

Table A4.4 outlines our assessment of Yorkshire Water's proposed ACTS adjustments. The value of the adjustments we have accepted for the final determination is summarised in table A4.5. Further details on our assessment are set out in annex 2.

Table A4.4 Our assessment of Yorkshire Water's proposals for ACTS adjustments

		Our final assessment ¹			
Adjustment	Value (£m over 2015-20)	Materiality ²	Beyond efficient management control	Impact company in materially different way	Value of adjustment appropriate
Input price pressure	18.7	Pass	Pass	Efficiency benchmarking evidence: Pass	Pass
				Upper quartile: Pass	

Notes:

1. The four criteria used in our final assessment are the same for all proposed adjustments to the ACTS.
2. For household retail, materiality is defined as being 2.25% of household retail opex plus depreciation over 2015-20.

Table A4.5 Household retail adjustments (£ million, nominal prices)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Adjustments included in final determination						
Input price pressure	1.781	2.717	3.695	4.719	5.787	18.699
Pension deficit repair costs	1.008	1.008	1.008	1.008	1.008	5.040
Adjustments included in final determination	2.789	3.725	4.703	5.727	6.795	23.739

Note:

There will be no indexation for retail price controls.

A4.3.3 New costs

Yorkshire Water did not propose material new costs for the household retail control. The value of any modification for immaterial new costs is quantified in table A4.6.

Table A4.6 New household retail costs (£/customer)

	Value
Modification made to 2013-14 cost to serve for ACTS calculation	0.00

Note:

There will be no automatic indexation for retail price controls to RPI

A4.4 Calculating the allowed revenues

As set out in policy chapter A5, total allowed household retail revenues are calculated taking account of our assessment of the cost to serve per customer (after the impact of our efficiency challenge), the projected customer numbers in the company's revised business plan and the household retail net margin.

The company proposed a net margin of 1%. This is in line with our risk and reward guidance and our further consideration of margins following representations on the draft determination. We have therefore accepted the company's proposal.

Table A4.7 Household retail net margins (%)

	2015-16	2016-17	2017-18	2018-19	2019-20
Household retail net margin	1.0%	1.0%	1.0%	1.0%	1.0%

Table A4.8 below sets out the components of the allowed household retail revenue. We set out the household retail revenue modification in Annex 2.

Table A4.8 Components of the allowed household retail revenue (nominal prices)

	2013-14	2015-16	2016-17	2017-18	2018-19	2019-20
Company cost to serve (£/customer)						
Unmetered single service customers	18.2					

	2013-14	2015-16	2016-17	2017-18	2018-19	2019-20
Unmetered water and wastewater customers	23.7					
Metered water only customers	23.6					
Metered wastewater only customers	24.1					
Metered water and wastewater customers	29.8					
Industry ACTS (£/customer)						
Unmetered single service customers	21.47					
Unmetered water and wastewater customers	27.91					
Metered water only customers	27.26					
Metered wastewater only customers	25.54					
Metered water and wastewater customers	34.26					
Allowed cost to serve ¹ (£/customer)						
Unmetered single service customers		16.9	17.2	17.5	17.8	18.1
Unmetered water and wastewater customers		22.0	22.4	22.8	23.2	23.5
Metered water only customers		21.7	22.0	22.3	22.7	23.0
Metered wastewater only customers		22.1	22.2	22.0	21.9	22.2
Metered water and		27.7	28.1	28.6	29.0	29.5

	2013-14	2015-16	2016-17	2017-18	2018-19	2019-20
wastewater customers						
Total allowed (£m)						
Cost to serve (excluding net margin)		51.8	53.2	54.9	56.7	58.6
Forecast household wholesale charge (including forecast RPI ²) ³		751.9	782.0	813.8	847.3	881.5
Household retail revenue (including an allowance for the net margin) ⁴		59.3	61.1	63.1	65.2	67.4

Notes:

There will be no automatic indexation for retail price controls to RPI. This company has been allowed a £m adjustment to reflect input price pressure – this is reflected in the values in this table. The wholesale price controls are indexed linked to RPI. This will affect the retail net margins.

1. Allowed cost to serve includes pension deficit repair costs.
2. The household wholesale charge includes forecast RPI so that the total household retail revenue can be displayed in the same price base as other retail costs.
3. The allocation of allowed wholesale revenue to different wholesale charges will be at the company's discretion, subject to charging rules and licence conditions however, our assumed allocation of wholesale revenue is binding for the purposes of determining the allowance for the net margin which is one component of allowed household retail revenue.
4. This number is indicative as allowed revenue will depend upon actual customer numbers.

A4.5 Uncertainty mechanisms

We outline our approach to uncertainty mechanisms in policy chapter A7.

Yorkshire Water did not propose any household retail uncertainty mechanisms beyond those that will already form part of the regulatory framework for 2015-20.

A5 Non-household retail

In policy chapter A1, we provide a list of the respondents to the draft determinations published in April, May and August of this year. We have fully considered all of the responses received, and where appropriate, we have made either consequential adjustments to our industry-wide approach or company-specific interventions.

In [‘Policy chapter A6 – non-household retail costs and revenues’](#) (‘policy chapter A6’), we outline our overall approach to the non-household retail price control.

In this chapter, we set out Yorkshire Water’s non-household retail price control.

A5.1 Consideration of representations on our draft determinations

Our general policies relevant to the non-household control are set out in policy chapter A6. This includes our responses to representations on sector-wide issues.

Table A5.1 lists the representations we have received that are specific to Yorkshire Water’s non-household retail control and sets out where to find more information on our responses in this document.

Table A5.1 Representations specific to the non-household retail control of Yorkshire Water

Area	Company-specific representations	Detailed commentary in this company appendix
Net margins	None	Section A5.3
Cost proposals	Yorkshire Water	Section A5.4
Form of control	Yorkshire Water	Section A5.5

A5.2 Indicative non-household retail total revenue

Table A5.2 below shows the indicative total of non-household allowed revenue. The table is indicative, as it does not assume any gains or losses from competition or impacts from the company charging customers at levels different to the relevant default tariffs for the projected customers in each customer type. Furthermore, the

controls for each customer type that we have set will only apply for two years; there will be a review in 2016. Years 2017-18 to 2019-20 below are shown for illustrative purposes only.

Table A5.2 Indicative non-household retail total revenue price control including net margins (£ million, nominal prices)

	2015-16	2016-17	2017-18	2018-19	2019-20
Indicative non-household retail total revenue price control including net margins	10.4	10.8	11.8	11.8	12.1

Note:

There will be no indexation for retail price controls from this price base. The non-household wholesale charge includes forecast RPI so that the total non-household retail revenue can be displayed in the same price base as other retail costs. Figures exclude retail services to developers and revenues associated with miscellaneous charges.

A5.3 Net margins

We have accepted the company's proposed net margins which equal 2.5% in aggregate. This is in line with our risk and reward guidance and our further consideration of margins following representations on the draft determination.

A5.4 Cost proposals

We have accepted updated cost allocations between different non-household retail customer types as proposed by the company. We have also accepted updated cost allocations between household and non-household retail. The changes result in a decrease in costs for all non-household customers, with the greatest decreases for smaller customer types. Upon reviewing the proposed changes we did not identify any concerns with the company's proposals. We have therefore accepted the company's updated allocations.

As set out in policy chapter A6, we have adjusted companies' costs to align to the 2013-14 base year. Historical costs are therefore presented in 2013-14 prices, and all future costs and revenues in nominal prices. As set out in policy chapter A6, we expect our decisions on the total level of non-household retail costs now, will still apply for years 2017-18 to 2019-20 – the 2016 review will focus on the allocations between different non-household customer types.

In IN 13/17: 'Treatment of companies' pension deficit repair costs at the 2014 price review' we explained how we would treat the costs associated with water companies reducing the deficits in its defined benefit pension schemes at the 2014 price review. Where companies' proposals have differed from our calculations, we have over-written its proposals in line with our overall approach. As a result, we adjusted Yorkshire Water's proposals from £0.785 million over the control period, to £0.808 million.

In total, we adjusted the company's proposed costs from £28.566 million over the control period, to £28.589 million.

A5.5 Form of control

In 'Setting price controls for 2015-20, Draft price control determination notice: technical appendix A5 – non-household retail', we recognised that some companies could benefit from having further time to consider and address any issues ahead of the introduction of competition into the non-household retail market in April 2017.

Our final determination on the form of control is set out in policy chapter A6. In that document we confirm the basic form of control set out in our final methodology statement, but with a two-year initial duration and with a review carried out in 2016.

A5.6 Average revenue controls

The allowed average retail cost component (£) and the allowed net margin (%) for each customer type are shown in the table below for Yorkshire Water.

The average retail revenue per customer – £ (r) – is also shown. For the avoidance of doubt, it is the average cost component and the allowed net margin that make up the non-household retail control. The average retail revenue per customer is shown only to help comparisons to be drawn.

Table A5.3 Non-household retail average controls per customer

Customer type	Units	2015-16	2016-17	2017-18	2018-19	2019-20
Tariff band 1 ≤50 Ml/a water metered	£	22.39	23.28	26.74	25.96	26.25
	%	2.9%	2.9%	2.8%	2.9%	2.9%
	£ (r)	42.24	43.93	48.34	48.41	49.59

Customer type	Units	2015-16	2016-17	2017-18	2018-19	2019-20
Tariff band 2 > 50 ≤ 250 Ml/a water metered	£	35.68	37.10	42.67	41.46	41.76
	%	1.3%	1.3%	1.3%	1.3%	1.3%
	£ (r)	1,244.60	1,294.16	1,361.32	1,411.29	1,468.86
Tariff band 3 > 250 Ml/a water metered	£	39.39	40.99	47.28	46.09	46.38
	%	1.3%	1.3%	1.3%	1.3%	1.3%
	£ (r)	5,076.03	5,288.76	5,561.87	5,784.89	6,037.85
Tariff band 4 water unmetered	£	13.55	14.10	16.15	15.66	15.98
	%	12.2%	12.1%	11.9%	11.9%	11.9%
	£ (r)	25.66	26.65	29.19	29.19	29.99
Tariff band 5 ≤50 Ml/a sewerage metered	£	24.71	25.71	29.59	28.80	29.08
	%	2.6%	2.6%	2.6%	2.6%	2.6%
	£ (r)	45.92	47.85	52.77	53.04	54.37
Tariff band 6 > 50 ≤ 250 Ml/a sewerage metered	£	35.68	37.10	42.67	41.46	41.76
	%	1.3%	1.3%	1.3%	1.3%	1.3%
	£ (r)	1,753.05	1,834.05	1,929.00	2,024.80	2,121.17
Tariff band 7 > 250 Ml/a sewerage metered	£	39.39	40.99	47.28	46.09	46.38
	%	1.3%	1.3%	1.3%	1.3%	1.3%
	£ (r)	14,044.5 2	14,741.4 8	15,507.2 5	16,332.2 7	17,141.6 8
Tariff band 8 sewerage unmetered	£	13.69	14.24	16.32	15.83	16.15
	%	7.4%	7.3%	7.2%	7.1%	7.1%
	£ (r)	26.91	28.00	30.67	30.78	31.69
Tariff band 9 ≤50 Ml/a trade effluent metered	£	18.82	19.79	22.69	22.00	22.30
	%	1.6%	1.6%	1.6%	1.6%	1.6%
	£ (r)	82.05	85.69	89.12	89.01	89.76
Tariff band 10 > 50 ≤ 250 Ml/a trade effluent	£	14.65	15.17	17.23	16.50	16.80
	%	1.3%	1.3%	1.3%	1.3%	1.3%

Customer type	Units	2015-16	2016-17	2017-18	2018-19	2019-20
metered	£ (r)	1,918.52	1,915.57	1,918.41	1,920.75	1,919.52
Tariff band 11 > 250 Ml/a trade effluent metered	£	16.42	16.99	19.25	18.37	18.67
	%	1.3%	1.3%	1.3%	1.3%	1.3%
	£ (r)	7,746.92	7,778.64	7,832.17	7,895.41	7,944.20

A6 Appointee financeability and affordability

In this section, we discuss at an appointee level:

- bills and K factors;
- RoRE;
- financeability; and
- affordability.

A6.1 Consideration of representations on our draft determinations

In policy chapter A1, we provide a list of the respondents to the draft determinations published in April, May and August of this year. We have fully considered all of the responses received, and where appropriate, we have made either consequential adjustments to our industry-wide approach or company-specific interventions.

Our general policies relevant at appointee level are set out in the following policy chapters that accompany our final determinations. These include our responses to representations on sector-wide issues.

- Policy chapter A7.
- Policy chapter A8.

Table A6.1 lists the representations we have received that are specific to Yorkshire Water at an appointee level and sets out where to find more information on our responses in this document.

Table A6.1 Representations specific to issues at an appointee level for Yorkshire Water

Area	Company-specific representations	Detailed commentary in this company appendix
Bills and K factors	Yorkshire Water Yorkshire Water CCG	Section A6.2
Appointee level uncertainty and gain share mechanisms	Environment Agency Yorkshire Water CCWater	Section A6.3

Area	Company-specific representations	Detailed commentary in this company appendix
RoRE range	None	Section A6.4
Financeability	CCWater Yorkshire Water	Section A6.5
Affordability	CCWater	Section A6.6
Financial modelling	None	Section A6.7

A6.2 Bills and K factors

Table A6.2 Ofwat response to representations

Respondent	Summary of comment	Ofwat response
Yorkshire Water	Yorkshire Water has proposed increasing PAYG rates to smooth bills between 2015-20 and 2020-25. Yorkshire Water has undertaken customer surveys that support its proposals and has the support of the CCG.	We have accepted Yorkshire Water's proposal to bring forward revenue to the 2015-20 period as it meets our criteria. However, we have amended the RCV run-off rate rather than the PAYG rate because Yorkshire Water explained in its December business plan that its RCV run off rates were set below economic levels of depreciation in order to improve affordability in the 2015-20 period.
Yorkshire Water CCG	Yorkshire Water's CCG raised a concern in its representation about the longer-term implications of short-term bill reductions.	The adjustment to RCV run off, rather than PAYG rates, is consistent with Yorkshire Water's engagement with customers on the need for increases in bills beyond 2020 to align with economic rate of depreciation.
CCWater	In its representations, CCWater asks to be assured that the low RCV run off rate would not lead to a future spike in bills.	

Table A6.3 below sets out the allowed revenues we have assumed in our final determination for Yorkshire Water to deliver for its customers on its:

- statutory duties; and
- associated PCs.

It also sets out the average customer bills on the basis of the final determination.

Table A6.3 Yorkshire Water's final determination – K factors, allowed revenues and customer bills¹

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Wholesale water – allowed revenues (£m) ²	372.4	376.5	381.3	385.4	389.3	1,904.9
Wholesale water – K (%) ³	0.0%	1.7%	1.4%	0.9%	0.8%	-
Wholesale wastewater – allowed revenues (£m) ²	459.8	462.4	465.7	470.3	475.8	2,334.0
Wholesale wastewater – K (%) ³	0.0%	1.2%	0.8%	0.8%	1.0%	-
Retail household allowed revenue (£m)	59.3	61.1	63.1	65.2	67.4	316.0
Retail non-household expected revenue (£m)	10.4	10.8	11.8	11.8	12.1	56.9
Average household bill – water (£)	161	161	161	161	161	-
Average household bill – wastewater (£)	199	199	198	199	199	-
Average household bill – combined (£) ^{4, 5}	344	344	344	344	344	-

Notes:

1. Wholesale figures in 2012-13 prices as revenue will be affected by inflation and retail figures in nominal prices as revenue will not be affected by inflation.

2. The allowed revenue for our final determination is based on an implied menu choice. The company will have the opportunity to make its own menu choice, which will impact on its allowed revenues and customers' bills from 2020. Customer bills in the regulatory period from 2020 will also be affected by Yorkshire Water's performance in the forthcoming regulatory period in relation to costs and the regulatory incentives in place for performance delivery and revenue projection performance.

3. The average combined household bill is not equal to the sum of the average household water bill and the average household wastewater bill due to the use of the economies of scope factor in the household retail price control.

4. It should be noted the average household bill illustrated above reflects a notional allocation (by Ofwat, but based on the company's split of household and non-household customers) of the overall wholesale revenue requirement across Yorkshire Water's household and non-household customer base. In practice, this will depend upon the structure of wholesale charges implemented by Yorkshire Water.

As discussed in policy chapter A3, K is set to zero for 2015-16 for wholesale water and wastewater because there are no directly equivalent wholesale revenues for 2014-15 (on account of the new price review structure). As such, there is no existing reference point against which to express a change in K.

The base (2014-15) revenue allowance we have set is the financial year average revenue for 2015-16 adjusted for inflation. We set this out for Yorkshire Water in the table below.

Table A6.4 Yorkshire Water's allowed wholesale revenue for 2014-15

Yorkshire Water	Wholesale water	Wholesale wastewater
Allowed wholesale revenue 2014-15 (£ million)	392.9	485.1

A6.3 Uncertainty and gain share mechanisms

We outline our approach to uncertainty mechanisms and 'pain and gain share' in policy chapter A7.

Yorkshire Water has not proposed any appointee level uncertainty mechanisms beyond those that will already form part of the regulatory framework for 2015-20.

A6.4 RoRE range

Yorkshire Water has estimated the range of returns on RoRE that it could earn dependent on its performance over the price control period. The RoRE range reflects the company's views and is based on an efficient company with the notional capital structure³. Impacts are identified separately for ODIs, totex performance, financing and the SIM. The approach to calculating the RoRE range is set out in policy chapter A7. We note that Yorkshire Water's actual returns may differ from notional returns due to differences between notional and actual capital structure and cost of new debt and level of cost efficiency compared to allowed totex.

³ The notional capital structure is the capital structure which reflects Ofwat's assumption of an appropriate level of gearing to use in determining the allowed WACC.

Table A6.5 Whole company RoRE range

	Lower bound (%) – appointee	Upper bound (%) – appointee
Overall	-3.6%	+3.0%
ODIs	-1.2%	+0.4%
Totex	-1.9%	+2.2%
Financing	-0.4%	+0.4%
SIM	-0.2%	+0.1%

Commentary:

The appointee RoRE range is from 2.0% to 8.6%, with a base case of 5.6% and overall impacts from -3.6% to +3.0%. This range is narrower compared with the draft determination range of -4.0% to +3.0%, due to a reduction in ODI penalties. We have also modified the draft determination RoRE range to exclude additional returns from non-household retail control to be consistent with approach in our risk and reward guidance. This lowers the base case returns from 5.7% to 5.6%.

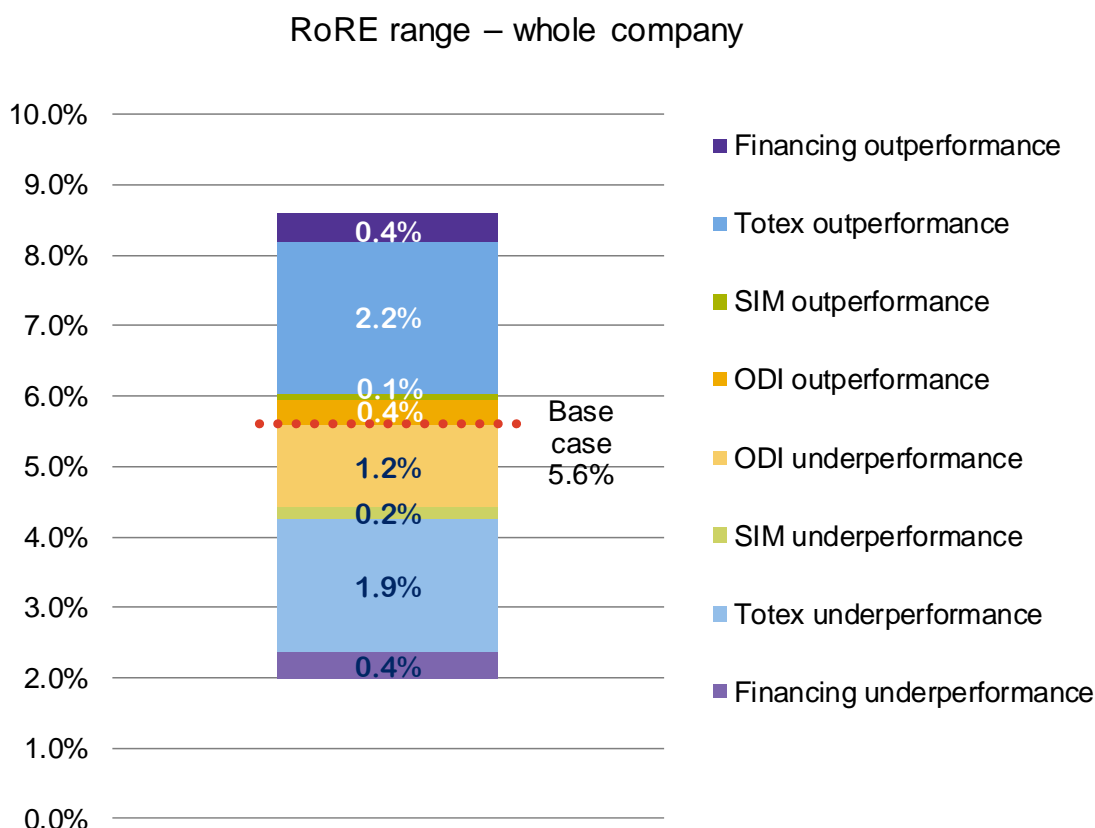
The totex risk range from -1.9% to +2.2% is unchanged from the draft determination. Yorkshire Water modelled this range using a Monte Carlo risk model for defined risk scenarios, together with an overlay to incorporate company controllable totex risk. The controllable totex risk was derived on a bottom-up basis and informed by historical performance. The overall range is broadly in line with other companies.

The ODI risk range proposed by Yorkshire Water in response to the draft determination was from -1.3% to +0.0%. This is a narrower range compared to the draft determination (-1.6% to +0.3%), which reflected our approach to comparative assessment interventions on ODIs together with Yorkshire Water's proposals. The range for final determination (-1.2% to +0.4%) takes account of the final approach and interventions on ODIs, as discussed in annex 4.

Financing risk impacts (from -0.4% to +0.4%) are unchanged from the draft determination. These were assessed using scenarios of +/- 125 basis points on the cost of new debt.

The SIM risk range (from -0.2% to +0.1%) is also unchanged from the draft determination. This is based on a narrower range of rewards and penalties than the maximum possible, reflecting Yorkshire Water's view that, on a P10/P90 basis, the best ranking position it could achieve is fourth place with a worst case of fourteenth.

The composition of the RoRE range for Yorkshire Water at an appointee level is shown in figure A6.1 below.

Figure A6.1 Yorkshire Water's RoRE range – appointee

Source: Our calculations based on information from Yorkshire Water

Note: Numbers presented based on calibration of the ODIs against an assumed menu choice of a 50% sharing factor

A6.5 Financeability

Ofwat has a statutory duty to secure that a company is able to finance the proper carrying out of its functions. We interpret this financing duty as requiring that we ensure that an efficient company with a notional capital structure is able to finance its functions. A company's actual capital structure is a choice for the company and it bears the risk associated with its choices. An efficient company is assumed to be able to deliver its plans based on the expenditure allowance in our final determination.

In table A6.6, we set out the notional financeability ratios associated with Yorkshire Water's business plan, draft determination and final determination.

Table A6.6 Company and Ofwat financial ratio calculations based on the company business plan and financial ratios based on our final determination

Financial ratios for notional company	Financial ratio calculations based on the company business plan (average 2015-20)		Financial ratio calculations based on Ofwat calculations (average 2015-20)	
	Company calculation	Ofwat calculation	Draft determination	Final determination
Cash interest cover (ICR)	3.09	3.11	2.84	3.03
Adjusted cash interest cover ratio (ACICR)	1.70	1.71	1.64	1.65
Funds from operations(FFO)/debt	9.80%	9.87%	8.66%	9.20%
Retained cash flow/debt	7.00%	7.26%	6.08%	6.59%
Gearing	61.25%	60.01%	60.75%	60.49%
Dividend cover (profit after tax/dividends paid)	0.73	0.96	0.56	0.73
Regulatory equity/regulated earnings for the regulated company	17.06	17.99	17.92	17.92
RCV/EBITDA	11.52	11.13	12.03	11.70

Commentary:

Yorkshire Water's revised business plan targeted a notional credit rating of A3. Our calculation of ratios is consistent with Yorkshire Water's calculations (based on its business plan). However the ratios set out in the draft determination were lower, particularly for FFO/debt, because we intervened to remove Yorkshire Water's proposed increase in PAYG and RCV run-off rates (though the lower ratios were still consistent with financeability). We did this because the evidence suggested that the proposed changes to PAYG and RCV run off were to improve an actual (rather than notional) financeability constraint.

Financial ratios for notional company	Financial ratio calculations based on the company business plan (average 2015-20)		Financial ratio calculations based on Ofwat calculations (average 2015-20)	
	Company calculation	Ofwat calculation	Draft determination	Final determination
<p>In its representations, Yorkshire Water provided additional evidence that the proposed increase in PAYG rates better aligned with customer preferences on long-term bills profiles. We set out our assessment of these proposed changes to PAYG and RCV run off rates in table A6.7. We have accepted Yorkshire Water's overall adjustment to revenue, however we have made the adjustment to RCV run off (rather than PAYG) to be more consistent with Yorkshire Water's evidence (from the December business plan) on below economic RCV run off rates (see Table A6.8). The financial ratios for our final determination are therefore higher than those for our draft determination, and we consider that the final determination is financeable.</p>				

As explained in policy chapter A8, companies have been allowed to use new tools in the form of pay as you go (PAYG) rates (the proportion of totex recovered in the period 2015-20) and RCV run-off rates (depreciation of the RCV). Both PAYG and RCV run-off rates can be adjusted to change the proportion of costs recovered within the 2015-20 period and the amount added to the RCV and recovered over a longer period. We have accepted Yorkshire Water's proposals to smooth customer bills over 2015-30 but have adjusted RCV run-off rather than PAYG.

Table A6.7 Assessment of changes to PAYG and RCV run off rates

Area assessed	Commentary	Our final assessment
Quality of engagement	Focus group and online survey, CCG support and inflation explained.	Pass
Basis of engagement	The profile of cost recovery is supported by the business plan, which states that current RCV run off pushes cash back and so creates higher bills in 2020-30. However, the level of PAYG recovery in 2020-25 used in the survey is not consistent with recovery in 2015-20.	Partial Pass
Proportionality	The change to PAYG will bring forward around 2% of revenue and is less than the revenue deferred under current RCV run off levels compared to long term depreciation rates. However, the company propose using PAYG	Partial Pass

Area assessed	Commentary	Our final assessment
	rather than RCV run off to make these changes, which may raise issues for future business plans.	
Evidence of net benefits	The company proposal provides a better alignment of bill profiles and customer preferences.	Pass
Overall	We have accepted Yorkshire Water's proposal to smooth bills over the 2015-30 period. However, we have adjusted the RCV run-off rather than PAYG to achieve this to better reflect long-term sustainable rates.	Pass

Table A6.8 sets out the PAYG and RCV run-off rates. It shows the revenue that has been brought forward compared to the December plan and the impact that this has on RCV growth and longer-term affordability and financeability.

Table A6.8 Impact of changes in cost recovery rates on RCV growth

	PAYG rate	RCV run-off	RCV growth (%) – 1 Apr 2015 to 31 Mar 2020
Company December plan	55.8%	3.2%	6.1%
Company June plan	58.2%	3.7%	1.4%
Draft determination	56.2%	3.2%	11.0%
Final determination	56.2%	3.6%	9.3%

A6.6 Affordability

We set out our approach to assessing affordability in policy chapter A8. Table A6.9 below sets out the change in household bill profile between the company's December and June business plans, and the draft and final determination. Overall, the final determination leads to a reduction in bills in 2015-20. Within the final determination we have reprofiled bills so that there is a large reduction in the first year followed by flat bills – this is consistent with customer preferences as set out in Yorkshire Water's customer research.

Table A6.9 Household bill profile

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Company December plan	351	351	351	351	351	351
Company June plan	351	351	351	351	351	351
Ofwat calculation for June plan	353	352	354	354	352	352
Ofwat calculation for draft determination – pre-reprofiling	353	337	328	332	338	354
Ofwat calculations for draft determination	353	338	338	338	337	336
Ofwat calculations for final determination	353	344	344	344	344	344

Companies have not necessarily used the same method of calculating household bills as Ofwat – for example, we have included economies of scope for household retail when calculating combined water and sewerage bills. So the Ofwat calculations are not directly comparable to the company plans (lines 1 and 2 of table A6.9).

The following text sets out the reasons why this final determination is assessed as affordable. It describes key changes in relation to Yorkshire Water's December business plan (which we also assessed as affordable).

A6.6.1 Acceptability

Table A6.10 Ofwat response to representations

Respondent	Summary of comment	Ofwat response
CCWater ¹	CCWater conducted research on the acceptability of the draft determination to customers. CCWater did not seek to produce comparable results to the company. The CCWater research suggests 58% of customers find the	We note that the CCWater research was not intended to be comparable. It has produced a significant difference to the research that the company undertook on its revised business plan, which was that 77% found the plan acceptable. The company's plan has been developed with input from its CCG. The CCG's role was to help ensure

Respondent	Summary of comment	Ofwat response
	draft determination acceptable after they have been provided with information on bills, inflation and what the water company will deliver.	the business plan reflected the views and priorities of customers. We have reviewed the company's acceptability research, which included reviewing the transparency and accuracy of the bill and inflation information. We consider that the acceptability level that the company reported is sufficiently robust. We also consider that the CCWater survey results indicate the importance of continued engagement with customers.

Note:

1. CCWater acceptability results sourced from final version of 'Customers' views on Ofwat's draft determinations for process and service 2015-20' October 2014.

Yorkshire Water's customer engagement, carried out in support of its December submission, found that the business plan was considered acceptable by 77% of its customers. In its June submission, the company's proposed average bills across 2015-20 were unchanged, at £351, from those in the December submission. There was no evidence that there had been any reduction in the scope or scale of the service package being offered.

Following the draft determination, Yorkshire Water carried out further research which provided evidence that its customers support an amended bill profile lower than the level in the revised (June) business plan. On the basis of this research, in its representation to the draft determination, the company proposed average annual bills of £344 over 2015-20, which equates to a real reduction of around 2% compared to its revised (June) business plan.

A6.6.2 Identification of affordability issues and appropriate support measures

The company has a comprehensive range of affordability measures in place, and outlines in its business plan how it is proposing to both increase the coverage of these schemes and add new initiatives. The key measures are summarised in table A6.11.

Table A6.11 Key affordability measures

Measure	Current coverage (no of customers)	Forecast 2019-20 coverage
WaterSure	5,415	8,000

Measure	Current coverage (no of customers)	Forecast 2019-20 coverage
Water direct	35,746	35,000
Flexible payment plans	19,957	20,000
Debt advice – in house	135,000	135,000
Debt advice – 3rd party	300	600
Trust fund/hardship fund	2,149	2,200
Write-off scheme (resolve)	5,302	5,500
Water efficiency advice/audits	28,000	35,000
Social tariff	New	10,000

A6.6.3 Longer-term affordability

In its December plan, the company adjusted its cost recovery tools in order to provide a stable bill profile for customers. We concluded that while the company provided sufficient evidence to demonstrate the overall affordability of its plan, there was insufficient evidence that the company had engaged with customers on affordability issues post 2020.

In its June business plan, the company explained that accepting the lower allowed return had necessitated amendments to PAYG and RCV run-off ratios to ensure the plan remained financeable on the basis of its actual (rather than notional) financeability. In the draft determination we adjusted PAYG/RCV run-off because it is inappropriate to use the PAYG/RCV run off tools to address actual financeability.

Following the draft determination, Yorkshire Water explained that it had made further adjustments to its PAYG rates to reflect customer preferences for bills over the 2015-30 period. Yorkshire Water's proposals pass our assessment criteria, see table A6.7. We consider that this is consistent with longer term affordability as the change will reduce the amount of revenue recovered after 2020.

A6.6.4 Longer-term affordability – ODIs

The company revisited its package of ODIs for the June submission, in accordance with our risk and reward guidance. It carried out new customer research to test customer support for the proposed package of rewards and penalties. The research

found that, overall, customers expressed support for the proposals when presented alongside likely bill impacts (taking effect after 2020).

In the draft determination, we set out changes to the ODI package put forward by the company. Yorkshire Water provided representations on some of our changes to the ODI package.

Yorkshire Water's CCG has reviewed the company's updated approach to ODIs, as outlined in its representation, and expresses broad support. We have revised the ODI package taking into account the representations.

Annex 1 Wholesale costs

Establishing final determination thresholds

Our approach to establishing final determination thresholds is outlined in policy chapter A3.

In the tables below, we provide some information on the company-specific numbers that support these calculations.

Further information about our assessment of each claim is set out in the populated version of final determination initial cost threshold models.

Table AA1.1 Movement from basic cost threshold to final determination threshold for wholesale water totex (£ million)

Basic cost threshold	Policy additions ¹	Unmodelled costs adjustment	Deep dives	Final determination threshold	Deep dives fully or partially not added ²
1,369.7	238.1	-12.2	-35.2	1,560.5	None

Notes:

1. See Table AA1.2 below.

2. Deep dives are net of implicit allowances. A value of zero means deep dives are wholly covered by IAs.

Table AA1.2 Policy additions to the wholesale water basic cost threshold (£ million)

Business rates	Pension deficit payments	Third party costs	Open market costs	Net v gross adjustments	Total
181.4	22.7	32.5	1.4	0.0	238.1

Table AA1.3 Comparison of company wholesale water totex with the final determination threshold and 2010-15 totex (£ million)

Plan ¹	Final determination threshold	Gap ²	2010-15 v Plan
1,486.6	1,560.5	-73.9	51.6

Note:

1. Where the company's business plan total has been adjusted by the company as part of its representations on its draft determination, this is reflected here.

2. This gap will not equal the deep dives fully or partially not added in Table AA1.1 if the company's claims for special treatment in the costs thresholds are not equal to the gap.

Table AA1.4 Summary of wholesale water deep dive assessments (£ million)

Company proposal		Assessment				Final determination allowance	
Claim	Amount sought	Implicit allowance	Need	Cost-benefit analysis	Robust costs	Assessment	Amount allowed
Deep dives							
Ofwat adjustment: Updating exogenous variables for the final Water Resource Management Plan	0.0	0.0	N/a	N/a	N/a	N/a	-35.2

Table AA1.5 Movement from basic cost threshold to final determination threshold for wholesale wastewater totex (£ million)

Basic cost threshold	Policy additions ¹	Unmodelled costs adjustment	Private sewage pumping stations	NEP5	Update to private sewer model delta	Deep dive	Final determination threshold	Deep dives fully or partially not added
1,642.6	127.0	0.0	20.7	179.6	0.7	0.0	1970.6	17.6

Notes:

1. See Table AA1.6 below.
2. Deep dives are net of implicit allowances. A value of zero means deep dives are wholly covered by IAs.

Table AA1.6 Policy additions to the wholesale wastewater basic cost threshold (£ million)

Business rates	Pension deficit payments	Third party costs	Open market costs	Net v gross adjustments	Total
95.7	29.7	0.0	1.6	0.0	127.0

Table AA1.7 Comparison of company wholesale wastewater totex with the final determination threshold and 2010-15 totex (£ million)

Plan ¹	Final determination threshold	Gap ²	2010-15 v Plan
1,976.0	1,970.6	5.4	161.4

Notes:

1. Where the company's business plan total has been adjusted by the company as part of its representations on its draft determination, this is reflected here.

2. This gap will not equal the deep dives fully or partially not added in Table AA1.5 if the company's claims for special treatment in the costs thresholds are not equal to the gap.

Table AA1.8 Summary of wholesale wastewater deep dive assessments (£ million)

Company proposal		Assessment				Final determination allowance	
Claim	Amount sought	Implicit allowance	Need	Cost-benefit analysis	Robust costs	Assessment	Amount allowed
Deep dives							
NEP Phase 5	200.4	0.0	Pass	Pass	Partial Pass	Pass	179.6
Withernsea WwTW relocation	17.6	0.0	Pass	Fail	Fail	Fail	0.0

Annex 2 Household retail

Details on our assessment of proposed adjustments to the ACTS

Our approach to setting the industry ACTS is outlined in policy chapter A5.

Below we provide information on our assessment of the company-specific adjustments to the ACTS.

Input price pressure – Summary

- In its revised business plan, Yorkshire Water sought an adjustment for input price pressure of £18.7 million over 2015-20.
- We accepted the company's proposal for input price pressure in the draft determination.
- Our position is unchanged at final determination.

Input price pressure – Our final assessment

Materiality

The company's proposed adjustment of £18.7 million is material, at 6.6% of household retail operating expenditure plus depreciation over 2015-20.

Beyond efficient management control

Yorkshire Water's evidence on management practices is sufficient and convincing. Yorkshire Water provided evidence on how staff and other costs (for example, bill printing costs) are managed within its business that convinced us that it uses efficient management practices. The company has demonstrated that the input price pressure it faces is beyond efficient management control.

Impact company in materially different way

Yorkshire Water's evidence on relative efficiency, including benchmarking, is sufficient and convincing. The company provided a range of benchmarking evidence using a variety of benchmarking methods including comparisons outside of the water sector. Also, our assessment for ACTS within the water sector suggests that Yorkshire Water is upper quartile efficient for unmetered retail costs (but not for

metered costs). The company has demonstrated that it is affected by these costs in a materially different way to the average company.

Value of proposed adjustment

We have not based the value of the adjustment on RPI indexation, as in previous controls. The size of the requested adjustment is instead calculated bottom up from inflation rates for different cost areas by Yorkshire Water. The approach appears reasonable and results in a low rate of unavoidable price increases (1.78% per year).

We have therefore accepted the full value of the adjustment proposed by Yorkshire Water, as opposed to RPI indexation. There were no further representations on this issue and our position for the final determination is unchanged.

Table AA2.1 Household retail adjustments (£ million, nominal prices)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Adjustments proposed in Yorkshire Water's June business plan						
Input price pressure	1.781	2.717	3.695	4.719	5.787	18.699
Pension deficit repair costs	1.290	1.277	1.324	1.196	1.077	6.164
Adjustments included in business plan	3.071	3.994	5.019	5.915	6.864	24.863
Adjustments included in draft determination						
Input price pressure	1.781	2.717	3.695	4.719	5.787	18.699
Pension deficit repair costs	1.008	1.008	1.008	1.008	1.008	5.040
Adjustments included in business plan	2.789	3.725	4.703	5.727	6.795	23.739
Adjustments proposed in Yorkshire Water's representations						
Input price pressure	1.781	2.717	3.695	4.719	5.787	18.699
Pension deficit repair costs	1.008	1.008	1.008	1.008	1.008	5.041
Adjustments included in business plan	2.789	3.725	4.703	5.727	6.795	23.740

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Adjustments included in final determination						
Input price pressure	1.781	2.717	3.695	4.719	5.787	18.699
Pension deficit repair costs	1.008	1.008	1.008	1.008	1.008	5.040
Adjustments included in final determination	2.789	3.725	4.703	5.727	6.795	23.739

Note: There will be no automatic indexation for retail price controls to RPI.

Household retail revenue modification

We outline our approach to revenue modification in policy chapter A5.

Table AA2.2 sets out the amount per customer, by customer type, that allowed revenues will be modified if outturn customer numbers differ from forecast customer numbers. Table AA2.3 sets out the baseline number of customers.

Table AA2.2 Household retail allowed revenue modification factors by class of customer (£/customer)

Revenue modification per:	2015-16	2016-17	2017-18	2018-19	2019-20
Unmetered water only customer	19.38	19.74	20.11	20.48	20.84
Unmetered wastewater only customer	19.38	19.74	20.11	20.48	20.84
Unmetered water and wastewater customer	25.19	25.66	26.14	26.62	27.09
Metered only water customer	24.90	25.25	25.64	26.04	26.48
Metered wastewater only customer	25.36	25.43	25.30	25.16	25.52
Metered water and wastewater customer	31.76	32.26	32.78	33.35	33.92

Note: There will be no automatic indexation for retail price controls to RPI.

Table AA2.3 Assumed number of customers for household retail total revenues (000s)

Number of customers	2015-16	2016-17	2017-18	2018-19	2019-20
Unmetered water only	55.3	53.1	50.6	48.3	46.2
Unmetered wastewater only	65.8	63.2	60.3	57.6	55.1
Unmetered water and wastewater	946.1	908.3	866.8	827.1	791.2
Metered water only	47.7	50.3	53.4	56.4	59.3
Metered wastewater only	48.8	51.5	54.6	57.7	60.7
Metered water and wastewater	966.2	1019.2	1080.3	1141.9	1201.5

Annex 3 Reconciling 2010-15 performance

When we last set price controls at PR09, we included a number of incentive mechanisms designed to encourage companies to improve and deliver services more efficiently, and to manage uncertainty. Consistent with the approach set out at the time of the final determinations in 2009 we have made adjustments at this price review (PR14) to 2015-2020 revenues to take account of company performance in the 2010-2015 period.

We set out our methodology for calculating the adjustments to 2015-20 wholesale price controls resulting from the company's actual performance during the 2010-15 period in policy chapter A4.

In this annex, we set out the final determination adjustments to 2015-20 price controls for Yorkshire Water resulting from the company's actual performance during the 2010-15 period.

As part of the final determination of the 2010-15 adjustments we have undertaken detailed calculations within our models for the RCM, OIA, CIS and serviceability shortfalls. While we provide an explanation of our interventions within this annex, each model contains the detail of the specific calculation.

We make a "midnight adjustment" to the closing RCV from the previous period (ending on 31 March 2015) to obtain the opening RCV for the next period (starting on 1 April 2015). Our detailed calculations are contained within the RCV midnight adjustment model published alongside these final determinations.

In this annex we provide an overview – comparing the company's view of the required revenue adjustments included in its revised business plan for each of the incentive tools for water and wastewater services, with our own view. We then consider each adjustment mechanism in turn.

Consideration of representations on our draft determinations

In policy chapter A1, we provide a list of the respondents to the draft determinations published in April, May and August of this year. We have fully considered all of the responses received, and where appropriate, we have made adjustments to either our industry-wide approach or company-specific interventions.

Where representations have addressed issues that are common to a number of companies, these comments and any consequential changes to our approach are discussed in policy chapter A4. Representations that are specific to reconciling 2010-15 performance for Yorkshire Water, and any consequential impact on our final determination, are summarised in the table below.

Table AA3.1 Representations specific to reconciling 2010-15 performance for Yorkshire Water

Area	Respondent	Summary of comment	Ofwat response
SIM	There were no representations in this area.		
RCM	There were no representations in this area.		
OIA	There were no representations in this area.		
Change protocol	Yorkshire Water	<p>Sewer flooding logging down</p> <p>Information provided in the company's representation and a subsequent query response, suggested that delivery of the sewer flooding programme could be at risk. This is due to more hydraulic additions to the flooding register than forecast for the period to the end of August, when the company reviewed and logged down outputs for its business plan submission.</p>	<p>The company's more detailed information regarding the number of outputs achieved and those still to be completed supports the company's logging down claim. We have accepted the logging down claim for the final determination. However, the company also confirmed that it would miss its net reduction target at the end of the year by 25 properties, so we have applied a new shortfall in the final determination.</p>

Area	Respondent	Summary of comment	Ofwat response
Service standard outputs	Yorkshire Water	<p>The company provided further information to demonstrate that the service standards relating to the retrofitting of automated meter reading equipment, East Coast pipeline resilience, odour from sewage, pollution and the Blue Flag Bathing Waters had been achieved and that its flood resilience service standard is scheduled to be completed by March 2015.</p> <p>The company also provided evidence to show that it had submitted a change protocol in 2011 in relation to renewable hydro and CHP schemes being delivered at single sites. This caused the schemes to become operational later than planned with lower operational savings achieved as a result.</p>	<p>Having considered the evidence provided in the company's representation, we are satisfied that the service standard outputs will all be achieved by March 2015 and will therefore not apply a shortfall.</p> <p>However, we require the company to provide evidence in 2015-16 that the flood resilience service standard has been achieved.</p> <p>We have not applied a shortfall for the under-delivery of opex savings as this is reflected in any achieved OIAs.</p>

Area	Respondent	Summary of comment	Ofwat response
Serviceability performance	Yorkshire Water	Sewer blockages The company provided additional information to explain the performance of the sewer blockages indicator including an external assurance report examining the reasons for the increase in blockages since the transfer of private sewers in 2011.	The company's representation provides a reasonable explanation for the increase in blockages since the transfer of private sewers. We have therefore removed the shortfall applied in the draft determination. Our assessment of the company's specific representations, in relation to exclusions and mitigating circumstances is set out in table AA3.12.
	Yorkshire Water	Pollution incidents The company provided an updated view of its 2014-15 forecasts including for enhanced service levels.	We accept the company's updated performance information for 2014-15 which, combined with the enhanced service level forecast, is below the upper control limit and will achieve the end of the period target. We have therefore not applied a shortfall in the final determination. This is, however, conditional upon the enhanced service level target being achieved and so we may consider a shortfall when we review serviceability performance in 2015 once actual data is available for the whole 2010-15 period. Any shortfalls arising from this review will be applied at the next price control.

Area	Respondent	Summary of comment	Ofwat response
	Yorkshire Water	<p>Sewage treatment numeric non-compliance</p> <p>The company provided evidence to show that there have only been two numeric compliance failures to date in 2014.</p>	We accept the company's position and have not intervened. This is conditional upon performance in 2014-15 being improved to the reference level. We may consider a shortfall when we review serviceability performance in 2015 once actual data is available for the whole of 2010-15 period.
2009 agreed overlap programme	There were no representations in this area.		
2014-15 transition programme	There were no representations in this area.		
CIS	There were no representations in this area.		As explained in policy chapter A4, we have corrected a minor error in the CIS model for all companies with respect to the discount rate used when calculating the future value of the revenue adjustment in the 2010-15 period. This minor change had no material impact of the final revenue adjustments.
Other adjustments	There were no representations in this area.		

Summary of 2010-15 adjustments

All companies were required to submit their own adjustments for the reconciliation of the 2010-15 incentives. Table AA3.2 below sets out for each of the incentive tools for water and wastewater services:

- the company's view of the required revenue adjustments included in its revised business plan; and
- our view.

Our view reflects our understanding of the company's performance using these incentives, based on information provided in its revised business plan, subsequent query responses and representations on our draft determinations. The table also shows other adjustments, such as those relating to tax resulting from the company's actual performance during the 2010-15 period.

Table AA3.1 notes the comments that we have received that are specific to this aspect of the wholesale water and wastewater controls for Yorkshire Water and outlines how any interventions in the company's adjustments have been influenced by our consideration of these responses.

The main changes we have made in the final determination compared to our draft determination are:

- revising our adjustment to the RCV for actual expenditure in 2009-10; and
- moving to using the post-tax cost of capital as the discount rate when calculating the future value of revenue adjustments in the CIS.

In addition, we have also applied a shortfall for sewer flooding outputs and removed the serviceability shortfall for sewer blockages we had applied in Yorkshire Water's draft determination.

Table AA3.2 Revenue adjustments 2015-20 (£ million)

	Water service		Wastewater service	
	Company view	Ofwat view	Company view	Ofwat view
SIM	0.000	0.000	0.000	0.000
RCM	50.585	50.915	55.060	55.106

	Water service		Wastewater service	
	Company view	Ofwat view	Company view	Ofwat view
OIA – post-tax	16.043	13.568	0.651	0.000
CIS	17.600	16.648	17.736	6.849
Tax refinancing benefit clawback	0.000	0.000	0.000	0.000
Other tax adjustments	0.000	0.000	0.000	0.000
Equity injection clawback	0.000	0.000	0.000	0.000
Other adjustments	0.000	0.000	0.000	0.000
Total wholesale legacy adjustments	84.227	81.131	73.447	61.954

Note:

For the CIS mechanism, there is a corresponding adjustment to the RCV made at 1 April 2015 (part of the 'midnight' adjustments'). The impact on the RCV for both water and wastewater can be seen in table AA3.16. This adjustment is net of any logging up, logging down or shortfalls. A full reconciliation showing all of the midnight adjustments to the RCV, including the impact of logging up, logging down and shortfalls, can be seen in Table A2.6 and Table A3.6. Totals may not add up due to rounding.

Adjustments by 2010-15 incentive mechanism

RCM

This final determination includes our view of the company's RCM annualised adjustment amounts as detailed in Table AA3.3 below. Table AA3.4 summarises our interventions in relation to Yorkshire Water's proposed 2010-15 RCM adjustments.

For the RCM, we apply the vanilla wholesale allowed return (real, pre-tax cost of new debt, post-tax cost of equity) as the PR14 discount rate. For the final determination, the updated PR14 discount rate is 3.6%. This has contributed to a small movement in the RCM from the draft determination.

Table AA3.3 RCM annualised adjustments for 2015-20 (£ million)

		2015-16	2016-17	2017-18	2018-19	2019-20	Total
Water	Company view	10.117	10.117	10.117	10.117	10.117	50.585

		2015-16	2016-17	2017-18	2018-19	2019-20	Total
	Ofwat view	10.183	10.183	10.183	10.183	10.183	50.915
Wastewater	Company view	11.012	11.012	11.012	11.012	11.012	55.060
	Ofwat view	11.021	11.021	11.021	11.021	11.021	55.106

Table AA3.4 Interventions on proposed 2010-15 RCM adjustments

Area of intervention	What we did	Why we did it
FD09 assumptions – Measured non-household's revenue for the measured non-household group immediately above and below the 50 megalitre (ML) threshold	<p>Our assumptions for the final determination include our view of the FD09 assumptions.</p> <p>Our view of the company's revenue assumptions for the measured non-household group immediately below and above the 50 ML tariff basket threshold originate from the company's FD09 revenue forecasts that come from the tariff basket model, which we used for PR09.</p>	<p>There are differences between the company's and our view of the FD09 assumptions used in the populated RCM model. The company applied different assumptions for 'FD09 measured non-household's revenue for the measured non-household group immediately above and below the 50ML threshold' compared with our view of its FD09 assumptions.</p> <p>Our assumptions for the final determination include the FD09 revenue forecasts as contained in the PR09 tariff basket model in accordance with our published methodology 'Setting price controls for 2015-20 – further information on reconciling 2010-15 performance'.</p>
Number of non-households billed	Our assumptions for the final determination use the data the company submitted in business plan tables W17 and S17 to calculate our view of the RCM adjustment.	There were inconsistencies with the number of non-households billed between business plan tables W17 and S17 and the company's populated RCM model. Our assumptions for the final determination apply the data from W17 and S17.

OIA

Table AA3.5 below summarises the company's view and our view of the incentive allowances for 2015-20. There are no changes from our draft determination. Table AA3.6 summarises our interventions in relation to Yorkshire Water's proposed 2010-15 OIA adjustments.

Table AA3.5 OIAs for 2015-20 (£ million)

		2015-16	2016-17	2017-18	2018-19	2019-20	Total
Water service							
Incentive allowance (post-tax)	Company view	6.938	4.552	4.552	0.000	0.000	16.043
	Ofwat view	6.113	3.727	3.727	0.000	0.000	13.568
Wastewater service							
Incentive allowance (post-tax)	Company view	0.651	0.000	0.000	0.000	0.000	0.651
	Ofwat view	0.000	0.000	0.000	0.000	0.000	0.000

Table AA3.6 Interventions on proposed 2010-15 OIA adjustments

Area of intervention	What we did	Why we did it
Other adjustments in 2013-14 for equipment reliability and serviceability (both services)	We have not accepted Yorkshire Water's proposed adjustments and have added back in the values of £1.1m to actual water opex and £4.2m to actual sewerage opex in 2013-14.	Our view is that costs associated with stabilising key serviceability measures should not be treated as exceptional, but are business as usual and should be included in base opex.

Change protocol (logging up, logging down and shortfalls)

Table AA3.7 and Table AA3.8 below summarise Yorkshire Water's view and our baseline view of total adjustments to:

- capex included in the CIS reconciliation; and
- the FD09 opex assumptions used in the calculation of the opex incentive revenue allowances.

The only change from our draft determination relates to the inclusion of a shortfall for sewer flooding.

Table AA3.9 summarises our interventions in relation to Yorkshire Water's proposed change protocol adjustments.

Table AA3.7 Summary of post-efficiency capex for logging up, logging down and shortfalls included in the CIS reconciliation (£ million)

2009-10 to 2014-15 – post-efficiency capex	Water service		Wastewater service		Total service	
	Company view	Ofwat view	Company view	Ofwat view	Company view	Ofwat view
Logging up (two-sided)	0.000	0.000	28.294	28.294	28.294	28.294
Logging down (two-sided)	0.000	0.000	-47.495	-42.272	-47.495	-42.272
Shortfalls (one-sided)	0.000	0.000	0.000	-3.602	0.000	-3.602

Note:

We exclude shortfalls for serviceability from the CIS reconciliation, but instead make direct adjustments to the RCV in 2015-16. We do this to allow the actual capex the company incurred in seeking to maintain serviceability, to be reflected in the rewards or penalties earned through the scheme. But to also ensure customers are not required to pay for any regulatory output the company has failed to deliver.

Table AA3.8 Summary of post-efficiency opex for logging up, logging down and shortfalls included in the OIA calculation (£ million)

2009-10 to 2014-15 – post-efficiency opex	Water service		Wastewater service		Total service	
	Company view	Ofwat view	Company view	Ofwat view	Company view	Ofwat view
Logging up	0.000	0.000	18.711	18.711	18.711	18.711
Logging down	0.000	0.000	-0.673	-0.673	-0.673	-0.673
Shortfalls	0.000	0.000	0.000	0.000	0.000	0.000
Shortfalls for serviceability	0.000	0.000	0.000	0.000	0.000	0.000

Table AA3.9 Interventions on proposed 2010-15 change protocol adjustments

Area of intervention	What we did	Why we did it
DG5 sewer flooding (1 in 10 and 2 in 10) – logging down	<p>For the purposes of the draft determination we logged down 164 solutions – this is made up of the 517 required outputs minus the 353 forecasted by the company. The amount of the log down was calculated from a unit cost value using both the known and ‘additions’ programmes. Information provided by the company in its representations suggested that delivery might be at risk. We queried this and asked the company to provide further detail. We reassessed this logging down claim in light of the updated information provided by the company. For the purposes of the final determination we are still logging down 164 solutions. This is the same value in terms of capex since this is based on a unit cost rate, although the rationale for the logging down has changed.</p>	<p>We raised a query with Yorkshire Water regarding the company’s ability to meet the net reduction. The company response included more detailed information regarding the number of outputs achieved and those still to be completed. We have assumed that the company will complete 328 solutions in 2010-15. This includes 250 completed in years 1 to 4, 94 forecast to be completed by the end of year 5, 19 completed in AMP4 (which were over and above the AMP4 requirements for net reduction) less 35 properties which are due to be completed in 2015 but are still at the design and feasibility stage.</p> <p>The required output of 517 solutions, less the forecast 328 solutions, results in a log down of 189. We have, however, reduced this figure by 25 to reflect the shortfall already applied for net reduction. Therefore, we have logged down 164 outputs. The amount of the log down is calculated from a unit cost value using both the known and ‘additions’ programmes. Therefore, the value of the logging down remains unchanged because the net effect of the updated information provided by the company still results in a variance of 164 solutions; the same number of solutions logged down for the purposes of the final determination.</p>

Area of intervention	What we did	Why we did it
Sewerage supply demand: sewerage new development – logging down	We have not accepted the company's proposed claim for sewerage new development.	The company did not follow change protocol guidance in its calculation methodology. Trivial claims were submitted and claims were considered across programme areas and drivers. We have, however, assessed the claim. The claim has been considered alongside the claim for properties connected to mains sewerage. We have assessed this claim together with the grants and contributions claim. We have used the values provided by the company and determined the net effect on capex to be £5.7 million in pre-efficiency terms. When considered in this way, which is in line with change protocol guidance, the claim is a logging up claim and the variance is trivial. We have not accepted the claim on this basis. It is not in the interest of customers to accept logging up claims that are trivial.
Sewerage supply demand: properties connected to mains sewerage – logging down	We have not accepted the company's proposed claim for properties connected to mains sewerage.	The company did not follow change protocol guidance in its calculation methodology. Trivial claims were submitted and claims were considered across programme areas and drivers. We have, however, assessed the claim. The claim, which considers variances to grants and contributions only, has been considered alongside the claim for sewerage new development. We have used the values provided by the company and determined the net effect on capex to be £5.7 million in pre-efficiency terms. When considered this way, which is in line with change protocol guidance, the claim is a logging up claim and the variance is trivial. We have not accepted the claim on this basis. It is not in the interest of customers to accept logging up claims that are trivial.

Area of intervention	What we did	Why we did it
Sewer flooding: required net reduction in properties – shortfall	We have raised a shortfall of -£3.6 million for the company's failure to meet the net reduction in number of properties (sewer flooding) as stipulated in FD09.	<p>In its representations the company stated that severe rainfall in August flooded additional properties. As a result it was not clear that the required net reduction would be met although the company stated it was still possible. We raised a query asking the company for further information about the August event and the consequences.</p> <p>The company responded that it expected 159 properties to be on the register at the end of the period. This would result in the company missing its net reduction by 25 properties. The company delivered a net reduction in 2005-10, which was 19 more than required. The company also stated that current investigations might demonstrate that the recently flooded properties should not be on the register. We do not consider this to be a valid evidential base. In order to protect customers we have applied an intervention (shortfall) as the net reduction is measured against the number of properties on the register at the start of the period. We are therefore applying a shortfall representing 25 properties.</p>

We have not intervened in the following company claims:

- Private to public sewers (logging up – sewerage service).
- Knostrop STW – F1a scheme (logging down – sewerage service).
- Sludge environmental permitting regulations (logging down – sewerage service).
- First time sewerage (logging down – sewerage service).

Service standard outputs

Service standards are regulatory outputs that we set out in the 2009 final determination (FD09) supplementary reports⁴. Where companies have not reported progress on these service standards before submitting business plans, we would have expected them to do so within the price review process.

Having considered the evidence provided in the company's representation and responses to queries, we are satisfied that the service standard outputs relating to the retrofitting of automated meter reading equipment, East Coast pipeline resilience, odour from sewage, pollution and the Blue Flag Bathing Waters had been achieved. The company's flood resilience service standard at Moor Monkton Raw Water Pumping Station is scheduled to be completed by March 2015. For this output, we will require the company to provide evidence in 2015-16 that the service standard has been achieved.

We have not applied a shortfall for the under-delivery of opex savings as this is reflected in any achieved OIAs.

Serviceability performance

Table AA3.10 below summarises our serviceability assessments for Yorkshire Water and Table AA3.11 quantifies the value and impact of any serviceability shortfall on the RCV. Table AA3.12 summarises our interventions in relation to Yorkshire Water's proposed adjustments for serviceability.

The only change from our draft determination relates to the removal of the shortfall for sewer blockages.

⁴In the final determination supplementary reports we said: "Both the project activity (as proposed in your final business plan) and the service standard are the defined output. You must demonstrate delivery of the stated service standard output through the June return. We recognise that companies may decide to prioritise activity differently in order to achieve the service output in a more efficient manner. All material changes to the project activity must be reported and explained through your June return."

Table AA3.10 Serviceability assessments for 2010-15

		2010-11	2011-12	2012-13	2013-14	2014-15
Water infrastructure	Company view	Marginal	Marginal	Stable	Stable	Stable
	Ofwat view	Marginal	Marginal	Stable	Stable	Stable
Water non-infrastructure	Company view	Stable	Stable	Stable	Stable	Stable
	Ofwat view	Stable	Stable	Stable	Stable	Stable
Wastewater infrastructure	Company view	Stable	Stable	Stable	Stable	Stable
	Ofwat view	Stable	Stable	Stable	Stable	Stable
Wastewater non-infrastructure	Company view	Stable	Stable	Stable	Stable	Stable
	Ofwat view	Stable	Stable	Stable	Stable	Stable

Note:

Assessments are based on actual and forecast performance submitted in the company's revised business plan. Assessments for 2014-15 are based on forecast data and are subject to review once actual performance data becomes available.

Table AA3.11 Impact of serviceability shortfalls on the RCV (£ million)

2009-10 to 2014-15		Water	Wastewater	Total
Amount subtracted from RCV	Company view	0.0	0.0	0.0
	Ofwat view	0.0	0.0	0.0

Table AA3.12 Interventions on proposed 2010-15 serviceability adjustments

Area of intervention	What we did	Why we did it
Sewer blockages	<p>For the final determination we have removed the £2.2 million (post efficiency) shortfall applied at the draft determination. This is conditional upon the performance in 2014-15 being improved to a position such that it could be considered as stable. We will consider a shortfall adjustment if this is not achieved. Serviceability performance in 2014-15 is due to be reviewed in 2015 once data is available for the whole of the 2010-15 period. Any shortfalls arising from this review will be applied at the next price control.</p>	<p>The company provided additional evidence to demonstrate that the increase in sewer blockages since the transfer of private sewers in 2011 can be partly attributed to customers who mistakenly believed prior to the transfer that they were responsible for their sewers (and therefore did not historically report problems to the company). We consider this to be a reasonable explanation for the increase in blockages seen since the transfer of private sewers. The company provided an effective evidence base to explain this hypothesis and provided external analysis and assurance. Excluding these additional blockages from the data results in performance below the upper control limit in all years of the 2010-15 period.</p> <p>However, serviceability is still considered to be marginal for this indicator and the company is encouraged to demonstrate a continued improvement in understanding the impact of the transfer of private sewers and how this varies beyond the initial transfer of responsibilities. We will require the company to demonstrate stable serviceability in 2014-15 including an update of its analysis of the impact of the transfer of private sewers. If stable serviceability is not achieved, we will consider a shortfall adjustment.</p>

Area of intervention	What we did	Why we did it
Pollution incidents (category 1, 2 and 3)	For the purposes of the final determination there is no intervention for this indicator. This is conditional upon the enhanced service level target being achieved by the end of 2014-15. We will consider a shortfall adjustment if this is not achieved. Serviceability performance in 2010-15 is due to be reviewed in 2015 once actual data is available for the whole of the period. Any shortfalls arising from this review will be applied at the next price control.	The company has not yet achieved the enhanced service level for this indicator. The company forecasts it will achieve this in 2014-15. If this target is not achieved we will consider a shortfall adjustment.
Sewage treatment works numeric non-compliance	For the purposes of the final determination there is no intervention for this indicator. This is conditional upon the performance in 2014-15 being improved to a position such that it could be considered as stable. We will consider a shortfall adjustment if this is not achieved. Serviceability performance in 2010-15 is due to be reviewed in 2015 once actual data is available for the whole period. Any shortfalls arising from this review will be applied at the next price control.	The company has had two breaches of the upper control limit in 2011-12 and 2012-13. Performance has improved in the last year but has remained above the reference level. The company has forecast 2014-15 to outturn at the reference level, which is based on nine months performance for the 2014 calendar year. We require the company to demonstrate stable serviceability in 2014-15. If this is not achieved, we will consider a shortfall adjustment.

The 2009 agreed overlap programme

As the company did not propose an overlap programme at PR09, our 2009 final determination did not contain any agreed projects that would need to be reviewed in this price review. Therefore, we have not assessed any scheme progress or costs under this mechanism.

The 2014-15 transition programme

Table AA3.13 below confirms Yorkshire Water's proposed transition programme. There are no interventions in this area.

Table AA3.13 Transition programme in 2014-15

Net capital expenditure	2014-15 (£ million)	Proportion of forecast in 2014-15	Proportion of capital programme in 2015-20
Water service	18.1	20.8%	2.6%
Wastewater service	16.5	11.1%	1.4%

CIS

Table AA3.14 provides details of the CIS ratios and performance incentive. It also gives the:

- monetary amounts of the CIS performance reward or penalty;
- true-up adjustment to 2015-20 allowed revenues; and
- adjustment to the opening RCV.

Table AA3.15 then sets out the profiled values of the revenue adjustments in each year in 2015-20, Table AA3.16 shows the components of the opening RCV which are included in the CIS adjustment, and Table AA3.17 summarises our interventions in relation to Yorkshire Water's proposals.

There are no representations in this area from Yorkshire Water. The only change from our draft determination relates to use of the post-tax cost of capital as the discount rate when calculating the future value of revenue adjustments.

Table AA3.14 CIS true-up adjustments

		Water service	Wastewater service	Total service
Restated FD09 CIS bid ratio ¹	Company view	99.531	93.286	N/a
	Ofwat view	99.531	92.841	N/a
Out-turn CIS ratio	Company view	88.507	87.483	N/a
	Ofwat view	88.479	87.830	N/a
Incentive reward/penalty (%) ²	Company view	3.493	4.315	N/a
	Ofwat view	3.502	4.189	N/a
Reward/penalty (£m)	Company view	25.993	51.104	77.098
	Ofwat view	26.064	49.417	75.481
Adjustments to 2015-20 revenue (£m) ³	Company view	16.964	17.096	34.060
	Ofwat view	16.063	6.608	22.671
RCV adjustment £m) ⁴	Company view	-109.186	-176.946	-286.132
	Ofwat view	-109.186	-176.946	-286.132

Notes:

1. The restated FD09 CIS bid ratio takes account of the adjustments for the change protocol (Table AA3.7)
2. The reward/(penalty) is adjusted for the additional income included in the 2010-15 determination and the financing cost on the difference between actual spend and capital expenditure assumed in the 2010-15 determination to derive the value of the adjustment to 2015-20 revenue.
3. The adjustments to 2015-20 revenue values shown in this table assume a single year adjustment in the first year, and do not include the NPV profiling used for the final determination.
4. In Table AA3.16 we show how the components of this agree to those shown in Table A2.6 and Table A3.6.

Table AA3.15 Profiled revenue adjustments from the CIS reconciliation (£ million)

		2015-16	2016-17	2017-18	2018-19	2019-20	Total
Water	Company view	5.655	5.864	6.081	0.000	0.000	17.600
	Ofwat view	5.354	5.547	5.747	0.000	0.000	16.648
Wastewater	Company view	5.699	5.910	6.128	0.000	0.000	17.736
	Ofwat view	2.203	2.282	2.364	0.000	0.000	6.849

Table AA3.16 CIS components of the opening RCV adjustment (£ million)

	Water service	Wastewater service
Adjustment for actual expenditure 2010-15	-109.186	-159.366
Net adjustment from logging up and logging down	0.000	-13.978
Adjustment for shortfalls	0.000	-3.602
RCV adjustment	-109.186	-176.946

Table AA3.17 Interventions on proposed CIS adjustments

Area of intervention	What we did	Why we did it
Methodology	We have used the post-tax basis of the PR09 cost of capital for the discount rate when calculating the future value of the revenue adjustment in the 2010-15 period.	As explained in policy chapter A4, we have corrected a minor error in the CIS model for all companies with respect to the discount rate used when calculating the future value of the revenue adjustment in the 2010-15 period. This minor change has no material impact on the final revenue adjustments.
Change protocol adjustments	In carrying out our assessment, we have included our view of the applicable change protocol amounts for wastewater.	We have applied Ofwat's published methodology.
Data inconsistencies	In carrying out our assessment, we have used the values from table A9.	We identified minor inconsistencies between the revised business plan table and the company's populated CIS model on the RPI for 2014-15.

Other adjustments

Table AA3.18 below confirms the assumptions included in this final determination with respect to the following revenue adjustments:

- tax refinancing benefit clawback;
- other tax adjustments;

- equity injection clawback; and
- other adjustments.

There are no changes for our draft determination and there are no interventions in this area.

Table AA3.18 Other revenue adjustments 2015-20 (£ million)

	Water service		Wastewater service	
	Company view	Ofwat view	Company view	Ofwat view
Tax refinancing benefit clawback	0.000	0.000	0.000	0.000
Other tax adjustments	0.000	0.000	0.000	0.000
Equity injection clawback	0.000	0.000	0.000	0.000
Other adjustments	0.000	0.000	0.000	0.000

Table AA3.19 below confirms the assumptions included in this final determination with respect to other adjustments to the opening RCV.

There are changes from our draft determination in relation to our adjustments for actual expenditure in 2009-10 and land sales.

Table AA3.19 Other adjustments to the opening RCV (£ million)

	Water service		Wastewater service	
	Company view	Ofwat view	Company view	Ofwat view
Land sales	0.000	-1.285	0.000	-1.797
2009-10 adjustment	0.000	2.323	0.000	-16.752
Other adjustments	0.000	0.000	0.000	0.000

Table AA3.20 Interventions on proposed adjustments to the opening RCV

Area of intervention	What we did	Why we did it
Land sales	We calculated land sales using the business plan sales figures in our RCV midnight adjustment model.	This provided a consistent approach with all companies.
2009-10 adjustment	We calculated the 2009-10 adjustment using the capex figures from the June return. For some companies there was an incomplete dataset with regard to historic grants and contributions, we have corrected this for final determination. This means that for those companies, the adjustment included in the draft determination overstated the positive impact on the RCV. After the correction, the actual net capex being used in the 2009-10 calculation for final determination is lower than that used in the draft determination.	This provided a consistent approach with all companies.

Annex 4 Outcomes, performance commitments and ODIs

We set out our methodology for PCs and ODIs in policy chapter A2.

In this annex we provide an overview of the PCs and ODIs for Yorkshire Water. We then set out in detail these PCs and ODIs for the company's wholesale water, wholesale wastewater and household retail outcomes, presented in that order.

The company has used a cost-sharing rate of 50% to calibrate the reward and penalty rates included in this annex. Companies are required to notify us of their menu choices by 16 January 2015. This might result in the company having a cost-sharing rate higher or lower than 50%. Once the company has chosen its position on the menu we are requiring it, in line with the methodology, to recalibrate its ODIs with the cost-sharing rate associated with that position, and provide us with the updated incentive rate calculations. The company must do this alongside their menu choice on 16 January 2015 so that the recalibrated ODIs can be included in the regulatory reporting framework for 2015-16.

However, we first consider the responses to our draft determinations in relation to the PCs and ODIs for Yorkshire Water.

Consideration of representations on our draft determinations

In policy chapter A1, we provide a list of the respondents to the draft determinations published in April, May and August of this year. We have fully considered all of the responses received, and where appropriate, we have made either consequential adjustments to our industry-wide approach or company-specific interventions.

Where representations have addressed issues that are common to a number of companies, these comments, and any consequential changes to our approach, are discussed in policy chapter A2. Representations that are specific to PCs and ODIs for Yorkshire Water, and any consequential impact on our final determination, are summarised in the tables below as follows.

- Tables AA4.1 and AA4.2 consider representations received on the interventions we proposed in our draft determination as a result of comparative assessments in six areas for wholesale water and wholesale wastewater respectively.
- Tables AA4.3 and AA4.4 consider representations received on the interventions we proposed in our draft determination as a result of our

company-specific assessments for wholesale water and wholesale wastewater respectively.

- Table AA4.5 considers representations received on the interventions we proposed in our draft determination as a result of our company-specific assessments for household retail.
- Table AA4.6 lists the PCs that were proposed by companies but that have been removed as part of our final determination.
- Table AA4.7 lists PCs excluded from the commentary tables above because we received no representations on them and we made no interventions at draft determination or through the comparative assessments.

Table AA4.1 Representations specific to the comparative assessments on wholesale water

PC/ODI affected	What we did at draft determination/subsequent comparative assessments	Representations	What we did at final determination	Why we did it
WA1: Drinking water quality	<p>Increased the PC level to 100% from 2017-18.</p> <p>Penalty deadband increased to 99.96% from 2017-18.</p> <p>Penalty collar increased to 99.949% from 2017-18 in order to maintain penalty range as in Yorkshire Water's submission.</p>	<p>Yorkshire Water accepts the PC of 100% from year 3 onwards, and the move to mean zonal compliance as the measure of success, but proposes to lower the penalty deadband to 99.930% due to the risk of not meeting the PC from metaldehyde contamination of raw water sources.</p> <p>The CCG is concerned that it does not see that improvements in drinking water quality can be achieved without significant investment and although this is a customer priority they have indicated that they do not want to pay more.</p> <p>CCWater accepts that weather and metaldehydes</p>	<p>Lowered the penalty deadband from 99.960% to 99.950% from 2017-18.</p> <p>Reduce the penalty collar from 99.949% to 99.939% from 2017-18.</p>	<p>We revised our comparative assessment for final determinations based on stakeholder representations on all companies' draft determinations, including those on Yorkshire Water's draft determination. Overall the impact of our updates is to lower the penalty deadband slightly.</p>

PC/ODI affected	What we did at draft determination/subsequent comparative assessments	Representations	What we did at final determination	Why we did it
		may affect Yorkshire Water's ability to deliver this PC, but wants it to keep this high in its plans, as it is a key consumer concern.		
WA3: Drinking water complaints (taste, odour and discolouration)	<p>Tightened PC level to 6,067 complaints from 2017-18 with linear glidepath in intervening years.</p> <p>Tightened reward deadband to 6,067 complaints in 2015-16 and 2016-17 and removed thereafter.</p> <p>Tightened penalty deadband to 8,427 complaints in 2015-16 and 2016-17 and removed thereafter.</p> <p>Adjusted caps and collars to maintain Yorkshire Water's proposed penalty and reward ranges.</p>	<p>Yorkshire Water accepts the change to the definition of the measure but is concerned that these changes have introduced significantly greater levels of risk of not meeting the PC for companies reliant upon peaty upland raw water sources, which it says is not reflected in its costs.</p> <p>CCWater accepts that weather and metaldehydes may affect Yorkshire Water's ability to deliver this PC but want it to keep this high in its plans, as it is a key consumer concern.</p>	<p>Adjusted definition to align with DWI definition.</p> <p>Increased PC level from 6,067 to 6,108 complaints from 2017-18 with linear glidepath in intervening years.</p> <p>Increased reward deadband from 6,067 to 6,108 complaints in 2015-16 and 2016-17 and remove thereafter.</p> <p>Increased penalty deadband from 8,427 to 12,167 complaints in 2015-16 and 2016-17 and remove thereafter.</p> <p>Increased caps and collars to maintain penalty and reward ranges.</p>	<p>We revised our comparative assessments for final determinations based on stakeholder representations on all companies' draft determinations, including those on Yorkshire Water's draft determination. Overall the impact of our updates is to increase the PC level slightly.</p> <p>We have also made specific adjustments to Yorkshire Water's final determination to align with the performance measure used in our comparative assessment.</p>

PC/ODI affected	What we did at draft determination/subsequent comparative assessments	Representations	What we did at final determination	Why we did it
WB2: Water supply interruptions	<p>Reduced the PC level to 10 minutes in 2017-18 with linear glidepath in intervening years</p> <p>Penalty deadband tightened to 14.4 minutes in 2015-16 and 2016-17 and removed thereafter.</p> <p>Penalty collar adjusted to maintain Yorkshire Water's proposed penalty range</p>	CCWater support this intervention but caution against this driving down the delivery of other priorities identified by customers	<p>Increased the PC level from 10 minutes to 12 minutes in 2017-18 with linear glidepath in intervening years.</p> <p>Increased reward deadband from 9.82 minutes to 12 minutes in all years.</p> <p>Maintained penalty deadband at 14.4 minutes in 2015-16 and 2016-17 and removed thereafter.</p> <p>Increase reward cap from 5.9 minutes to 8.08 minutes in all years to maintain reward range as in the draft determination.</p> <p>Increase penalty collar from 14 minutes to 16 minutes from 2017-18 to maintain penalty range as in the draft determination.</p>	We revised our comparative assessment for final determinations based on stakeholder representations on all companies' draft determinations, including those on Yorkshire Water's draft determination. Overall the impact of our updates is to increase the PC level slightly. We have also increased Yorkshire Water's reward deadband to upper quartile to bring it in line with other companies.
All financial incentives	Replace the overall reward and penalty caps proposed by Yorkshire Water with overall	N/a	Confirmed approach in draft determination.	We have confirmed that we will continue to use the overall caps and collars

PC/ODI affected	What we did at draft determination/subsequent comparative assessments	Representations	What we did at final determination	Why we did it
	caps proposed by Ofwat.			approach, set at +/-2% of RoRE

Table AA4.2 Representations specific to the comparative assessments on wholesale wastewater

PC/ODI affected	What we did at draft determination/subsequent comparative assessments	Representations	What we did at final determination	Why we did it
SA1: Internal flooding incidents	N/a	EA notes the deterioration compared to the starting level and would like to better understand the level of ambition associated with these commitments.	We confirmed approach in draft determination.	<p>Yorkshire Water provided sufficient evidence of an increasing trend in the number of reported incidents on transferred assets and that it is the increase in the number being reported not the actual number of incidents that is driving the increase.</p> <p>Yorkshire Water provided protection for customers by setting a reward deadband that requires it to reduce incidents from the 2014-15 level in order for rewards to be earned.</p>

PC/ODI affected	What we did at draft determination/subsequent comparative assessments	Representations	What we did at final determination	Why we did it
SA3: Pollution incidents	<p>Tightened PC level to 208 category 3 incidents from 2017-18 with linear glidepath in intervening years</p> <p>Tightened penalty deadband to 250 incidents in 2015-16 and 2016-17 and removed thereafter.</p> <p>Lowered reward deadband to 208 incidents in 2015-16 and 2016-17 and removed thereafter.</p> <p>Adjusted caps and collars to maintain Yorkshire Water's proposed penalty and reward ranges.</p> <p>Removed financial incentive from serious pollution incidents (categories 1 and 2).</p>	<p>EA states that the overall number of pollution incidents should reduce by a third by 2020 (compared to 2012), which would translate to a further reduction in the final year to 180 incidents.</p> <p>Additionally, it does not support the use of a reward by Yorkshire Water to meet its statutory requirements on pollution incidents.</p>	<p>Increased PC level from 208 to 211 category 3 incidents from 2017-18 with linear glidepath in intervening years</p> <p>Maintain penalty deadband at 250 incidents in 2015-16 and 2016-17 and remove thereafter.</p> <p>Increase reward deadband from 208 to 211 incidents in 2015-16 and 2016-17 and removed thereafter.</p> <p>Caps and collars adjusted to maintain Yorkshire Water's proposed penalty and reward ranges.</p> <p>Serious pollution incidents (categories 1 and 2) reduced to zero in 2019-20 with linear glidepath.</p>	<p>We revised our comparative assessments for final determinations based on stakeholder representations on all companies' draft determinations, including those on Yorkshire Water's draft determination. Overall the impact of our updates is to increase the PC level and reward deadband slightly.</p> <p>We have not reflected the EA's comments on the level of reduction or rewards, as we consider that requiring Yorkshire Water to deliver upper quartile performance is appropriately stretching and the ability for it to earn rewards for going beyond upper quartile performance is in the interests of customers and the environment.</p>

PC/ODI affected	What we did at draft determination/subsequent comparative assessments	Representations	What we did at final determination	Why we did it
All financial incentives	Replaced the overall reward and penalty caps proposed by Yorkshire Water with overall caps proposed by Ofwat.	None	Confirmed approach in the draft determination.	We have confirmed that we will continue to use the overall caps and collars approach, set at +/-2% of RoRE. There are no exclusions from the cap for Yorkshire Water.

Table AA4.3 Representations specific to the company-specific assessments on wholesale water

PC/ODI affected	What we did at draft determination	Representations	What we did at final determination	Why we did it
WB1: Leakage	Lowered reward deadband to average of last 3 years (274 Ml/d) across all years.	The CCG, CCWater and the EA all support the lowering of the reward deadband to ensure that rewards can only be earned when performance is better than that achieved in recent years.	Confirmed approach in draft determination	Yorkshire Water did not make representations on the change to this ODI. The CCG, CCWater and the EA all support the intervention made at draft determination.
WA4: Water quality Stability and Reliability Factor	Removed reward aspects.	N/a	Confirmed approach in draft determination.	No representations were received on this PC/ODI.

PC/ODI affected	What we did at draft determination	Representations	What we did at final determination	Why we did it
WB4: Water network Stability and Reliability Factor	Removed reward aspects.	N/a	Confirmed approach in draft determination.	No representations were received on this PC/ODI.

Table AA4.4 Representations specific to the company-specific assessments on wholesale wastewater

PC/ODI affected	What we did at draft determination	Representations	What we did at final determination	Why we did it
SA2: External flooding incidents	N/a	EA notes the deterioration compared to the starting level and would like to better understand the level of ambition associated with these commitments.	Confirmed approach in draft determination.	Yorkshire Water provided sufficient evidence of an increasing trend in the number of reported incidents on transferred assets and that it is the increase in the number being reported not the actual number of incidents that is driving the increase.
SA4: Stability and reliability factor: Sewer	Removed reward aspects.	EA supports the removal of a reward capability for pollution incidents as the company should be targeting a reducing	We confirmed approach in draft determination.	Yorkshire Water did not make representations on this PC/ODI. The EA supported the intervention made in the draft

PC/ODI affected	What we did at draft determination	Representations	What we did at final determination	Why we did it
network		trend in pollution incidents.		determination.
SB2: Stability and reliability factor: Wastewater quality	Removed reward aspects.	EA supports the removal of a reward capability for sewage treatment works non-compliance as the company should be targeting 100% compliance in line with its statutory obligations.	Increased the reference level for the two sewage treatment works compliance sub-measures to 100%. Confirmed removal of rewards as in DD.	We agree with the EA that all companies should be targeting 100% compliance so have increased the reference level for this sub-measure. Rewards continue to be excluded as Yorkshire Water did not make representations on this and the EA supported the intervention made in the draft determination.

Table AA4.5 Representations specific to the company-specific assessments on household retail

PC/ODI affected	What we did at draft determination	Representations	What we did at final determination	Why we did it
RA1: Service incentive mechanism – satisfaction	N/a	CCWater proposes that we should continue to apply SIM to the wholesale business to ensure that the monopoly wholesale business is incentivised to resolve problems quickly and	We confirmed approach in draft determination.	We do not require the company to include a SIM PC in the wholesale control. The PR14 methodology confirmed that we would use the SIM as a standard minimum national incentive for customer service

PC/ODI affected	What we did at draft determination	Representations	What we did at final determination	Why we did it
score		effectively for customers and retailers.		for 2015-20. We also confirmed that the likely scale and scope would be similar to the current SIM, but that (in England) it would apply only to the household retail price control.

Table AA4.6 Performance commitments proposed by the company that we have removed from this final determination

Performance commitment	Reason for its removal
Household retail	
N/a	

Table AA4.7 Performance commitments excluded from the commentary tables because we received no representations to our draft determinations on them and we made no interventions at draft determination or through the comparative assessments

Wholesale water	Wholesale wastewater	Household retail
WA2: Significant drinking water events which require corrective action	SB1: Number of Yorkshire's designated bathing waters that exceed the required quality standard	RA2: Service commitment failures

Wholesale water	Wholesale wastewater	Household retail
WB3: Water use	SB3: Solutions delivered by working with others	RA3: Overall customer satisfaction (CCWater Annual Tracking Survey)
WC1: Length of river improved (against WFD component measures)	SB4: Length of river improved (against WFD component measures).	RB1: Cost of bad debt to customers (expressed as percentage of average bill)
WC2: Solutions delivered by working with others	SB5: Amount of land we conserve and enhance	RB2: Number of people who we help to pay their bill
WC3: Amount of land we conserve and enhance (total cumulative area)	SC1: Energy generated through renewable technologies	RB3: Value for money (CCWater Annual Tracking Survey)
WC4: Recreational visitor satisfaction measure	SC2: Waste diverted from landfill (re-used and recycled)	RC1: Energy generated through renewable technologies
WD1: Energy generated through renewable technologies		RC2: Waste diverted from landfill (re-used and recycled)
WD2: Waste diverted from landfill (re-used and recycled)		

Summary of ODIs

For each outcome proposed, companies were asked to identify one or more measures that would provide evidence that the outcome was being delivered. On each measure, companies had to set out the level of performance that they were committing to deliver. Companies also had to explain why they committed to the performance level chosen and explain why this represented an appropriate level of stretch (as benchmarked against an upper quartile level of performance across the sector).

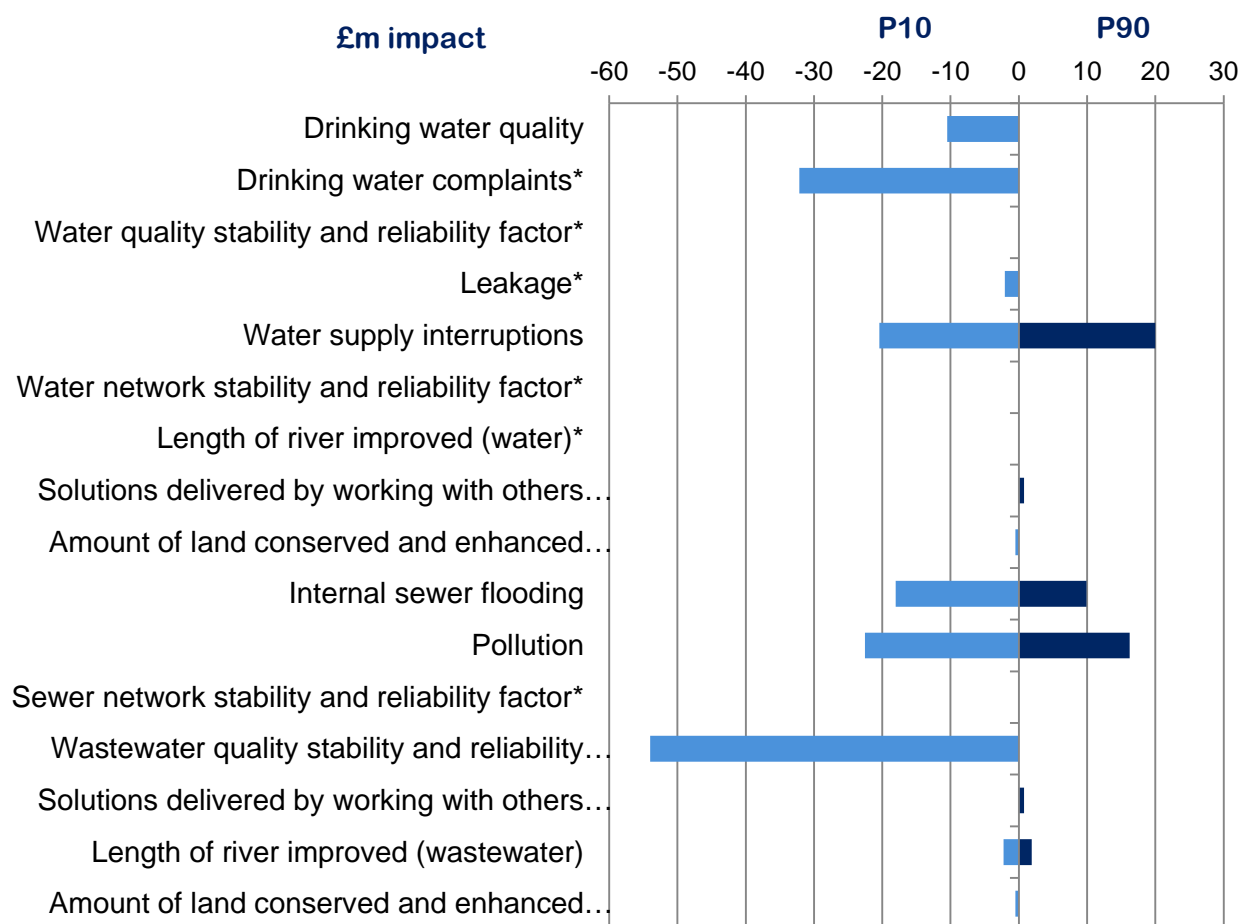
Companies also had to propose ODIs. Where customers were willing to pay for higher levels of performance and companies could demonstrate that performance was at a high level relative to its peers, then the financial incentives could contain rewards for over delivery as well as penalties for under delivery.

Below, we provide an overview of the PCs and ODIs relevant to Yorkshire Water. Table AA4.8 shows the balance between reward and penalty, penalty only and non-financial incentives in the package of incentives for the company. Figure AA4.1 shows the potential financial impact of each of the financial incentives.

Table AA4.8 The composition of the package of ODIs

	Reward and penalty	Penalty only	Non-financial incentive
Wholesale water	6	3	5
Wholesale wastewater	5	2	4
Household retail	1	0	7
Total	12	5	16

The following graph shows the potential financial consequences of the individual financial ODIs. The figures represent the penalties and rewards associated with the p10 and p90 scenarios over the five years (2015-16 to 2019-20). This means there is a 10% chance of performance being higher or lower than these assumed levels. In most cases the potential maximum will be bigger but is very unlikely to occur. The p10 and p90 therefore represent a more realistic estimate of potential financial consequences.

Figure AA4.1 Overview of financial ODIs

* These measures all have financial incentives (rewards and/or penalties) associated with them, but there is a less than 10% chance that these will be incurred.

As explained in policy chapter A2, we are introducing an aggregate cap on rewards and collar on penalties from the ODIs. Details of how the cap/collar will operate are set out in section in policy chapter A2.

There are no specific exclusions from the cap/collar for Yorkshire Water.

Performance commitments and ODIs in detail

In the remainder of this annex, we provide the following information on each performance commitment included in Yorkshire Water's final determination:

- the name and detailed definition of the performance commitment;
- the type of incentive;
- the performance commitment level;
- for financial incentives:
 - the limits on rewards and penalties (caps and collars) and neutral zones (deadbands) as applicable⁵; and
 - the incentive rates;
- additional details on the measure; and
- where we have not accepted the company's proposals, an explanation of the nature of the intervention made.

Appendix 1 of our final methodology statement contains a number of worked examples that illustrate how the different incentive types will operate.

⁵ Unless otherwise stated, a deadband is the level of service against which an incentive is calculated and the cap or collar is the level of service at which the maximum reward or penalty occurs. So for example, if the deadband is 1.29 and the actual performance level is 1.39, the result of the incentive would be a penalty of (1.39-1.29) times the specified penalty rate.

Wholesale water outcome A: We provide you with water that is safe and clean to drink

Performance commitment WA1: Drinking water quality

Detailed definition of performance measure:

The mean zonal percentage compliance from the regulatory sampling programme, as calculated by the DWI.

Incentive type: Financial – penalty only.

Performance commitments

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	%	99.960	99.960	99.960	100	100	100
Penalty collar	%		99.929	99.929	99.939	99.939	99.939
Penalty deadband	%		99.940	99.940	99.950	99.950	99.950

Incentive rates

Incentive type	Incentive rate (£m/0.01%/year)
Penalty	8.7224

Additional details

Necessary detail on measurement units	The calculation will be as set out in the DWI publication 'Calculation and composition of indices published in the Chief Inspector's Report', May 2013. Reported to 3 decimal places
Frequency of PC measurement and any use of averaging	Reported by calendar year in the following year, that is, 01 Jan 2015 to 31 Dec 2015 reported in 2015-16.

Timing and frequency of penalties	Calculated annually
Form of penalty	Penalty investment financed by shareholders, no RCV addition.
Any other information or clarifications relevant to correct application of incentive	-

Performance commitment WA2: Significant drinking water events which require corrective action

Detailed definition of performance measure:

The number of potentially significant events notified to the DWI under the Water Industry (Suppliers' Information) Direction 2009, that have the potential for negative impact on public confidence in the water supply, for which the DWI has subsequently required the company to take corrective action to maintain compliance or protect public health.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	6	6	6	6	6	6

Additional details

Necessary detail on measurement units	Number of significant events notified to the DWI
Frequency of PC measurement and any use of averaging	Reported by calendar year in the following year, that is, 01 Jan 2015 to 31 Dec 2015 reported in 2015-16.

Any other information or clarifications relevant to correct application of incentive

PC is the number where corrective actions have been received from the DWI by 01 June 2015 in the following year.

Performance commitment WA3: Drinking water complaints

Detailed definition of performance measure:

The number of times customers contact Yorkshire Water about discolouration, taste and odour and illness each year, in line with DWI reporting.

Incentive type: Financial – reward and penalty.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	12,143	10,131	8,120	6,108	6,108	6,108
Penalty collar	No.		15,000	15,000	8,965	8,965	8,965
Penalty deadband	No.		12,143	12,143	6,108	6,108	6,108
Reward deadband	No.		6,108	6,108	6,108	6,108	6,108
Reward cap	No.		2,775	2,775	2,775	2,775	2,775

Incentive rates

Incentive type	Incentive rate (£m/no./year)
Penalty	0.0035
Reward	0.0030

Additional details

Necessary detail on

The definition is in line with DWI reporting on rate of

measurement units	contacts for appearance, taste and odour and illness.
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by 2020-25 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	

Performance commitment WA4: Water quality stability and reliability factor

Detailed definition of performance measure:

An overall assessment of long-term stability and reliability for water quality, based on a basket of indicators. Assessment is based on the recent historical trend of the indicators. Assessment will give a classification of Improving, Stable or Deteriorating.

Incentive type: Financial – penalty only.

Performance commitments – Overall assessment

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Assessment	Stable	-	-	-	-	Stable
Penalty collar			-	-	-	-	-
Penalty deadband			-	-	-	-	Deteriorating

Performance commitments –Sub-measures

Sub Measure	Unit	Limits	Committed performance levels (annual)
WTW coliform non-compliance	%	Ref	0.04
		High	0.07
SR coliform non-compliance	%	Ref	0
		High	0.24
Turbidity	No.	Ref	0
		High	4
Enforcements	Incidents no.	Ref	0
		High	1
Reactive equipment failures	No.	Ref	6,771
		High	8,380

Incentive rates – Overall assessment

Incentive type	Incentive rate (£m/AMP)
Penalty	Up to 10% totex for outcome

Incentive rates – Sub-measure assessment

No. of sub-measures above high level	Penalty range (% of outcome totex)	
	Non-persistent issue	Persistent issue
1	0-1%	1-3%
2	1-5%	2-6%
3 or more	2-7%	3-10%

Additional details

Necessary detail on measurement units	Overall assessment will give a classification of Improving, Stable or Deteriorating.
Frequency of PC measurement and any use of averaging	Assessed in year 4 for year 5 outturn.
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition.
Any other information or clarifications relevant to correct application of incentive	The penalty range will be determined based on the number of sub-measures above the high tramline, as set out in the sub-measures incentive rates table above. The size of penalty will be determined based on an overall assessment of the extent to which the failing sub-measures are above the high tramline, performance on other sub-measures, importance of failing sub-measures to customers and the impact of events outside the company's control. The assessment will be subject to third-party and CCG assurance.

Wholesale water outcome B: We make sure that you always have enough water

Performance commitment WB1: Leakage

Detailed definition of performance measure:

The sum of distribution losses and supply pipe losses.

This includes any uncontrolled losses between the treatment works and the customer's stop tap. It does not include internal plumbing losses.

Incentive type: Financial – reward and penalty.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	MI/d	297.1	297.1	297.1	297.1	292.1	287.1
Penalty collar			-	-	-	-	-
Penalty deadband			302.1	302.1	302.1	297.1	292.1
Reward deadband			274	274	274	274	274
Reward cap			-	-	-	-	-

Incentive rates

Incentive type	Incentive rate (£m/MI/d/year)
Penalty	0.0987
Reward	0.0494

Additional details

Necessary detail on measurement units	MI/d
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Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by 2020-25 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	

Performance commitment WB2: Water supply interruptions

Detailed definition of performance measure:

Number of minutes lost per property served in the year with supply interruptions of three hours or longer (irrespective of whether it was planned, unplanned or caused by a third party).

Incentive type: Financial – reward and penalty.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Min	14.44	13.63	12.81	12.00	12.00	12.00
Penalty collar			18.44	18.44	16.00	16.00	16.00
Penalty deadband			14.44	14.44	12.00	12.00	12.00
Reward deadband			12.00	12.00	12.00	12.00	12.00
Reward cap			8.08	8.08	8.08	8.08	8.08

Incentive rates

Incentive type	Incentive rate (£m/min/year)
Penalty	2.551
Reward	2.551

Additional details

Necessary detail on measurement units	<p>The calculation of reward or penalty will use the actual number of minutes calculated to 2 decimal places.</p> <p>Total minutes from interruptions of over 3 hours is divided by the number of properties (domestic and non-domestic) connected for water supply.</p>
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually
Form of reward/penalty	<p>Penalty investment financed by shareholders, no RCV addition.</p> <p>Reward by 2020-25 year 1 revenues</p>
Any other information or clarifications relevant to correct application of incentive	

Performance commitment WB3: Water use

Detailed definition of performance measure:

The average daily water consumption per head of population (per capita consumption or PCC) in measured and unmeasured households in a dry year. This is only for household consumption.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	l/hd/d	143.7	142.6	141.5	140.4	139.3	138.3

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	-

Performance commitment WB4: Water network stability and reliability factor

Detailed definition of performance measure:

An overall assessment of long-term stability and reliability for the water network, based on a basket of indicators. Assessment is based on the recent historical trend of the indicators. Assessment will give a classification of improving, stable or deteriorating.

Incentive type: Financial – penalty only.

Performance commitments – Overall assessment

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Assessment	Stable	-	-	-	-	Stable
Penalty collar			-	-	-	-	-
Penalty deadband			-	-	-	-	Deteriorating

Performance commitments – Sub-measures

Sub Measure	Unit	Limits	Committed performance levels (annual)
Total bursts	No.	Ref	5,173
		High	7,710
Interruptions >12 hours	No.	Ref	220
		High	659
DG2 low pressure	No.	Ref	15
		High	67
Customer contacts for discolouration	No./1,000 population	Ref	1.18
		High	1.57
Distribution index TIM (100 – mean zonal compliance)	%	Ref	0.2
		High	0.34
Reactive equipment failures	No.	Ref	1,825
		High	2,261

Incentive rates – Overall assessment


Incentive type	Incentive rate (£m/AMP)
Penalty	Up to 10% totex for outcome

Incentive rates – Sub-measure assessment

No. of sub-measures above high level	Penalty range (% of outcome totex)	
	Non-persistent issue	Persistent issue
1	0-1%	1-3%
2	1-5%	2-6%
3 or more	2-7%	3-10%

Additional details

Necessary detail on measurement units	Overall assessment will give a classification of Improving, Stable or Deteriorating.
Frequency of PC measurement and any use of averaging	Assessed in year 4 for year 5 outturn.
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition.
Any other information or clarifications relevant to correct application of incentive	<p>The penalty range will be determined based on the number of sub-measures above the high tramline, as set out in the sub-measures incentive rates table above. The size of penalty will be determined based on an overall assessment of the extent to which the failing sub-measures are above the high tramline, performance on other sub-measures, importance of failing sub-measures to customers and the impact of events outside the company's control. The assessment will be subject to third-party and CCG assurance.</p> <p>Yorkshire Water's approach to asset health incorporates the stability and reliability factors as well as overlapping individual performance measures. Where penalties would be incurred under the individual measure and the relevant stability and reliability factor for the same under-performance the larger of the two penalties will apply.</p> <p>The relevant overlaps are:</p> <ul style="list-style-type: none"> • Interruptions > 12 hours and WB2: Water supply interruptions;

- 
- Customer contacts for discolouration and WA3: drinking water complaints; and
 - Distribution index TIM and WA1: Drinking water quality

Wholesale water outcome C: We protect and improve the water environment

Performance commitment WC1: Length of river improved

Detailed definition of performance measure:

The length of river in the Yorkshire Water region improved during 2015-2020 against Water Framework Directive component measures.

Incentive type: Financial – reward and penalty.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	km	-	-	-	-	-	100
Penalty collar			-	-	-	-	-
Penalty deadband			-	-	-	-	97
Reward deadband			-	-	-	-	103
Reward cap			-	-	-	-	-

Incentive rates

Incentive type	Incentive rate (£m/km/AMP)
Penalty	0.1459
Reward	0.0766

Additional details

Necessary detail on measurement units	Measurement using modelled length
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Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by 2020-25 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	This measure represents obligations for specific service improvements in 2015-20 to meet requirements of the Water Framework Directive.

Performance commitment WC2: Solutions delivered by working with others

Detailed definition of performance measure:

The number of intervention solutions delivered through working with multi-agencies, organisations or individuals.

The performance commitment is a total commitment, at Appointee level. It spans water and wastewater controls and specific targets have not been allocated to the individual controls.

Incentive type: Financial – reward only.

Performance commitments

		Starting level	Committed performance levels (Water and wastewater combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	No.	-	3	3	3	3	4
Reward deadband	No.		3	6	9	12	16
Reward cap			-	-	-	-	-

Incentive rates

Incentive type	Incentive rate (£m/no./year)
Reward	5% of totex cost of Yorkshire Water cost for each eligible intervention

Additional details

Necessary detail on measurement units	Specific document for solution eligibility criteria.
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually.
Form of reward/penalty	Reward by 2020-25 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	Both annual PC and cumulative PC must be achieved for annual reward (that is, year 1: 3, year 2: 6, year 3: 9, year 4: 12, year 5: 16). The total performance commitment for Yorkshire Water is to deliver 16 solutions by working together by the end of year 5.

Performance commitment WC3: Amount of land conserved and enhanced

Detailed definition of performance measure:

The amount of land that the company conserves and enhances, for example Biodiversity 2020, Ancient Woodlands and Sites of Special Scientific Interest (SSSIs). This includes land within the region and includes both Yorkshire Water and non-Yorkshire Water land.

The performance commitment is a total commitment, held at appointee level. It spans water and wastewater controls and specific targets have not been allocated to the individual controls.

Incentive type: Financial – reward and penalty.

Performance commitments

		Starting level	Committed performance levels (Water and wastewater combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	Ha.	-	-	-	-	-	11,736
Penalty collar	Ha.		-	-	-	-	10,998
Penalty deadband	Ha.		-	-	-	-	11,501
Reward deadband	Ha.		-	-	-	-	11,971
Reward cap	Ha.		-	-	-	-	12,049

Incentive rates

Incentive type	Incentive rate (£m/ha/AMP)
Penalty	0.0198
Reward	0.0129

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by 2020-25 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to conserve and enhance 11,736 Ha by the end of year 5. This measure represents Biodiversity 2020 and CRoW Act.

Performance commitment WC4: Recreational visitor satisfaction

Detailed definition of performance measure:

An assessment of customer satisfaction with the current facilities, access and use of recreational sites and the recreational offer.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	Qual	-	Qual	Qual	Qual	Qual	Qual

Additional details

Necessary detail on measurement units	Qualitative assessment by annual survey
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	Commitment is to undertake qualitative survey each year and publish results

Wholesale water outcome D: We understand our impact on the wider environment and act responsibly

Performance commitment WD1: Proportion of energy use generated by renewable technology

Detailed definition of performance measure:

The amount of energy Yorkshire Water generates through its renewable technology expressed as a percentage of total energy consumption.

The performance commitment is a total commitment, held at Appointee level. It spans water, wastewater and retail controls and specific targets have not been allocated to the individual controls.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels (Water, wastewater and HH retail combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	%	8	12	12	12	12	12

Additional details

Necessary detail on measurement units	%
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to generate 12% of its total energy use, annually.

Performance commitment WD2: Proportion of waste diverted from landfill

Detailed definition of performance measure:

The amount of waste from all Yorkshire Water activities (office, operational or construction) that is recycled or re-used as a percentage of total waste produced.

The performance commitment is a total commitment, at appointee level. It spans water, wastewater and retail controls and specific targets have not been allocated to the individual controls.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels (Water, wastewater and HH retail combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	%	93	94	94	95	95	95

Additional details

Necessary detail on measurement units	%
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to recycle or re-use 94-95% of its total waste, annually.

Wholesale wastewater outcome A: We take care of your wastewater and protect you and the environment from sewer flooding

Performance commitment SA1: Internal sewer flooding

Detailed definition of performance measure:

Total number of incidents of internal sewer flooding of homes and businesses in the year. The measure includes incidents due to other causes, including blocked and defective gullies and overloaded sewers in rainfall events up to and including 1 in 30 year return period. Incidents in exceptional rainfall events are excluded.

The measure includes incidents arising from assets transferred to Yorkshire Water in October 2011.

Incentive type: Financial – reward and penalty.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	1,857	1,877	1,898	1,919	1,919	1,919
Penalty collar			1,986	2,008	2,029	2,029	2,029
Penalty deadband			1,945	1,967	1,988	1,988	1,988
Reward deadband			1,808	1,808	1,808	1,808	1,808
Reward cap			1,651	1,651	1,651	1,651	1,651

Incentive rates

Incentive type	Incentive rate (£m/incident/year)
Penalty	0.2198
Reward	0.0574

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by 2020-25 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	Includes any incident of internal flooding to normally occupied buildings and includes schools, offices, commercial premises and public buildings. Outbuildings and buildings used primarily for storage are excluded. All incidents are included, including damp/wet only patches. Incidents of flooding via the sewers caused by high river levels, inundation due to surface run-off or overflowing watercourses are excluded.

Performance commitment SA2: External sewer flooding

Detailed definition of performance measure:

Total number of incidents of areas affected by external flooding in the year.

The measure includes incidents arising from assets transferred to Yorkshire Water in October 2011.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	10,125	10,125	10,363	10,487	10,487	10,487

Additional details

Necessary detail on measurement units	Total number of incidents of areas affected by external flooding in the year
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	Includes property curtilage, highways, car parks, footpaths, public open space, fields, agricultural land, woodland and flooding to buildings not defined as internal flooding. The measure includes incidents due to other causes, including blocked and defective gullies and overloaded sewers in rainfall events up to and including 1 in 30 year return period, incidents in exceptional rainfall events are excluded. All incidents are included, including damp/wet only patches. Incidents of flooding via the sewers caused by high river levels, inundation due to surface run-off or overflowing watercourses are excluded.

Performance commitment SA3: Pollution

Detailed definition of performance measure:

Total number of Category 1-3 pollution incidents caused by a discharge or escape from any Yorkshire Water wastewater asset each year, (this covers all consented and non-consented intermittent events, but not continuous discharges).

This measure includes all wastewater assets, that is, surface water assets are included, and excludes impacts from private pumping stations that will transfer to Yorkshire Water in 2015.

Incentive type: Financial – reward and penalty.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No. (Category 1-2 /Category 3)	10/250	8/237	6/224	4/211	2/211	0/211
Penalty collar	No. (Category 3 only)		303	303	264	264	264
Penalty deadband	No. (Category 3 only)		250	250	211	211	211
Reward deadband	No. (Category 3 only)		211	211	211	211	211
Reward cap	No. (Category 3 only)		147	147	147	147	147

Incentive rates

Incentive type	Incentive rate (£m/category 3 incident/year)
Penalty	0.19
Reward	0.19

Additional details

Necessary detail on measurement units	Performance will be reported for the different categories as follows [1 and 2]/[3]
Frequency of PC measurement and any use of averaging	Reported by calendar year in the following year, that is, 01 Jan 15 to 31 Dec 2015 reported in 2015-16.
Timing and frequency of rewards/penalties	Calculated annually
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by 2020-25 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	The financial incentive only applies to category 3 incidents. Should the number of successful court prosecutions on category 3 incidents exceed the deadband range, then the number of the prosecutions in excess of the penalty deadband will be deducted from the number of pollution incidents for which the penalty rate is to be applied. The number of successful prosecutions will not impact on the reward calculation.

Performance commitment SA4: Sewer network stability and reliability factor

Detailed definition of performance measure:

An overall assessment of long-term stability and reliability for the sewer network, based on a basket of indicators. Assessment is based on the recent historical trend of the indicators. Assessment will give a classification of improving, stable or deteriorating.

Incentive type: Financial –penalty only.

Performance commitments – Overall assessment

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Assessment	Stable	-	-	-	-	Stable
Penalty collar			-	-	-	-	-
Penalty deadband			-	-	-	-	Deteriorating

Performance commitments – Sub-measures

Sub Measure	Unit	Limits	Committed performance levels (annual)
Sewer collapses	No.	Ref	255
		High	369
Pollution incidents (CSO, RM, FS and SPS)	No.	Ref	203
		High	251
Properties flooded due to other causes	No.	Ref	302
		High	379
Properties flooded due to overloaded sewers, excluding severe weather	No.	Ref	72
		High	110
Sewer blockages	No.	Ref	20,695
		High	22,936
Reactive equipment failures	No.	Ref	5,869
		High	7,282

Incentive rates – Overall assessment

Incentive type	Incentive rate (£m / AMP)
Penalty	Up to 10% totex for outcome

Incentive rates – Sub-measure assessment

No. of sub-measures above high level	Penalty range (% of outcome totex)	
	Non-persistent issue	Persistent issue
1	0-1%	1-3%
2	1-5%	2-6%
3 or more	2-7%	3-10%

Additional details

Necessary detail on measurement units	Overall assessment will give a classification of Improving, Stable or Deteriorating.
Frequency of PC measurement and any use of averaging	Assessed in year 4 for year 5 outturn.
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition.
Any other information or clarifications relevant to correct application of incentive	<p>The penalty range will be determined based on the number of sub-measures above the high tramline, as set out in the sub-measures incentive rates table above. The size of penalty will be determined based on an overall assessment of the extent to which the failing sub-measures are above the high tramline, performance on other sub-measures, importance of failing sub-measures to customers and the impact of events outside the company's control. The assessment will be subject to third-party and CCG assurance.</p> <p>Yorkshire Water's approach to asset health incorporates the stability and reliability factors as well</p>

as overlapping individual performance measures. Where penalties would be incurred under the individual measure and the relevant stability and reliability factor for the same under-performance the larger of the two penalties will apply.

The relevant overlaps are:

- Pollution incidents and SA3: Pollution; and
- Properties flooded due to other causes and overloaded sewers and SA1: Internal sewer flooding

Wholesale wastewater outcome B: We protect and improve the water environment

Performance commitment SB1: Number of designated bathing waters that exceed the required quality standard

Detailed definition of performance measure:

The number of designated bathing waters where the requirements of the EU Bathing Water Directive are exceeded, based on EA bathing water samples taken at designated bathing beaches; that is, the number of bathing waters which are good or excellent (better than sufficient).

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	15	15	15	15	15	15

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported by bathing season in the following year, that is, bathing season 2015 reported in 2015-16.
Any other information or clarifications relevant to correct application of incentive	The number is per bathing season.

Performance commitment SB2: Wastewater quality stability and reliability factor

Detailed definition of performance measure:

An overall assessment of long-term stability and reliability for wastewater quality, based on a basket of indicators. Assessment is based on the recent historical trend of the indicators. Assessment will give a classification of improving, stable or deteriorating.

Incentive type: Financial – penalty only.

Performance commitments – Overall assessment

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Assessment	Stable	-	-	-	-	Stable
Penalty collar			-	-	-	-	-
Penalty deadband			-	-	-	-	Deteriorating

Performance commitments – Sub-measures

Sub measure	Unit	Limits	Committed performance levels (annual)
Sewage treatment works non-compliance	No.	Ref	0
		High	8
Population equivalent non-compliance	%	Ref	0
		High	0.6
Reactive equipment failures	No.	Ref	15,651
		High	20,848

Incentive rates – Overall assessment

Incentive type	Incentive rate (£m / AMP)
Penalty	Up to 10% totex for outcome

Incentive rates – Sub-measure assessment

No. of sub-measures above high level	Penalty range (% of outcome totex)	
	Non-persistent issue	Persistent issue
1	0-1%	1-3%
2	1-5%	2-6%
3	2-7%	3-10%

Additional details

Necessary detail on measurement units	Overall assessment will give a classification of Improving, Stable or Deteriorating.
Frequency of PC measurement and any use of averaging	Assessed in year 4 for year 5 outturn.
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition.
Any other information or clarifications relevant to correct application of incentive	The penalty range will be determined based on the number of sub-measures above the high tramline, as set out in the sub-measures incentive rates table above. The size of penalty will be determined based on an overall assessment of the extent to which the failing sub-measures are above the high tramline, performance on other sub-measures, importance of failing sub-measures to customers and the impact of events outside the company's control. The assessment will be subject to third-party and CCG assurance.

Performance commitment SB3: Solutions delivered by working with others

Detailed definition of performance measure:

The number of intervention solutions delivered through working with multi-agencies, organisations or individuals.

The performance commitment is a total commitment, held at appointee level, that is, it spans water and wastewater controls and specific targets have not been allocated to the individual controls.

Incentive type: Financial – reward only.

Performance commitments

		Starting level	Committed performance levels (Water and wastewater combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	No.	-	3	3	3	3	4
Reward deadband	No.		3	6	9	12	16
Reward cap			-	-	-	-	-

Incentive rates

Incentive type	Incentive rate (£m/no./year)
Reward	5% of totex cost of Yorkshire Water cost for each eligible intervention

Additional details

Necessary detail on measurement units	Specific document for solution eligibility criteria.
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually.

Form of reward/penalty	Reward by 2020-25 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	Both annual PC and cumulative PC must be achieved for annual reward (that is, year 1: 3, year 2: 6, year 3: 9, year 4: 12, year 5: 16) The total performance commitment for Yorkshire Water is to deliver 16 solutions by working together by the end of year 5.

Performance commitment SB4: Length of river improved

Detailed definition of performance measure:

The length of river in the Yorkshire Water region improved during 2015-20 against Water Framework Directive component measures.

Incentive type: Financial – reward and penalty.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	km	-	-	-	-		340
Penalty collar	km		-	-	-	-	-
Penalty deadband	km		-	-	-	-	337
Reward deadband	km		-	-	-	-	343
Reward cap	km		-	-	-	-	-

Incentive rates

Incentive type	Incentive rate (£m/km/AMP)
Penalty	0.1459

Incentive type	Incentive rate (£m/km/AMP)
Reward	0.0766

Additional details

Necessary detail on measurement units	Measurement using modelled length
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by 2020-25 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	This measure represents obligations for specific service improvements in 2015-20 to meet requirements of the Water Framework Directive.

Performance commitment SB5: Amount of land conserved and enhanced

Detailed definition of performance measure:

The amount of land that that the company conserves and enhances, for example, Biodiversity 2020, ancient woodlands and SSSIs. This includes land within the region and includes both Yorkshire Water and non-Yorkshire Water land.

The performance commitment is a total commitment, held at appointee level, that is, it spans water and wastewater controls and specific targets have not been allocated to the individual controls.

Incentive type: Financial – reward and penalty.

Performance commitments

		Starting level	Committed performance levels (Water and wastewater combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	Ha.	-	-	-	-	-	11,736
Penalty collar			-	-	-	-	10,998
Penalty deadband			-	-	-	-	11,501
Reward deadband			-	-	-	-	11,971
Reward cap			-	-	-	-	12,049

Incentive rates

Incentive type	Incentive rate (£m/ha/AMP)
Penalty	0.0198
Reward	0.0129

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated in year 4 for year 5 outturn.
Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by 2020-25 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to conserve and enhance 11,736 Ha by the end of year 5. This measure represents Biodiversity 2020 and CRoW Act.

Wholesale wastewater outcome C: We understand our impact on the wider environment and act responsibly

Performance commitment SC1: Proportion of energy use generated by renewable technology

Detailed definition of performance measure:

The amount of energy Yorkshire Water generates through its renewable technology expressed as a percentage of total energy consumption.

The performance commitment is a total commitment, at Appointee level. It spans water, wastewater and retail controls and specific targets have not been allocated to the individual controls.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels (Water, wastewater, household retail combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	%	8	12	12	12	12	12

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to generate 12% of its total energy use, annually.

Performance commitment SC2: Proportion of waste diverted from landfill

Detailed definition of performance measure:

The amount of waste from all Yorkshire Water activities (office, operational or construction) that is recycled or re-used as a percentage of total waste produced.

The performance commitment is a total commitment, held at Appointee level, that is, it spans water, wastewater and retail controls and specific targets have not been allocated to the individual controls.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels (Water, wastewater, HH Retail combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	%	93	94	94	95	95	95

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to recycle or re-use 94-95% of its total waste, annually.

Household retail outcome A: We provide the level of customer service you expect and value

Performance commitment RA1: Service incentive mechanism – satisfaction score

Detailed definition of performance measure:

A full definition of this measure is in '[Service incentive mechanism \(SIM\) for 2015 onwards – conclusions](#)', as published on Ofwat's website in April 2014.

Incentive type: Financial – reward and penalty.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	Score	4.62	>2014-15	>2015-16	>2016-17	>2017-18	>2018-19

Incentive rates

Incentive type	Incentive rate (£m/comparative position)
Penalty	As Ofwat definition
Reward	As Ofwat definition

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Timing and frequency of rewards/penalties	Calculated annually

Form of reward/penalty	Penalty investment financed by shareholders, no RCV addition. Reward by 2020-25 year 1 revenues
Any other information or clarifications relevant to correct application of incentive	-

Performance commitment RA2: Service commitment failures

Detailed definition of performance measure:

The total number of GSS (Guaranteed Standards of Service) events, including enhanced GSS events, each year.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	15,267	Average of 2015-20 performance to be less than average of last 3 years of 2010-15 performance				

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year, PC assessed at year 5: Average of 2015-20 performance to be less than average of last 3 years of 2010-15 performance.
Any other information or clarifications relevant to correct application of incentive	Excludes company customer charter events/payments.

Performance commitment RA3: Overall customer satisfaction

Detailed definition of performance measure:

The reported value for overall customer satisfaction determined by the annual CCWater tracking survey.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	%	-	Average of 2015-20 performance to be better than average of 2010-15 performance				

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year, PC assessed at year 5: Average of 2015-20 performance to be less than average of 2010-15 performance.
Any other information or clarifications relevant to correct application of incentive	-

Household retail outcome B: We keep your bills as low as possible

Performance commitment RB1: Cost of bad debt to customers expressed as proportion of bill

Detailed definition of performance measure:

The cost to bill paying customers to cover the cost of interest on revenue that is not collected, debt written off and debt management costs, expressed as a percentage of the average annual bill. This includes the collection and revenue activities for managing the debt.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	%	3.1	3.16	3.16	3.16	3.16	3.16

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year.
Any other information or clarifications relevant to correct application of incentive	-

Performance commitment RB2: Number of people who we help to pay their bill

Detailed definition of performance measure:

The number of customers who are assisted to pay their bill. This includes, but is not limited to WaterSure, Resolve and the Community Trust, plus the number of those who take up a water meter as a result of targeted advice following identification of an affordability issue (customers should not be double counted).

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	No.	-	To publish data annually on the number of people who have been helped				

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year, PC assessed at year 5: Average of 2015-20 performance to be less than average of 2010-15 performance.
Any other information or clarifications relevant to correct application of incentive	Aim to increase the number of people who are helped.

Performance commitment RB3: Value for money

Detailed definition of performance measure:

The reported value for value for money determined by the annual CCWater tracking survey.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC	%	-	Average of 2015-20 performance to better than average of 2010-15 performance				

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year, PC assessed at year 5: Average of 2015-20 performance to be less than average of 2010-15 performance.
Any other information or clarifications relevant to correct application of incentive	-

Household retail outcome C: We understand our impact on the wider environment and act responsibly

Performance commitment RC1: Proportion of energy use generated by renewable technology

Detailed definition of performance measure:

The amount of energy Yorkshire Water generates through its renewable technology expressed as a percentage of total energy consumption.

The performance commitment is a total commitment, at Appointee level. It spans water, wastewater and retail controls and specific targets have not been allocated to the individual controls.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels (Water, wastewater and household retail combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	%	8	12	12	12	12	12

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to generate 12% of its total energy use, annually.

Performance commitment RC2: Proportion of waste diverted from landfill

Detailed definition of performance measure:

The amount of waste from all Yorkshire Water activities (office, operational or construction) that is recycled or re-used as a percentage of total waste produced.

The performance commitment is a total commitment, held at appointee level, that is, it spans water, wastewater and retail controls and specific targets have not been allocated to the individual controls.

Incentive type: Reputational.

Performance commitments

		Starting level	Committed performance levels (Water, wastewater and household retail combined)				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PC (Appointee)	%	93	94	94	95	95	95

Additional details

Necessary detail on measurement units	-
Frequency of PC measurement and any use of averaging	Reported annually by financial year
Any other information or clarifications relevant to correct application of incentive	The total performance commitment for Yorkshire Water is to recycle or re-use 94-95% of its total waste, annually.

Outcome delivery and reporting

In policy chapter A2, we outline a framework against which we have assessed Yorkshire Water's proposals in relation to outcome delivery and reporting.

The table below summarises Yorkshire Water’s proposed approach to the measurement, reporting and governance of outcomes and our assessment of this approach.

Table AA4.9 Yorkshire Water’s proposals for outcome delivery and reporting

Yorkshire Water’s proposals	Our final assessment
<p>Yorkshire Water summarises its process for outcome delivery and reporting as follows:</p> <p>“We will demonstrate our performance against each commitment by publishing an Annual Performance Statement. This will clearly set out our commitments and our performance against each measure, together with any associated penalties or rewards.</p> <p>Our Annual Performance Statement will be audited by an independent third party, following our well defined ISO9001 procedures for compilation and assurance of a consistent output.</p> <p>It will be endorsed by the Yorkshire Water Board, and presented to the Customer Forum in June each year. We will publish our performance on our website.</p> <p>Our customers have told us that they approve of our proposed approach to monitoring our performance commitments and consequent financial penalties or rewards involving independent audit, Yorkshire Water Board assurance, Customer Forum sign-off and ultimately Ofwat review.”</p>	<p>In our methodology statement, we set out our expectation that companies should demonstrate that their PCs can be measured and recorded consistently and that they will have the appropriate governance and quality assurance processes in place to achieve this. We also expect companies to be transparent with customers about their performance against their outcomes and commitments.</p> <p>Yorkshire Water has provided sufficient evidence demonstrating the approach it will undertake to ensure the PCs will be measured and reported consistently, and the proposed governance and assurance processes meet our expectations. Therefore, we have accepted the company’s proposal.</p> <p>In time, we may develop further information requirements with regard to outcomes, as we review and change current requirements relating to performance indicators and each company’s annual risk and compliance statement.</p>

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