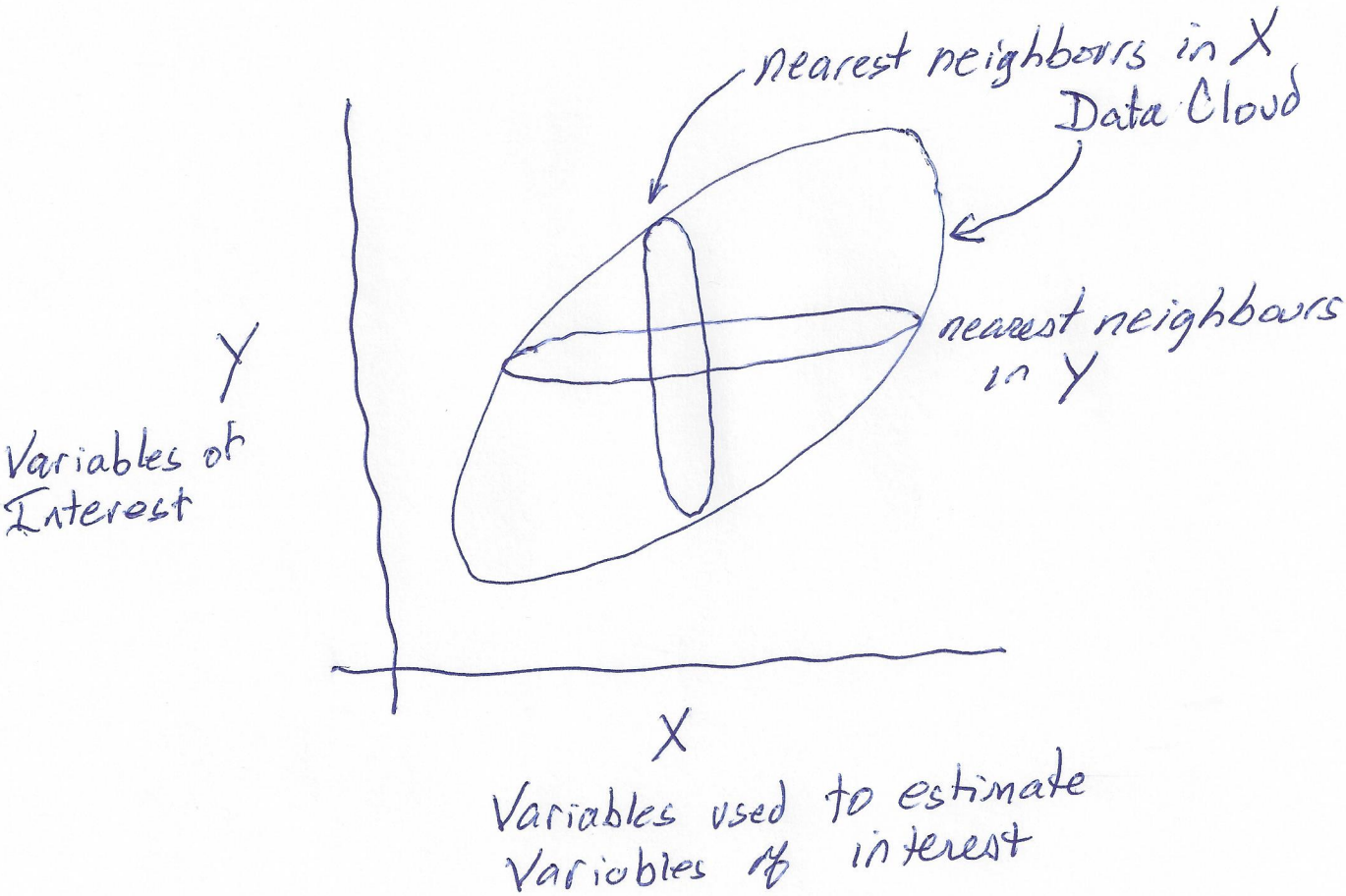

1. Using the reference data set identify the k nearest neighbours in Y variable space for each observation.
2. Derive (normalized) centroid in X variable space based on the k nearest neighbours in Y variable space, for each observation.
3. For each target observation calculate the distance to each nearest neighbour centroid after normalizing the target X variable ict with respect to each of the observations in the reference dataset.