



Wholesale and retail charges consultation
Markets and Economics Division
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

By email: price.review@ofwat.gsi.gov.uk

Tuesday 15th July 2014

Dear Sir or Madam,

Consultation on wholesale and retail charges for 2015-16 and charges scheme rules

Thank you for the opportunity to respond to this consultation. Please see below our views on the specific consultation questions.

Yours faithfully

Mike King
Regulatory Director

Q1 Do you agree with the proposed approach to on the development of charge arrangements in the 2015-20 period? If not, please explain and provide evidence for your view

We agree with the general approach proposed to evolution of charges rules over time.

Q2 Do you agree with the nominal 5% bill change as a threshold for undertaking impact assessments? If not, please set out an alternative threshold and provide evidence for this view. Should the same threshold apply to all customer types?

We consider that the 5% threshold for undertaking impact assessments is too low. Throughout AMP5 we have implemented tariff increases of greater than 5% as shown in the table below, we have received very little contact from customers in response to these changes.

Bristol Water RPI+K Tariff Increases 2010-15

Year	RPI	K	RPI+K
2010/11	0.3%	0.6%	0.9%
2011/12	4.7%	3.9%	8.6%
2012/13	5.2%	3.9%	9.1%
2013/14	3.0%	3.9%	6.9%
2014/15	2.6%	3.8%	6.4%

We are concerned that by setting too low a threshold Ofwat would risk becoming too involved in micro-management of companies' tariffs. Understanding the impacts on customers of changes in tariffs through an impact assessment is likely to be an onerous task on companies, and we consider it is only appropriate where proposed changes in bill levels are significant.

In our updated PR14 business plan we have detailed proposals for our customer consultation group, which we intend to use for discussion of tariff issues amongst other matters that would affect customers. We consider this is a more appropriate means of understanding the impact of our policies on customers than an impact assessment.

Given the above, we would suggest a minimum threshold of 10% for an impact assessment would be more appropriate.

Q3 Do you agree with such a threshold being a short-term measure? If so, when should Ofwat remove such a requirement?

As explained in our response to question 2, we believe that discussions with our customer consultation group will prove a more effective means of assessing the impact of our tariffs. Once this approach has been shown to be working successfully we would hope that the requirement for impact assessments could be removed.

Q4 Do you agree with the draft schedule for presenting standardised charging schedule presented in appendix 7? If not, please provide views.

The draft schedule is not fully applicable to Bristol Water customers as it does not take account of our current or proposed large user tariff structure:

Wholesale Tariff Structure		Proposed Default Tariff Structure		
Wholesale Band	Minimum Annual Consumption (m ³)	Retail Band	Minimum Annual Consumption (m ³)	Number of customers ¹
A	250,000	A	250,000	2
B	100,000	B	100,000	17
C	50,000	C	50,000	18
D	15,000	D	15,000	85
E	5,000	E	5,000	449
		F	1,000	3,021
G	0	G	0	26421
U	unmeasured	U	unmeasured	3416

To make the schedule applicable to Bristol Water it is necessary to add an additional band at 15 ML.

We would also suggest that for simplicity an additional column should be added to the volumetric charges table for those companies that do not propose varying volumetric charges through the year.

Q5 Should charges associated with Open Water and market readiness be included as a separate increment to the volumetric charge in the wholesale charging schedule?

We do not consider that they should be included as a separate increment.

Q6 Beyond 2015, do you agree that wholesale charges should be published in advance of retail charges? If so, please provide views on how far in advance is appropriate.

We consider that the current arrangement whereby wholesale charges are published by 31st January each year will remain appropriate in the new regime. For retail providers to non-household customers this will allow two full additional months to calculate and communicate retail charges to customers, which we consider to be sufficient.

Q7 Do you consider that Ofwat should require retail water bills to provide a breakdown of retail and wholesale charges?

For bills to household customers we do not consider that provision of such a breakdown would be necessary, as it would provide an added level of complexity which is not helpful to most customers.

¹ As at 31/3/14

For non-household customers the issue is less clear, and we do note the potential benefits to customers in having this transparency, although we are not aware of any other functionally separated utility which is required to provide the breakdown of its bill in this way