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28th September 2015

Dear Ynon,

Thank you for the opportunity to respond on this consultation.

We welcome Ofwat's publication of charging rules, and generally support the proposed approach. However, we have concerns that some of the requirements proposed may be creating an undue regulatory burden, and the proposed timetable is not practical given the enhanced role of Board assurance.

We provide our responses to the specific consultation questions below; please contact us if we can be of further assistance on this.

Yours Sincerely,

Mike King
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- 1) Do you have any specific views on the draft rules for 2016-17 included in appendix 2? Are there any other rules that you consider should be included?**

We discuss our concerns with points 8 and A1 (b), on bill stability impact assessments, in our response to question 3 below.

- 2) How best can site area-based surface water drainage charges be adopted? And what lessons can be learned from how companies have moved to this basis so far?**

No comments

- 3) Do you agree with our proposed threshold for 'significant' bill increase? If not, is there evidence for a more suitable threshold? And how this can be assessed for different customer types?**

Further to the comments we made in response to the previous consultation on this matter, we remain concerned that using a fixed percentage as the threshold for assessing the impact of changes in charges on different customer groups may not be the most effective approach.

Where overall charge increases, including inflation, are greater than a set threshold, this may cause an impact assessment to be required if this increase is applied equally to all customers. This does not appear to be proportionate or likely to achieve what we believe is the intention of this process, to monitor the impact of charging policies on particular customer groups.

It would be preferable for a more flexible approach to be adopted, to more accurately identify where certain customer groups are disproportionately affected by tariff changes, rather than using a set threshold figure.

The most important factor in the assessment of impact of charging strategies should be the extent to which changes in charges are different to the overall change in average bills. These variances are likely to occur as a result of specific charging strategy decisions.

- 4) Do you agree with our current preference of companies publishing their Board's assurance statements?**

Yes, we consider that to be appropriate. For ease of reference by customers and other interested parties, it may be helpful for Ofwat to maintain a page of links to the relevant statements on its website, along with published wholesale and end-user charges schemes.

- 5) Do you consider that the Board's assurance statement should cover anything else than what we propose above?**

We have not identified any additional areas that should be covered.

- 6) Do you agree with our current preference for companies to submit a statement of significant changes?**

We do not consider that the proposed approach is feasible. Whilst we support the need to identify any disproportionate effects of charging policies on particular customer groups, the proposed statement could add significant bureaucracy and regulatory burden to the charges process.

The consultation proposes that the statement is published alongside the Board assurance statement on charges. This means that sufficient time needs to be allowed for Board review of the content and proposed charges.

If the statement is required to be based on final tariffs, the proposed deadline of three weeks before publication of charges is too early to allow for calculation and assurance. It would be more appropriate to submit the statement at the end of January, alongside publication of final charges.

It would be possible to provide an earlier statement if it was only required to include details of changes in charging policies, such as new or changed tariff structures. This statement could provide details of the changes, with the actual impacts stated alongside charges publication.

7) Do you have any specific views on the proposals included in chapter 4? Are there any other rules or issues that you should be consulted on next year?

Completeness of wholesale charges schemes: We consider that the approach proposed, that all wholesale charges for the year should be included in advance in the published charges scheme, may be over-prescriptive. We think it is reasonable that where a company identifies a new charge during the year it should be able to commence charging on it immediately, and provide details in the following year's charges scheme.

8) Would it be practicable and/or desirable to include all non-primary charges in the wholesale charges scheme?

As publication of non-primary charges is not required by retailers, we see no reason for these to be published as part of the wholesale charges scheme. We suggest a publication deadline for these of the first working day of February, alongside all end-user charges, remains appropriate.

9) Do you have any specific views on the requirement to publish final wholesale charges for non-household customers no later than the first week of January?

It is important to be aware in consideration of this question that calculation and assurance of wholesale charges for non-household customers is not separable from the overall charges calculation and assurance process. Therefore, this requirement effectively means that the full charges submission will need to be completed and assured by the first week in January. The short period of time, compounded by the Christmas period, this allows from publication of November RPI, between 15th and 21st Dec (in 2016 will be 20th Dec), means that it is not practical to convene a Board meeting to provide the assurance that Ofwat requires over tariff submissions.

To overcome this timing issue the deadline for publication of wholesale charges must be the end of January, to allow time for Board assurance of final charges submissions.

10) Do you agree with our outline proposal that indicative wholesale charges be published in July and October?

We do not consider that a July publication would be sufficiently helpful to the relevant parties to merit the cost that it would involve. Any such publication would require external and Board assurance, but be based on a set of assumptions which may change significantly. Retailers would have an indication of the potential movement in charges from wholesalers 'K' factors and their own forecasts of RPI, this should provide sufficient information at an early stage on which to base a charging strategy.

If an early view of future tariffs is required, it may be more cost-effective to produce this as part of the tariff setting process in January of each year, as this would allow it to be incorporated in the calculation and assurance process.

An indicative October publication may be appropriate, but as noted above, any such publication places a regulatory burden on companies and adds costs, particularly for assurance. Therefore, before setting this requirement, it should be clearly established what benefits this indicative publication brings to customers.

The proposal that the October publication may then only be changed in line with movement in inflation is counter to the principle that charges should be "best calculated to comply with the Price Control".¹ We consider that this requires that calculations should make use of observed demand patterns. The data to assess summer consumption is not available until the autumn, due to six-monthly meter reading cycles, and the results of this analysis may impact demand forecasts and therefore calculated tariffs. This means that any October publication must remain purely indicative, and subject to change in line with updated information on customer numbers, metering and demand.

¹ Bristol Water Licence Condition B, para 8.1