



BRISTOL
WATER

Indicative Charges 2021/22 Assurance Statement

13 October 2020



STATEMENT OF ASSURANCE 2021/22 INDICATIVE WHOLESAL CHARGES

The Board of Bristol Water confirms that:

- a) the company complies with its legal obligations relating to the wholesale charges it has published;
- b) the Board has assessed the effects of the new charges on licensees (as a whole or in groups) who are retailing wholesale services to eligible customers and to business end-users (as a whole or in groups). The Board has also assessed the impact on New Appointment and Variation (NAV) appointees who receive bulk supplies from Bristol Water;
 - a. This assessment has identified there are instances where bill increases for licensees (as a whole or in groups) who are retailing wholesale services to eligible customers and business end-users (as a whole or in groups) exceed 5%
 - b. As we show in the supporting information there is a higher increase to unmeasured non-household wholesale charges, related to changes in non-household customer numbers and non-household demand. The typical bill for unmeasured customers is small and the excess increase above 5% is £6 p.a. This is therefore a cost reflective change and the customers have the option of metering. We will consult with retailers and stakeholders before finalising our wholesale and user charges, and as such no further impact assessment or specific handling strategies are required, beyond those normally maintained by the company.
 - c. The Board notes that there are specific uncertainties related to the outcome of the CMA re-determination and forecasts of customer numbers and volumes due to Covid. We will revisit the impacts before finalising charges in January.
- c) the company has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published about its indicative wholesale charges is accurate;
- d) the company has consulted with relevant stakeholders in a timely and effective manner on its indicative wholesale charges schemes, through the Bristol Water Challenge Panel;



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- e) there are no significant changes to indicative wholesale charges. We have considered the outcome of the Ofwat review of NAV markets and include in the wholesale charges scheme changes to the underlying calculations support our NAV tariff, reflecting improvements identified following this review. Bristol Water is publishing both indicative wholesale charges and indicative new development charging arrangement documents in order to facilitate engagement.

We summarise our key changes in charges and other useful information that provides context for this statement at the end of this document.

Signed on behalf of the Board of Bristol Water:

Mel Karam
Chief Executive



Supporting information for indicative household, wholesale and new connection charges

We have published our indicative Wholesale charges for 2021/22 in order to provide retailers and customers with information on the expected levels and to facilitate consultation on these. Wholesale charges principally apply to non-household customers, in that they provide the basis for Retailers to set end-user charges.

We also provide information on projected bill impacts for households as well as retailers.

There is a level of uncertainty related to the indicative wholesale charges information, as we asked Ofwat to refer its PR19 Final Determination to the Competition and Markets Authority (CMA). The CMA is expected to publish its Final Determination in December 2020. The indicative charges published are calculated in line with Ofwat's Final Determination. 2021/22 revenues will also be adjusted in line with the outcome of Ofwat's PR19 "blind year" decision.

Additional uncertainty is created by the ongoing impact of the Covid-19 pandemic, and the effect on the number of customers (particularly business customers), consumption patterns and the level of support we need to provide through our social tariffs. These indicative tariffs include our current assumptions, which will be updated for final charges as the potential impact on 21/22 becomes clearer.

These charges will be finalised upon release of the CMA's PR19 Final Determination (expected early December 2020), Ofwat's blind year decision (expected mid-November 2020) and the November 2020 CPI(H) figure (due to be published 16th December 2020). As such there is greater uncertainty than in other years around the level of indicative wholesale charges, and it will not be until final wholesale charges are published on 13th January 2021 that this uncertainty will be resolved.

The table below presents the example bill changes for Household customer charges affecting customers on measured (metered) and unmeasured charges for 2021/22 compared to 2020/21. For measured household customers we show a range of typical volumes (m³ per annum) and for unmeasured household customers a range of Rateable Values (£). The changes in different customer categories largely reflect that retail standing charges do not have CPI(H) inflation applied. For ease of presentation, the components of the example bills are shown later in this statement.

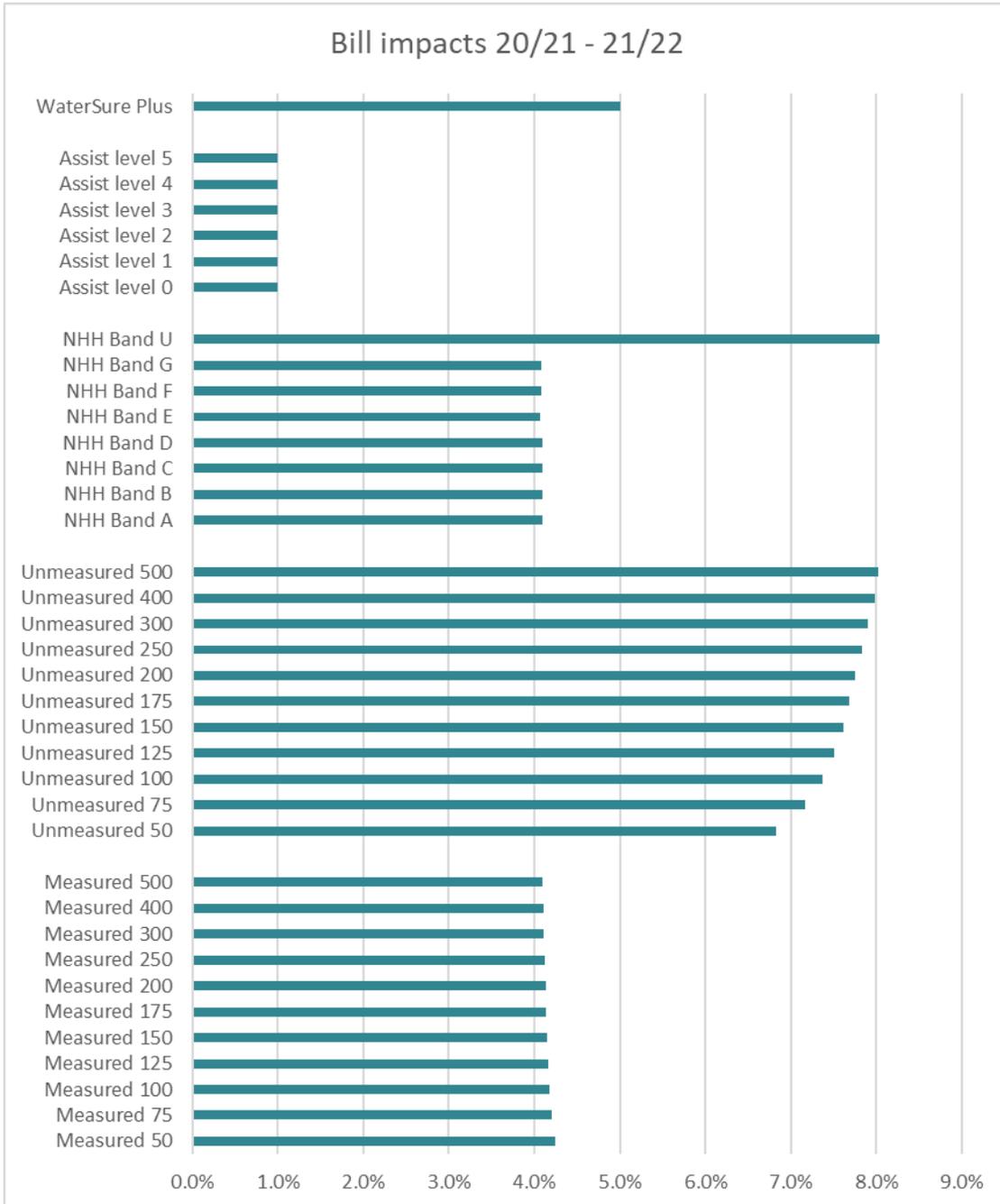


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Household Customers	Customer Group	Water used (litres per day)	Typical Bill 2020/21 (£)	Typical Bill 2021/22 (£)	Change (£)
Measured Households	Measured 50	50	104	108	4.2%
	Measured 75	75	136	141	4.2%
	Measured 100	100	167	174	4.2%
	Measured 125	125	199	207	4.2%
	Measured 150	150	231	240	4.1%
	Measured 175	175	262	273	4.1%
	Measured 200	200	294	306	4.1%
	Measured 250	250	357	372	4.1%
	Measured 300	300	421	438	4.1%
	Measured 400	400	547	570	4.1%
Measured 500	500	674	702	4.1%	
Unmeasured Households	Unmeasured 50	50	85	90	6.8%
	Unmeasured 75	75	111	119	7.2%
	Unmeasured 100	100	137	147	7.4%
	Unmeasured 125	125	163	176	7.5%
	Unmeasured 150	150	190	204	7.6%
	Unmeasured 175	175	216	232	7.7%
	Unmeasured 200	200	242	261	7.8%
	Unmeasured 250	250	295	318	7.8%
	Unmeasured 300	300	347	375	7.9%
	Unmeasured 400	400	452	488	8.0%
Unmeasured 500	500	557	602	8.0%	



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Proposed Wholesale Charges

The table below presents example bill changes for wholesale charges affecting licenced retailers that supply eligible Non-Household (business) customers on measured (metered) and unmeasured charges for 2021/22 compared to 2020/21¹. This reflects our non-Household charges as set out in our published Wholesale Charges Schedule. Charges for measured Non-Household customers (Bands A to G) are based on forecasts of annual water used (m³ per annum) and for unmeasured Non-Household customers (Band U) the charge is based on the Rateable Value (£).

Non-Household Customers by Band		Water used (m ³ per annum)	Typical Bill 2020/21 (£)	Typical Bill 2021/22 (£)	Change (£)	Change (%)
Non-Households	Band A	375000	369,221	384,360	15,139	4.1%
	Band B	175000	180,838	188,244	7,406	4.1%
	Band C	75000	81,679	85,023	3,344	4.1%
	Band D	32500	37,251	38,776	1,525	4.1%
	Band E	10000	12,336	12,839	503	4.1%
	Band F	2000	2,506	2,608	102	4.1%
	Band G	500	637	663	26	4.1%
	Band U	200	222	240	18	8.0%

Bill Impact for Assessed Charges (Household and Non-Household)

Assessed charges are levied for customers who have requested to be charged on a measured (metered) basis but for whom it is not possible to install a water meter at their property. Assessed charges are available to both Household customers, in which case the Assessed charge is based on the number of bedrooms in their property, and Non-Household customers in which case the Assessed charge is based on the number of employees. Single Household occupiers receive the 1 bedroom assessed charge.

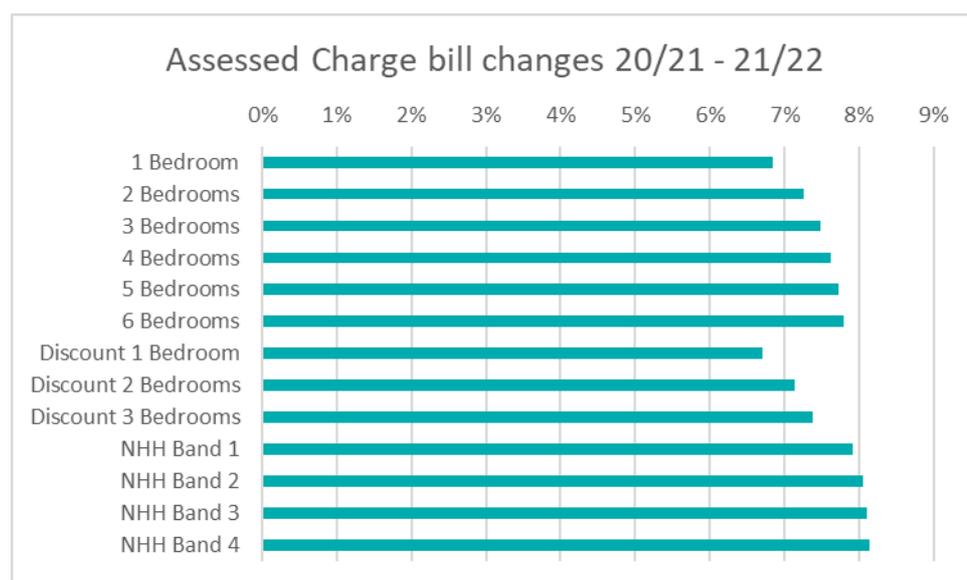
¹ Charges for retail services provided by retailers will be added to the wholesale charge payable by Non-Household (business) customers.



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The table below presents typical bill changes for Assessed Household and non-Household customer charges for 2021/22 compared to 2020/21, as reflected in our standard charges publications. The change in charges is also presented in the graph overleaf.

Assessed Charges		Bill 2020/21 (£)	Bill 2021/22 (£)	Change (£)	Change (%)
Household	1 Bedroom	108.40	115.82	7.42	6.8%
	2 Bedrooms	154.40	165.61	11.21	7.3%
	3 Bedrooms	200.40	215.41	15.01	7.5%
	4 Bedrooms	246.40	265.20	18.80	7.6%
	5 Bedrooms	292.40	314.99	22.59	7.7%
	6 Bedrooms	338.40	364.79	26.39	7.8%
	Discount 1 Bedroom	98.21	104.79	6.58	6.7%
	Discount 2 Bedrooms	137.31	147.11	9.80	7.1%
	Discount 3 Bedrooms	176.41	189.44	13.03	7.4%
Non-Household	Band 1	58.16	62.76	4.60	7.9%
	Band 2	96.30	104.05	7.75	8.0%
	Band 3	134.45	145.34	10.89	8.1%
	Band 4	172.59	186.63	14.04	8.1%



NAV charge approach



New Appointments or Variations (NAVs) operate within defined areas within an incumbent water company's supply region. They are responsible for operation and maintenance of the supply network within their own areas of appointment, and for billing and customer service relationships. These are typically on new build housing developments. At present there are two such NAV sites within our supply region, at Emersons Green near Bristol, and Locking Parklands near Weston-super-Mare.

The starting point for our NAV tariffs is our wholesale charging structure, which sets standing and volumetric charges for households, and for non-households in seven different consumption bands.

The principle of our NAV tariffs is that we then deduct from the wholesale charges the costs that we avoid within the NAV site. This recognises that we do not incur certain types of costs within NAV sites because some activities that we undertake where we serve customers directly

We propose to no longer apply a standing charge to properties on NAV sites, having reviewed bottom up costs saved.

Variable charges

- We apply discounts in relation to:
 - the ongoing costs we avoid at NAV sites:
 - not having to replace communication pipes and stop taps
 - not having to replace meters and their chambers
 - not having to renew or replace water mains within the sites
 - not having to clean ("flush") the water mains
 - leakage allowances for volumes not used by NAV customers compared to our bulk meter.
 - depreciation costs avoided at NAV sites (an annuity for asset replacement)
 - the operating margin for risks we do not face without end customers.
- Where relevant we adjust the calculated discounts for larger non-household properties in recognition of the discounts already included within wholesale charges, reflecting that for larger users they are receiving a discount for on site operations, flushing and leakage etc.

Our proposed NAV tariffs are shown below. The percentage change ignores the removal of fixed standing charges, which as an example for each household served by a NAV are the equivalent of c12p/m³.



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Tariff Band	Customer consumption (m3 p.a.)	Standard rate wholesale tariff £ per m3	On going costs - discount £/m3	Depreciation - discount £/m3	Operating margin and leakage	Variable NAV Tariff £/m3 2021/22	Variable NAV Tariff £/m3 2020/21	% Change
NHH A	<500000	0.9595	-0.0188	0.0000	-0.0133	0.9268	0.9213	0.59
NHH B	<250000	1.0200	-0.0190	-0.0233	-0.0463	0.9307	0.9678	-3.84
NHH C	<100000	1.0779	-0.0260	-0.0233	-0.0863	0.9415	0.9745	-3.38
NHH D	<50000	1.1349	-0.0300	-0.0533	-0.0863	0.9645	0.9783	-1.41
NHH E	<15000	1.2808	-0.1652	-0.0533	-0.0863	0.9751	0.9820	-0.70
NHH F	<5000	1.2993	-0.1661	-0.0533	-0.0863	0.9927	0.9828	1.01
NHH G	<1000	1.3162	-0.1152	-0.0533	-0.0863	1.0605	0.9850	7.66
H Household tariff		1.3194	-0.0432	-0.0533	-0.0863	1.1357	0.9881	14.94



Infrastructure charges and income offset

Our infrastructure charges are forecast to increase from £256 for 2020/21 to £272 for 2021/22. The cost and connection assumptions behind this are set out in our new connection charging arrangements document.

The components of our forecast developer services revenue are set out below:

Contribution	2021/22 £
Design Administration Fees	31320
Requisition Charges	2025878
SLP non-contestable work	261070
SLP Design fees	7582
Non Physical Connection Fees	32976
Connection Charges	1920313
Infrastructure Charges	1344409
Mains diversions revenue	506000
Income offset	-2831767
Total	3297781
Number of properties connection	5772
Number of properties which infra charges apply to	4936

The infrastructure charges increase, due to lower property numbers, offset by the difference between income and expenditure from previous years to fund network reinforcement.



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Scheme	20/21	21/22	22/23	23/24	24/25
Known Schemes for growth					
200mm ID Main to reinforce 10" in Frampton Cotterell		£100,000.00	£274,039.00		
North Chase main			£178,735.00		
Croscombe Reservoir	£1,601,994.00				
Forum to Shepton Mallet Growth	£41,000.00	£1,034,000.00	£1,243,000.00		
AMP 7 remaining specific schemes					
Churchill (Reservoir)		£21,467.00	£205,145.00	£1,173,795.00	£1,115,932.00
Known Developer Driven Mains	£494,937.00	£500,000.00	£500,000.00	£500,000.00	£500,000.00
Total expenditure after targeted programme efficiencies	£1,799,843.42	£1,403,381.52	£2,015,952.23	£1,418,442.44	£1,370,893.87
2021-25 projected expenditure	£6,208,670.06				
less timing from previous years	-£747,000.00				
	£5,461,670.06				
2021-25 property numbers	20,053				
Infrastructure Charge	£272				

In addition, the infrastructure payment / “income offset” reflects a payment necessary to developers (including NAVs and SLPs) to reflect the balance between charges paid by developers and those paid by other customers. For 2021/22 this is expected to be £508, reduced from £750 in 2020/21

Value of income offset to maintain balance of charges	2831767
Number of properties	5572
Per property (£)	508
Infrastructure charge	272
Net payment per connection	-236



Bill Impacts and Handling Strategies

As this supporting information sets out, we currently anticipate that no wholesaler will receive a bill increase greater than 5% between 2020/21 and 2021/22, although a number of uncertain elements may impact final 21/22 charges. Wholesale bill increases for measured non-household customers are currently estimated at 4.2%. Whilst unmeasured bill increases are higher, these represent a small proportion of non-household customers and no retailer serves only unmeasured customers.

Household bill increases are currently forecast at 4.2% for measured customers, and between 7-8% for unmeasured customers. This reflects a number of factors, including:

- the finalisation of PR19 blind year allowances for our performance against our commitments, in particular improvement in our leakage performance mitigating the penalty we had incurred
- Covid-19 impacts on non-household demand, increasing the proportion of our revenue we must recover from household customers
- Growth in the number of customers on social tariffs, in part due to the economic impacts of Covid-19

We will work with stakeholders and customer representatives to explain these impacts and the support we can provide for customers affected.

We do not expect any new connection charges to increase by more than 10% between 2020/21 and 2021/22, although infrastructure charges (currently forecast at c+6%) may do because of lower property numbers, which are difficult to forecast currently. Infrastructure payments for income offset are forecast to fall by 32%, as lower connections require a reduction to balance charges to other customers. This offsets reductions based on higher forecast new connections for 2020/21 which are now with Covid unlikely to arise. We will revisit this before finalising 2021/22 charges.

In addition, the changes in charges are balanced between customer groups, and all customer groups benefit within a normal range of annual charge variation from the level of allowed revenue implied by Ofwat's PR19 final determination. We expect to maintain this balanced approach within the range of outcomes that may be expected for the CMA's Final Determination. Therefore, no specific impact analysis or handling strategies are required beyond the normal approaches to communicating bill changes to customers. We will revisit this if necessary for the final charges.