

Indicative Charges 2023/24 Assurance Statement

13 October 2022



STATEMENT OF ASSURANCE 2023/24 INDICATIVE WHOLESALE CHARGES

The Board of Bristol Water confirms that:

- a) the company complies with its legal obligations relating to the indicative 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 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%. This reflects the impact of the CMA price control determination and the anticipated level of CPIH inflation, and is not related to specific charging assumptions or changes in tariff structures. Given the uncertainty around CPIH inflation, the indicative charges have been developed using best endeavours and known information.
 - b. The Board have recognized the high allowed increase in wholesale charges and have prepared indicative tariffs based on a 5% voluntary deferral of “K” increases until 2025. As this is outside of the current parameters of the regulatory framework, the proposal will require further discussion with Ofwat before setting final charges.
 - c. 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.
 - d. Charges have reduced by c.1% reflecting the reduction in the bills to return the value of the Company Specific Adjustment to the cost of debt allowed by the CMA, as part of the undertaking made by Pennon following its acquisition of Bristol Water Plc.
- 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;



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- 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;
- e) there are no significant changes to the structure of our indicative wholesale charges, NAV charges or new connection charges. 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.

Board Signatures

Signed by the Board of Bristol Water:



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Name	Role	Signature	Date
Gill Rider	Chair		28 September 2022
Neil Cooper	Senior Independent Non-Executive		28 September 2022
Iain Evans	Independent Non- Executive		28 September 2022
Claire Ighodaro	Independent Non- Executive		28 September 2022
Jonathan Butterworth	Independent Non- Executive		28 September 2022
Susan Davy	Non-Executive Director		28 September 2022
Mel Karam	Chief Executive Officer		28 September 2022
Paul Boote	Chief Financial Officer		28 September 2022



Supporting information for indicative household, wholesale and new connection charges

We have published our indicative Wholesale charges for 2023/24 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.

These charges will be finalised upon release of Ofwat's in-period determination (expected mid-November 2022) and the November 2022 CPI(H) figure (due to be published 14th December 2022).

These charges are presented on the basis of a proposal of Bristol Water to make a voluntary 5% deferment of allowed bill increases until 2025. As this falls outside of the revenue control parameters within the regulatory framework, we will discuss this further with Ofwat before setting final charges.

The table below presents the example bill changes for Household customer charges affecting customers on measured (metered) and unmeasured charges for 2023/24 compared to 2022/23. 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.

Household Customers	Customer Group	Water used (litres per day)	Typical Bill 2022/23 (£)	Typical Bill 2023/24 (£)	Change (£)
Measured Households	Measured 50	50	114.77	125.41	10.64
	Measured 75	75	149.70	163.90	14.21
	Measured 100	100	184.62	202.40	17.78
	Measured 125	125	219.55	240.89	21.34
	Measured 150	150	254.47	279.38	24.91
	Measured 175	175	289.40	317.87	28.48

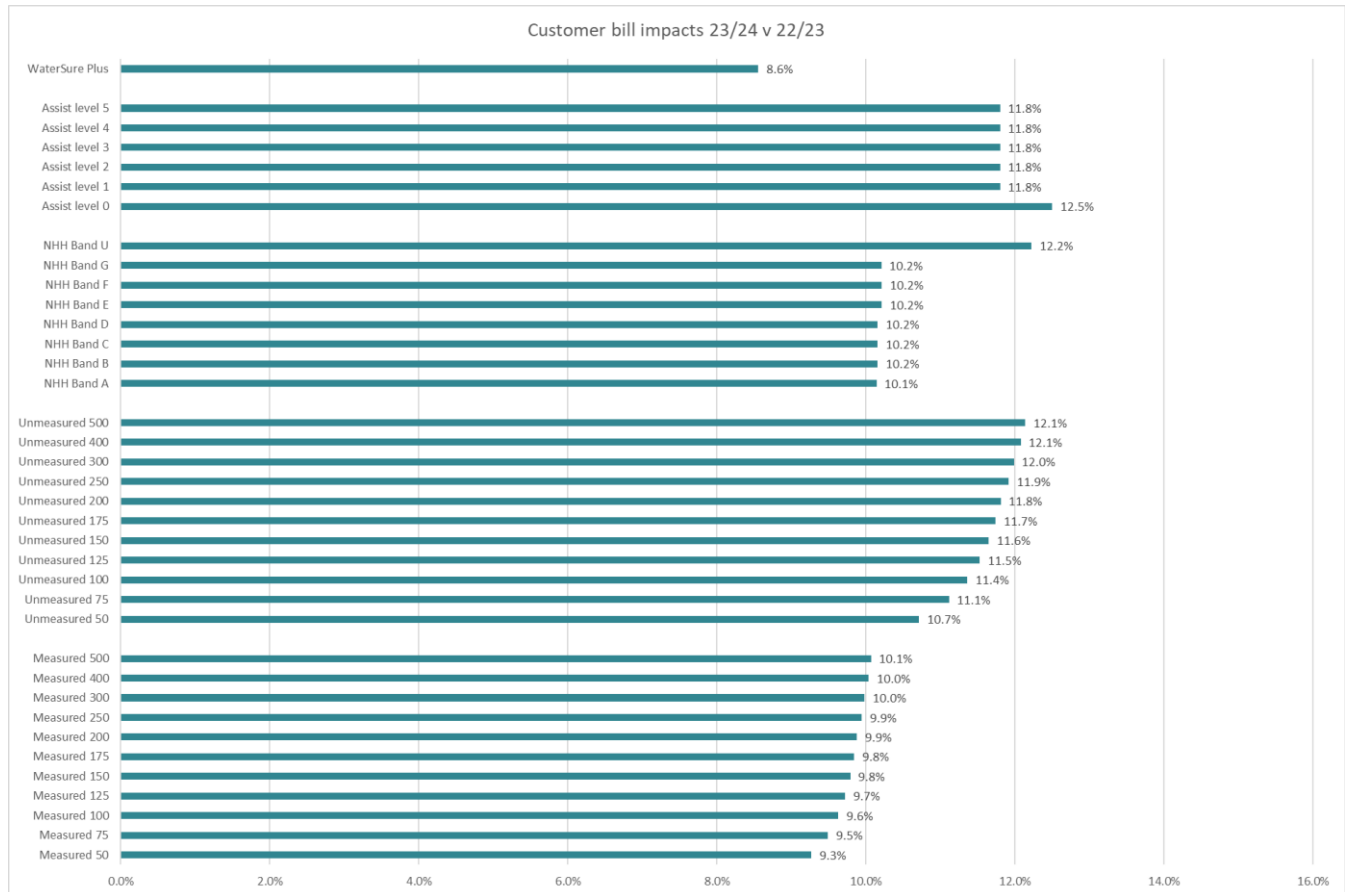


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Household Customers	Customer Group	Water used (litres per day)	Typical Bill 2022/23 (£)	Typical Bill 2023/24 (£)	Change (£)
	Measured 200	200	324.32	356.37	32.05
	Measured 250	250	394.17	433.35	39.18
	Measured 300	300	464.02	510.34	46.32
	Measured 400	400	603.72	664.31	60.59
	Measured 500	500	743.42	818.28	74.86
Measured Households	Unmeasured 50	50	96.29	106.60	10.31
	Unmeasured 75	75	126.84	140.94	14.10
	Unmeasured 100	100	157.39	175.27	17.88
	Unmeasured 125	125	187.94	209.61	21.67
	Unmeasured 150	150	218.49	243.94	25.45
	Unmeasured 175	175	249.04	278.28	29.24
	Unmeasured 200	200	279.59	312.61	33.02
	Unmeasured 250	250	340.69	381.28	40.59
	Unmeasured 300	300	401.79	449.95	48.16
	Unmeasured 400	400	523.99	587.29	63.30
	Unmeasured 500	500	646.19	724.63	78.44



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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 2023/24 compared to 2022/23¹. 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 2022/23 (£)	Typical Bill 2023/24 (£)	Change (£)	Change (%)
Non-Households	Band A	375000	405,750	446,899	41,149	8.1%
	Band B	175000	198,877	219,074	20,197	8.1%
	Band C	75000	89,838	98,964	9,126	8.1%
	Band D	32500	40,972	45,135	4,162	8.1%
	Band E	10000	13,600	14,989	1,389	8.3%
	Band F	2000	2,763	3,045	282	8.3%
	Band G	500	702	774	72	8.3%
	Band U	200	257	288	31	11.7%

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.

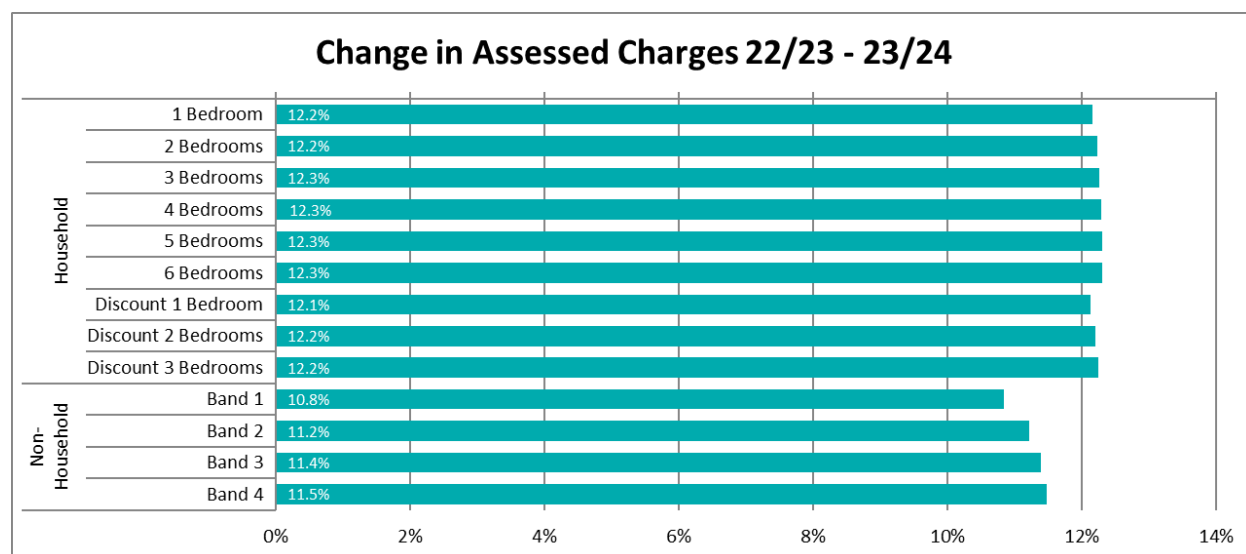
¹ Charges for retail services provided by retailers will be added to the wholesale charge payable by Non-Household (business) customers.



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The table below presents typical bill changes for Assessed Household and non-Household customer charges for 2023/24 compared to 2022/23, as reflected in our standard charges publications. The change in charges is also presented in the graph overleaf.

Assessed Charges		Bill 2022/23 (£)	Bill 2023/24 (£)	Change (£)	Change (%)
Household	1 Bedroom	124.02	139.11	15.09	12.2%
	2 Bedrooms	176.12	197.66	21.54	12.2%
	3 Bedrooms	228.21	256.20	27.99	12.3%
	4 Bedrooms	280.30	314.75	34.45	12.3%
	5 Bedrooms	332.39	373.29	40.90	12.3%
	6 Bedrooms	384.48	431.83	47.35	12.3%
	Discount 1 Bedroom	112.51	126.17	13.66	12.1%
	Discount 2 Bedrooms	156.80	175.95	19.15	12.2%
	Discount 3 Bedrooms	201.08	225.71	24.63	12.2%
Non-Household	Band 1	66.05	73.22	7.17	10.8%
	Band 2	109.71	122.03	12.32	11.2%
	Band 3	153.36	170.83	17.47	11.4%
	Band 4	197.02	219.64	22.62	11.5%



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.

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 no longer apply a standing charge to properties on NAV sites.

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. No fixed charges are applied, so the comparison below shows both the standard fixed and volumetric charges.



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Tariff Band	Customer consumption (m3 p.a.)	Standard rate wholesale tariff fixed £	Standard rate wholesale tariff volumetric £/m3	On going costs - discount £/m3	Depreciation - discount £/m3	Operating margin and leakage	Variable NAV Tariff £/m3 2023/24	Variable NAV Tariff £/m3 2022/23	% Change
NHH A	<500000	27058.94	1.1196	-0.03253	0.0000	-0.0074	1.0796	0.9882	9.25
NHH B	<250000	10766.34	1.1903	-0.03282	-0.0408	-0.0344	1.0823	0.9936	8.93
NHH C	<100000	4622.12	1.2579	-0.04043	-0.0408	-0.0874	1.0892	1.0050	8.38
NHH D	<50000	2093.30	1.3244	-0.04478	-0.0608	-0.1074	1.1113	1.0313	7.76
NHH E	<15000	43.28	1.4945	-0.18319	-0.0608	-0.1074	1.1431	1.0505	8.81
NHH F	<5000	12.58	1.5161	-0.18414	-0.0608	-0.1074	1.1638	1.0693	8.84
NHH G	<1000	5.80	1.5359	-0.12866	-0.0608	-0.1074	1.2390	1.1381	8.87
H Household tariff		13.66	1.5397	-0.05007	-0.0608	-0.1074	1.3214	1.2136	8.88



Infrastructure charges and income offset

Our infrastructure charges are forecast to decrease from £309 for 2022/23 to £290 for 2023/24. The cost and connection assumptions behind this are set out in our indicative new connection charging arrangements consultation document.

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. This is being phased out as Ofwat have decided it should no longer apply. Instead, we are offering infrastructure charge discounts for developments that go further than legally required on water efficiency standards. For 2023/24 income offset is expected to be £571, a reduction from £686 in 2022/23 to maintain the balance of charges.

Value of income offset to maintain balance of charges	£3,365,802
Number of properties connected	5,890
Value of income offset per property based on 65% discount to requisition charges	-£571
Infrastructure charge per property	£290
Net infrastructure payment per connection	-£281



Bill Impacts and Handling Strategies

As this supporting information sets out, we currently anticipate that all wholesalers will receive a bill increase greater than 5% between 2022/23 and 2023/24, although a number of uncertain elements may impact final 23/24 charges. Before our plan to voluntarily defer 5% of our bill increase until 2025, wholesale bill increases for measured non-household customers are currently estimated at c.15%. Whilst unmeasured bill increases are higher at c.18%, these represent a small proportion of non-household customers and no retailer serves only unmeasured customers. After the 5% deferral the tariff increases fall at or below the level of CPIH inflation, with measured non-household customers estimated at c.10% and unmeasured non-household customers at 12%.

Household bill increases are currently forecast at 10% for measured customers, and between 12% for unmeasured customers, with larger increases for the largest users or properties with the highest rateable values. This reflects a number of factors, including:

- the outcome of the CMA redetermination of PR19, which resulted in an increased revenue allowance for Bristol Water, to be applied over the remaining three years of the price control period
- CPI(H) inflation forecast of 11.6% for November 2022
- The impact of a move from outcome incentive underperformance penalties reflected in 2022/23 bills to outperformance payments within 2023/24 bills.
- Growth in the number of customers on social tariffs
- Offset by higher base revenues from increased demand
- Offset by a c.1% reduction in bills reflecting the benefits of the acquisition of Bristol Water Plc by Pennon, reflecting the return from 2013/14 charges of the higher cost of borrowing.
- A 5% voluntary deferment of wholesale revenues until 2025, to be further discussed with Ofwat.

We will work with stakeholders and customer representatives, in particular CCW and the Bristol Water Challenge Panel, to explain these impacts and the support we can provide for customers affected, in particular through our social tariffs. We have simplified the application process for our Assist tariff, which can provide discounts of up to 88% on average bills, in order to ensure we can support those customers most in need.



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We have included a proposal to smooth out the bill changes over 2023 – 2026, as Bristol Water bills may be expected to drop in 2025-26 due to the profile of the CMA redetermination adjustments. The regulatory framework currently can apply penalties to revenue smoothing, and therefore we will discuss this with Ofwat in advance of final charges, and whether we can limit bill increases to the level of CPI(H) inflation.

We forecast that infrastructure charges will decrease by 6%, due to infrastructure investment already made and an increasing number of NAV connections on major new developments. The value of income offset is reducing because of the balance of charges, and in addition this will help to phase in the Ofwat decision not to apply income offset charges from 2025/26. The impact of income offset payments is that the net impact of infrastructure charges and income offset is a 28% increase. The high levels of materials and general inflation also affect our developer services charges, with typical scenarios suggesting an increase of between 6% and 17%