

BRISTOL WATER PLC PRICE DETERMINATION

Summary of provisional findings report

Notified: 10 July 2015

Background

1. Bristol Water plc (Bristol Water) is a Water-Only Company (WoC) based in the South West. It is responsible for the sourcing, treatment and distribution of water, supplying clean water to over 1.2 million people and businesses in south west England. Over 56% of the properties supplied are situated in the urban area of Bristol. Bristol Water is owned 30% by the Spanish company Sociedad General de Aguas de Barcelona SA (Agbar), 50% by Capstone Infrastructure Corporation of Canada (Capstone) and 20% by the Itochu Corporation of Japan (Itochu).
2. Under the terms of its Instrument of Appointment (Licence), the charges that Bristol Water can make for its retail and wholesale activities are controlled by the Water Services Regulation Authority (Ofwat), which carries out five-yearly 'periodic reviews' (or 'price reviews') for this purpose on water companies in England and Wales. Bristol Water does not provide sewerage services and is categorised by Ofwat as a WoC as distinct from a water and sewerage company (WaSC).
3. On 12 December 2014, Ofwat published its final determination of the controls which limit the price Bristol Water may charge for supplying water in the five-year period from 1 April 2015 to 31 March 2020.¹ Bristol Water disputed the price determination, and under the terms of Condition B of its Licence required Ofwat to refer the disputed determination to the Competition and Markets Authority (CMA) for a further determination. On 4 March 2015, Ofwat made the reference to the CMA.²
4. The reference required us to report on and determine the disputed determination by 3 September 2015. We must make our determination in

¹ Note the 'price controls' actually operate as restrictions on revenues, rather than restrictions on specific prices or tariffs.

² Under section 12(3)(a) of the Water Industry Act 1991 (WIA 91).

accordance with the same statutory provisions and duties as applied to Ofwat when it made the disputed determination.

5. The five principal duties in the WIA 91 which we must make our determination in accordance with are:
 - (a) to further the consumer objective (to protect the interests of consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services);
 - (b) to secure that the company's functions under the WIA 91 are properly carried out;
 - (c) to secure that the company is able (in particular, by securing reasonable returns on its capital) to finance the proper carrying out of those functions (this is sometimes referred to as the 'financing duty');
 - (d) to secure that the activities authorised by the company's Licence and any statutory functions are properly carried out; and
 - (e) to further the resilience objective (to secure the long-term resilience of water undertakers' supply systems and sewerage undertakers' sewerage systems with regard to environmental pressures, population growth and changes in consumer behaviour).

The 2014 price review

6. Ofwat told us that it introduced a game-changing methodology for the 2014 price review (PR14). Ofwat wanted companies to take more responsibility for understanding what their customers' priorities were and then acting upon them. Ofwat wanted companies to take ownership for managing risk and to ensure a better allocation of risk and reward between investors, management and companies. Companies were required to establish a Customer Challenge Group (CCG) to review and challenge the way companies engaged with customers and to take customer views into account in their decisions.
7. For the first time, Ofwat set separate wholesale and retail price controls. The development of these separate price controls was designed to facilitate the development of more targeted incentives for retail and non-household customers and also reflected legislative and regulatory changes in the water industry in England that are intended to support the development of competition, particularly for the supply of retail services to non-household customers.

8. Many parts of the PR14 framework were similar to previous determinations. In particular:
 - (a) PR14 set a five-year price control for wholesale activities and for retail supply to households (though a two-year retail price control was set for supply to non-household customers);
 - (b) PR14 continued to be based around regulatory capital value (RCV) – Ofwat included in its calculations an allowance for what it considered to be a reasonable level of return on the RCV, based on the cost of capital over the price control period;
 - (c) Ofwat’s price control framework continued to seek to incentivise regulated companies to behave in a way consistent with Ofwat’s duties; to operate and invest efficiently and provide a suitable quality of service; and
 - (d) allowed wholesale revenues were indexed to the retail price index (RPI), using the formula $RPI + K$ (K can be positive or negative).
9. PR14 also introduced significant differences in its assessment of company costs. Rather than the previous distinction between capital and operating expenditure, Ofwat introduced a total expenditure (totex) approach to the way it assessed, remunerated and incentivised company expenditure. Totex was a key measure introduced to help seek to reduce the capital expenditure (capex) bias that it believed to exist, where companies were thought to focus unduly on capital solutions (at the expense of potentially more innovative and sustainable operating expenditure (opex) solutions).
10. Ofwat set a totex wholesale expenditure allowance. It used a number of econometric benchmarking models to assess wholesale totex. It then made a series of adjustments for ‘special cost factors,’ which were intended to adjust for specific aspects of each company’s characteristics and circumstances that affect its costs materially and which may not have been taken into account in Ofwat’s totex benchmarking analysis.
11. Ofwat sought to align the efficiency incentives that companies faced across opex and capex. A totex cost sharing incentive scheme was used so that a specified proportion of any over- or under-spend against the wholesale expenditure allowance is retained by the company, with the remainder passed through to consumers. This proportion (the cost sharing rate) affects the profit incentives on the company to operate efficiently during the price control period, as well as the financial risk faced by the company.
12. Ofwat also applied a ‘menu regulation’ scheme for PR14. This was a particularly complex part of its price control framework, but its main purpose

was to give extra incentives for companies to submit accurate expenditure forecasts and provide further flexibility to companies in terms of the level of the cost sharing rate that each company faces.

13. In other areas for PR14, Ofwat:
 - (a) set a wholesale weighted average cost of capital (WACC) of 3.60%. Ofwat assumed the same notional gearing level and notional cost of debt for all companies. It made exceptions for two 'enhanced companies' which Ofwat judged had formulated particularly good business plans (therefore they were allowed a 0.1% higher WACC); and two smaller companies which were allowed an uplift of 0.25% on the cost of debt. Ofwat considered that the cost of debt was higher for smaller companies, but only gave the allowance where it considered that there were customer benefits;
 - (b) included a number of financial adjustments to reconcile allowed expenditure with actual historical performance for the period April 2009 to March 2015; and
 - (c) encouraged companies to set financial incentives (both rewards and penalties) directly linked to performance above and below their committed performance targets based on outcome delivery incentives (ODIs). These were based on customer research and input from the CCGs, although Ofwat made adjustments in a number of areas.
14. Ofwat used its price control financial model to bring together different elements of its assessment to calculate the total allowed revenue for Bristol Water. These elements included the wholesale totex allowance, allowances for profit and depreciation, financial adjustments for Bristol Water's performance in previous price control periods, and various other adjustments.

Bristol Water concerns with PR14

15. Bristol Water said that the most significant reason for seeking a redetermination from the CMA was the difference between its business plan and its final determination (FD14) regarding the appropriate level of wholesale costs to deliver the agreed outcomes. It noted that Ofwat had concluded that Bristol Water's level of wholesale totex during the Asset Management Plan for the period 1 April 2015 to 31 March 2020 (AMP6) should be £409 million, whereas Bristol Water's business plan had proposed expenditure of £537 million. Bristol Water said that Ofwat's decision was insufficient to deliver the outcomes customers wanted and was an unrealistic assumption of what was required in order to run the business. It said that Ofwat had not

considered whether the resulting level of operating costs was achievable in practice, including the immediate reduction in 2015/16 in average household bills from £198 to £162, reducing further to £152 for the remainder of the period. It also said that the reduction in bills meant that Bristol Water was not financeable under the Ofwat determination.

16. Bristol Water raised a number of other concerns. It said the cost of capital calculated by Ofwat was too low, and raised concerns over some aspects of the financial incentives linked to performance and ODIs and the financial adjustments for the period April 2009 to March 2015.

Our approach to the determination

17. We have sought to develop an approach to cost assessment which we consider is practical, proportionate and which also satisfies our statutory duties set out in the WIA 91 (see above).
18. The reference to the CMA is a reference for the determination of a new price control for Bristol Water, not an appeal on specific elements of Ofwat's decision. Accordingly, we are able to consider any aspects of the Bristol Water price control. Nevertheless, we considered it important to adopt a proportionate approach and to scrutinise most closely the areas in the determination that would have the largest effect on customer prices and Bristol Water. A key area for our determination was therefore wholesale totex. We decided not to make changes to the retail price controls. Bristol Water said that it accepted the retail price controls and no stakeholders made submissions arguing for changes to them. We note that the wholesale price control concerns a much larger part of customers' bills than the retail controls.
19. For our wholesale cost assessment, we undertook the following actions:
 - (a) We reviewed the benchmarking econometric models used by Ofwat. We identified significant concerns with Ofwat's assessment and risks that it did not adequately reflect Bristol Water's efficient costs. We therefore developed some alternative econometric models for Bristol Water's base expenditure (opex plus capital maintenance, which is capex required to maintain the capability of existing systems and assets).
 - (b) Given the limitations of the econometric benchmarking analysis, we undertook a more expansive review of Bristol Water's needs and circumstances. We assessed separately base and enhancement

expenditure.³ We reviewed aspects of Bristol Water's business plan for base expenditure, considering separately Bristol Water's requirements for opex and capital maintenance expenditure. We focused our review on the more significant issues and projects.

- (c) We estimated enhancement expenditure from a review of the enhancements proposed in Bristol Water's business plan. We did not consider that Ofwat's benchmarking models provided a suitable basis for determining allowances for Bristol Water's enhancement expenditure that we could use for our cost assessment.
- (d) We drew on Ofwat's review of special cost factors, Bristol Water's and its advisers' views on efficient expenditure for opex and capital projects and our own further review. We were assisted by our engineering consultants, Aqua Consultants (Aqua).
- (e) For our overall cost assessment, we used the outcomes of our alternative benchmarking models, cross-referenced by our assessment of efficient base expenditure from our separate analyses of opex, capex and our overall review of Bristol Water's business plan. To this outcome we added our assessment of efficient enhancement expenditure, from our review of the enhancements proposed in Bristol Water's business plan, to arrive at our provisional finding of the efficient wholesale totex for Bristol Water.

20. In addition to assessing wholesale totex we:

- (a) assessed the appropriate cost of capital for Bristol Water through a bottom-up analysis of individual components;
- (b) determined the financial adjustments to reconcile allowed expenditure with actual historical performance for the period April 2009 to March 2015; and
- (c) considered the ODI framework and whether changes were required.

21. Finally, we provisionally calculated, using Ofwat's methodology, the total allowed Bristol Water wholesale revenue and assessed its financeability. We calculated the overall revenue and K for each year from April 2016 to March 2020 to provisionally assess the financeability of Bristol Water and provide an indicative view of the effect of the determination on customer bills.

³ Enhancement is defined as a level of service delivered better than previously defined. Examples of enhancements include fewer supply interruptions for customers, fewer disruptions for the public in general, and less pollution.

Summary of provisional findings

Wholesale cost assessment

Wholesale cost assessment based on econometric benchmarking analysis

22. We noted that Ofwat's use of benchmarking analyses has a number of benefits. It helps to mitigate the concerns identified by Ofwat and others that there was an undue bias towards capex. Using benchmarking analysis as a starting point for cost assessment, rather than companies' business plans, reduces the risk that the cost assessment for a company is over-stated or takes insufficient account of the opportunities for cost savings. It also helps to mitigate risks relating to investment deferral that may otherwise arise under a price control framework that emphasises outcomes. Finally Ofwat stressed that this approach has benefits in terms of practicality and proportionality. Ofwat needed to determine 18 wholesale water expenditure allowances and ten wholesale wastewater expenditure allowances (for the ten WaSCs).
23. We recognise that no benchmarking analysis or cost assessment method will be perfect, and there will always be limitations in any approach. The type of high-level totex benchmarking models that Ofwat used have some advantages but also suffer from some drawbacks, and we were concerned with the emphasis that Ofwat had placed on these types of models. There were also a number of specific aspects of the design and specification of Ofwat's models that we identified issues with. We recognised that Ofwat's special cost factor process provided companies with opportunities to mitigate, to some degree, the limitations or inaccuracies in Ofwat's econometric models. However, we did not consider that Ofwat's approach to special cost factors was sufficient to fully mitigate the limitations in its benchmarking analysis.
24. As a result, we considered that there were significant risks that Ofwat's cost assessment for Bristol Water did not adequately reflect Bristol Water's costs. We therefore considered it important: (a) to consider possible alternative econometric model specifications; and (b) to carry out a targeted review of the expenditure forecasts from Bristol Water's business plan, which would bring a different perspective.
25. We decided to base our provisional assessment of wholesale expenditure for Bristol Water on our alternative models rather than Ofwat's. While both sets of models had limitations we considered that, on balance, the use of the estimates from our alternative models which were simpler, more intuitive and more transparent, were more likely to contribute to the accuracy of our overall cost assessment.

26. We recognised that these alternative econometric models were not perfect and there remained a need to consider potential company-specific adjustments for factors that may not be adequately captured in the models. We therefore applied some adjustments for special cost factors to take account of specific characteristics or circumstances of Bristol Water. Overall, we made an upward adjustment of around £25 million.
27. Our assessment of base expenditure from the econometric analysis was £346 million in total over the five-year period from 1 April 2015 to 31 March 2020. This is some £28 million higher than the corresponding figure from Ofwat's final determination and £39 million less than the Bristol Water business plan.

Review of base costs from Bristol Water's business plan

28. We carried out a targeted review of the base costs in the Bristol Water business plan for the reasons discussed in paragraph 19(b).
29. Bristol Water's business plan forecasts for opex were based on an extrapolation from costs in a base year. We reviewed Bristol Water's approach to the relevant base year, adjusted costs to find an efficient baseline and then projected costs to reflect changes in circumstances over time. Bristol Water included a number of increased costs in its business plan and we considered which of these to include in our adjusted projections. We also applied an efficiency assumption. This approach resulted in total projected opex of £215 million, compared with £228 million in Bristol Water's business plan.
30. We reviewed the capital maintenance in the Bristol Water business plan. Capital maintenance is broken down into infrastructure renewals expenditure (IRE)⁴ and non-infrastructure maintenance (MNI).⁵
31. We performed a targeted review of the IRE programme. In particular, we reviewed, with support from Aqua, Bristol Water's mains replacement programme. This represents around 62% of Bristol Water's total IRE within AMP6.
32. Our review of Bristol Water's programme revealed some concerns with the approach to defining the planned level of mains replacement activity, and also the potential for efficiency improvements in unit costs. Our high-level analysis

⁴ Infrastructure is mainly below-ground or underground assets, such as water mains and sewers, and also dams and reservoirs that last for a long time. A distinction is drawn between infrastructure and non-infrastructure assets because of the way the appointed water companies manage, operate and maintain them.

⁵ Non-infrastructure is mainly above-ground assets, such as water and sewage treatment works, pumping stations, company laboratories, depots and workshops.

showed that the level of spend proposed by Bristol Water for IRE remained well above the average for water companies. We also noted that this may in part be driven by under-investment across prior periods. We provisionally decided to make no adjustments to Bristol Water's assumption for how much mains it would replace. Based on our assessment, we provisionally considered that the cost should be reduced by 10 to 15%. Based on this assessment we also considered that Bristol Water may also be able to achieve further efficiencies on the remaining IRE spend.

33. From this analysis, we provisionally considered that the efficient level of IRE was in a range of £65–£70 million. This compares with £76.3 million in the Bristol Water business plan.
34. We also reviewed the MNI expenditure in Bristol Water's business plan. In particular we reviewed the evidence for the Bedminster service reservoir, which Bristol Water planned to replace at a cost of £6 million and the Bristol Water plans for replacement of treatment works assets constructed since 1990 at a cost of approximately £34 million.
35. Taking the evidence in the round, we considered that Bristol Water's case for a new reservoir at Bedminster had not been made, without more detailed evidence by Bristol Water of why this is the best option for customers. We provisionally found that no replacement was required in AMP6, as the need to replace this asset within the period had not been demonstrated. We therefore reduced the MNI spend by £6 million.
36. With regard to the treatment works assets we understand that some elements of assets constructed since 1990 will need replacing on a rolling basis. However, we would have expected that Bristol Water would have provided better detail of what needed replacing based on the condition and performance of these assets, particularly since the Bristol Water planned spend for AMP6 is 50% higher than in AMP5 (the previous period) and 200% higher than in AMP4 (the period before that).
37. It is therefore not clear why expenditure on treatment works should be substantially higher than in previous periods, with direct evidence provided which would only justify a small increase. We therefore provisionally consider that the level of treatment works expenditure should reduce towards AMP4/5 levels.
38. Many of the forecasts in the Bristol Water business plan appeared to have been based originally on the output of Bristol Water's models, without supporting evidence to reconcile this to actual assets and their condition. As a result, much of the expenditure did not relate to identified assets that need

replacing. Therefore, there appeared to be significant uncertainty about whether the level of spend proposed will be required in practice. As a result, we considered it likely that Bristol Water may be able to spend materially less than it projected in AMP6.

39. In deciding on a range of outcomes for MNI we therefore considered various adjustments to Bristol Water's proposed areas of spend which gave a range of £49–£74 million, compared with Bristol Water's plan of £80 million.
40. From the above, our assessment of the Bristol Water business plan suggests total base costs of £329–£359 million. This compares with the Ofwat assessment of £318 million and the Bristol Water business plan of £385 million, and the results of our econometric analysis of £346 million.

Review of enhancement costs from the Bristol Water business plan

41. We assessed enhancement expenditure in the Bristol Water business plan and focused on the largest schemes. For the individual schemes that we reviewed, we adopted a framework for assessing the evidence on the basis of need; whether the most suitable option had been chosen (optioneering); and the robustness of the cost estimation.
42. The construction of the Cheddar 2 reservoir was the biggest enhancement scheme proposed by Bristol Water, with a cost of £42.8 million in AMP6. There were three primary supporting arguments made by Bristol Water in support of its proposal for Cheddar 2: i) it may be required to supply a new power station; ii) if not, it may be required to meet a supply/demand imbalance in the second half of the WRMP period; and iii) in any case, the need for Cheddar 2 is supported by improved security of supply considerations.
43. We found that there was substantial uncertainty over whether a power station would be built and, if so, whether Bristol Water would be the preferred option for water supply. We considered that delivering a series of smaller schemes to address a declining supply/demand balance as it arises was a more flexible and proportionate approach to addressing any shortfall in supply in the shorter term, given the uncertain demand and the uncertainty modelled in Bristol Water's target headroom. We considered Bristol Water's arguments on customers' desire for resilience of supply, but found that Bristol Water had not provided sufficient evidence to demonstrate that immediate investment in Cheddar 2 was necessary to achieve the resilience objective, or that customers would be willing to pay higher bills to finance this increase in security of supply.

44. We provisionally found that Bristol Water had not sufficiently demonstrated the need for construction of Cheddar 2 to commence in AMP6 and we have therefore made no allowance for expenditure in this price review period.
45. Another large enhancement scheme in Bristol Water's plan was the construction of a new water treatment works at Cheddar at a cost of £20.8 million. We have provisionally concluded that Bristol Water has sufficiently demonstrated that there is evidence of raw water deterioration at Cheddar reservoir and that this has affected its treatment works. However, in our view there was insufficient evidence that it is appropriate at this stage to commit to the replacement of Cheddar Treatment Works as the most suitable option, given the significant cost to customers. In particular, our provisional analysis indicated that Bristol Water had not demonstrated that it had appropriately investigated the cause of the marked increase in algae from around 2006. Therefore, there may be a lower cost solution depending on the outcome of further investigation.
46. On the basis of the evidence presented we have therefore provisionally concluded that an allowance of £1 million should be made to allow Bristol Water to undertake additional investigation, reservoir management and minor capital works. Should the result of that investigation identify the need for more expensive treatment requirements, we provisionally conclude that Ofwat should assess the additional evidence presented and make an appropriate allowance once it is satisfied that such investment is necessary in AMP6.
47. We also considered the case for the Southern Resilience scheme which was included in Bristol Water's business plan at a cost of £28.1 million. We considered that Bristol Water had demonstrated that the scheme would improve resilience to its network by reducing the number of properties served by a single source. We also considered it would provide additional relief to the Cheddar supply area if further issues arising from algae occurred. We also found that Bristol Water had partially demonstrated that it had chosen the most suitable option but we considered that further justification for a service reservoir with a substantial capacity and in the location proposed was needed. Otherwise, we found that Bristol Water had not overestimated the costs of the scheme. We therefore provisionally concluded that the Southern Resilience scheme should be approved and given an allowance of £22.2 million. This allowance is some £6 million less than included in Bristol Water's business plan because the case for the service reservoir had not been made.
48. Our review of other enhancement projects totalling £60.6 million (raw water deterioration £8 million, growth schemes £12.5 million, national environment programme (NEP) £11 million, asset reliability £10.2 million, lead reduction £0.8 million and other schemes totalling £18.1 million) were all provisionally

allowed, but an efficiency challenge was placed on the asset reliability scheme based on the advice of our consultants, reducing this scheme from £10.2 million to £9.54 million.

49. We provisionally found that Bristol Water's enhancement expenditure requirements over the period 1 April 2015 to 31 March 2020 are £83.1 million. This compares with the Bristol Water business plan of £152.3 million and the Ofwat approved level of £91.2 million.

Overall wholesale totex assessment

50. For our overall assessment of wholesale totex, we compared the econometric assessment for base costs with the business plan assessment for base costs. The econometric assessment for base costs of £346 million compares with the business plan assessment low case of £329 million and high case of £359 million. On balance, we saw no reason to depart from the econometric assessment for base expenditure. The econometric assessment plus our estimate of enhancement totex from the Bristol Water business plan gives a totex figure of £429 million. This compares with the totex figure in the Bristol Water business plan of £537 million and in the Ofwat final determination of £409 million.

Reconciling 2010-2015 performance

51. Part of Ofwat's final determination included a number of financial adjustments to reconcile allowed expenditure with actual historical performance, according to the rules and policies set at previous price control reviews.
52. We provisionally considered that there was no need to do anything in our determination to change the method used by Ofwat and the decisions it made on the resulting RCV impacts.

Outcome delivery incentives

53. We assessed the ODI framework and agreed that it should be able to deliver real benefits to customers whilst providing Bristol Water with both the flexibility and incentive to improve performance, where appropriate through investment.
54. On the unplanned customer minutes lost metric, we provisionally decided to reduce the 2017/18 target to 6.15 minutes/household/year. On mean zonal compliance (MZC), we have set Bristol Water's penalty deadband at 99.95%,

and the penalty collar at 99.94%.⁶ On negative water quality contacts, we noted that Bristol Water stated that it has set its targets based on the results of its customer research and that customers were unwilling to pay for further beneficial improvements. We provisionally considered that it was appropriate to retain Bristol Water's target, but raise the reward deadband to the upper quartile level.

Cost of capital

55. We estimated the cost of capital for Bristol Water.
56. We used an industry average (notional level) for gearing of 62.5%, since it is for companies, their shareholders and management to determine the most efficient financing structure (including gearing level) to meet their circumstances. We noted that in any event Bristol Water has a gearing level comparable to the notional level.
57. We used a ratio of 75%:25% for embedded and new debt respectively. We calculated a cost of embedded debt of 2.7 to 3.0% (with a point estimate of 2.85%), and a cost of new debt of 1.8%. This resulted in an allowed cost of debt for Bristol Water of 2.48 to 2.70%, with a point estimate of 2.59%.
58. For the cost of equity we calculated an asset beta range of 0.29 to 0.35, with a point estimate of 0.32 (equivalent to an equity beta of 0.85, assuming a 62.5% gearing level). We used a risk-free rate of 1.25% and equity risk premium of 5.25% to give a cost of equity of 5.35 to 6.16%.
59. We calculated a range for Bristol Water's cost of capital as 3.55 to 3.99%. We have taken a balanced approach to the data, and therefore provisionally determined that using the mid-point of our cost of debt and equity ranges gives an appropriate point estimate (3.76%).
60. Finally, we made a wholesale-appointee adjustment of -0.11% to the cost of capital and provisionally concluded that the wholesale cost of capital is 3.65%, versus Ofwat's value of 3.60% and Bristol Water's value of 4.37%.

Total allowed Bristol Water revenue and financeability

61. To determine total revenue for Bristol Water, we used the revised totex allowances and cost of capital and used a similar methodology to Ofwat to calculate the impacts of these changes. For the purposes of our provisional

⁶ Deadbands represent performance close to the target level which have no associated penalties or rewards, while the level of caps/collars represents the maximum reward/penalty for the associated ODI.

findings we simplified aspects of the calculations where it was appropriate to do so at this stage in our process. Therefore, the calculations are indicative at this stage. Our provisional finding is that total allowed revenue for 2015-2020 should be £529 million.

62. We estimated the effect of our determination on customer bills. In its determination for Bristol Water, Ofwat projected household bills over the period from 2015-2020. These showed that household bills would reduce in real terms (ie before RPI inflation is considered), from £191 per customer in 2014/15 to an average annual bill of £155 across AMP6.⁷ On the basis of our provisional findings, we estimate that average annual household bills would be around £159 across AMP6 before RPI inflation is considered. Although these would be slightly higher than under the Ofwat determination, they would be substantially lower than the bills estimated by Bristol Water (average annual bills were projected to be £187 across AMP6 before RPI inflation is considered).
63. We assessed the impact of our provisional findings on the financeability of Bristol Water. Our statutory duties require us to have regard to whether Bristol Water is financeable. If we concluded Bristol Water would not be financeable under our determination, we would consider making adjustments to remedy this. We considered Ofwat's estimates of credit ratios resulting from its determination and the implied effect of differences between our provisional findings and Ofwat's determination. We considered the effects of our determination on these metrics and have provisionally found that our provisional findings would have a negligible impact on both gearing and credit ratios and hence on Bristol Water's financeability. Therefore, we provisionally found that Bristol Water is financeable under our determination.

⁷ The figures in FD14 were expressed in 2012/13 prices. All figures in this report are also 2012/13 prices unless otherwise stated.