

Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

25 June 2010

Dear Sir

Bristol Water plc referral – comments by and views of GWE Business West Ltd

GWE Business West Ltd exists to help provide an environment in which business can thrive and prosper. It is a private company owned by its members with a public, business responsible purpose. It delivers an extensive range of business to business services and act as a powerful voice for the business community. As the Chambers of Commerce for Bristol, Bath and Gloucestershire it represents over 2,300 members, with in excess of 300,000 employees from across this area. It is recognised as the local voice of business in the Bristol and wider area and plays a major role in shaping and supporting economic growth and success.

As an organisation that exists to promote the views and needs of business, we have always recognised that a key element to the region's success is the quality and resilience of its infrastructure. Bristol Water is vitally important to meeting the potable water needs of the local area. It has to date been successful in providing for the region's growth and meeting its changing needs.

We are very conscious in the Bristol area that we need to ensure appropriate forward planning to deal with the growth that is coming after the recession. The widest range of expert assessments all agree that substantial population growth is on the way. The latest consensus is that regional population growth is expected to increase by up to 40% over the next 20 years.

The infrastructure and resources to cope with growth in demand must be in place and available when needed. On the contrary, the absence of adequate resources to meet demand would be a strong negative detriment to growth prospects. It is essential we have enough water and system capacity available to meet increasing demand but at the lowest cost possible. We express no technical analysis on how this is best achieved as we assume it is covered by those with appropriate engineering knowledge.

We were pleased to see how far ahead Bristol Water has been planning, as shown by its 'Water In The Future' document, setting out its strategy for the next 25 years. We understand that the thinking in this document helped shape the company's Final Business Plan, which was shared with us.

RELIABILITY AND RESILIENCE

A reliable water infrastructure is essential to all employers and households in this region. Short-term interruptions to supply or restrictions on use are frustrating to all types of customers but to businesses in particular they can be highly damaging in terms of lost

production or having to send staff home. Additionally, of course, there can be no compromise over quality. The water must be safe to drink at all times.

Customers of all kinds naturally have every expectation that water should always be available, literally, 'on tap'. Above all, we need security of supply in all but the most abnormal conditions assuming it can be provided at a sensible level of cost to customers. Those outside the region may have started to forget the emotional and economic damage of the 2007 Gloucester floods, but we who live and work nearby certainly have not.

In Gloucester, there was no mains water supply for over two weeks and the city came close to having to be evacuated. Bristol Water informs us they believe that without proper resilience schemes, the same could happen today in several parts of their supply area, including in parts of Bristol itself. This is simply unacceptable. We do not agree the Competition Commission is right to exclude resilience schemes if they are well thought out and only have a modest effect on bills.

It seems clear to us that the risks of unusual climatic events are increasing steadily and all of our essential services have to plan to cope with everything that could be thrown at them. From our review of Bristol Water plans and submissions, it appears that is exactly what they have been trying to do.

We understand that Bristol Water has deferred schemes it thinks are desirable in an effort to keep increases to a minimum. We applaud this but would be concerned if they were under too much pressure in this respect. We acknowledge they are best placed to make these judgements but customers would not wish them to take undue risks with such a vital service.

FINANCIAL MATTERS

We make no comment on the appropriate level of profits that are to be expected. However we accept that any business to be sustainable needs to be able to finance itself, achieve adequate returns and have sufficient flexibility to meet abnormal shocks. The scale of increase in the capital programme will, we assume, cause some stress to Bristol Water's ability to finance the business. Accordingly we believe care will need to be taken by The Competition Commission to ensure it can raise new funding on a cost effective basis to avoid customers in the future paying for the mistake of a current settlement that leaves the company in too weak a position.

AFFORDABILITY

Cost and affordability are important to all commercial water users, though we do recognise that water is typically a low proportion of production or commercial costs. To an extent, this actually militates against installing water efficiency measures, though we are aware of Bristol Water's efforts in this field to contribute to helping the wider environmental issues.

Unnecessary cost increases are not acceptable. However, water supply is a vital service which has to be maintained at the highest operational efficiency. We understand that Bristol Water has consistently spent much less than most water companies in an effort to keep prices as low as possible. Now, though, it is their professional judgement that they have no alternative but to have a sharp increase in the level of investment to avoid the service deteriorating and to continue to meet customers' needs.

It seems to us that water charges represent excellent value compared with the cost of other essential services. The increases proposed by Bristol Water of course appear high in percentage terms but when considered in cash terms then they are relatively modest. Even with proposed price increases, the service would remain good value and affordable to the vast majority of customers, although it is pleasing to see the company assisting those who genuinely find trouble paying.

We note the Competition Commission's preliminary findings are for lower increases. If this meant that Bristol Water could still manage its activities properly and raise all the necessary new debt to fund the increased capital programme then we would applaud the result. However, it in any way jeopardised the company's operational ability or risked its financial stability, then we would ask the Competition Commission to think again. Customers do not want their water service to be at risk.

CONCLUSION

Bristol Water, and the supply it provides, makes a fundamental input into an economically viable region. We recognise that and support the company in its efforts to protect and improve the water supply infrastructure. Given its history and local reputation, we would be highly surprised if Bristol Water were seeking more than is strictly required by its business requirements.

Yours faithfully

GWE Business West Ltd

James Durie – Director of the Initiative

