British Waterways

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RE-PRICING OF 12 MONTH MOORING CONTRACTS, 2009 (ENGLAND & WALES)♣

Introduction

In our October 2008 report following the public consultation on mooring pricing and vacancy allocation, we set out the approach we would use for re-pricing our moorings. This note reports on the results of the review carried out for the re-pricing of mooring agreements for existing customers from April 2009.

We have conducted local, market-based reviews, looking back at recent evidence and forward at future prospects for demand and supply to inform our decisions. At this time of economic downturn and uncertainty, it is particularly difficult to forecast the impact of recession on our customers and moorings business. We recognise that many people will have reduced disposable income and inflation is falling. However we monitor closely the volume of vacancies arising at our sites and the picture across the network suggested by the level of bids in the tendering process. So far we are not noticing a lessening in demand (in fact there has been a recent upturn, although this mirrors a peak observed during the same month of 2008). Experience during the recession of 1990 – 1992 was that demand for boat licences held up reasonably strongly.

The conclusion of our local managers was that many of our current mooring prices are still below the market clearing rate. However, the adjustments required are by no means uniform. As a result of the review, some mooring prices will increase significantly while others will face inflation-only adjustment, no increase at all or, in a few cases, reductions.

Having received recommendations from local managers on individual prices, directors considered whether the overall picture constituted too bullish a view of the market given the probable circumstances of our customers. On balance, they believe the price assessments are reasonable, but that, at mooring sites where the largest increases are to apply, we should give a longer notice period to enable people to plan for the impact on their personal budgets. We have decided therefore to set an interim rate for April – June 09 inclusive at those sites where the increase is more than 4.7%[1] - these renewals will be billed a the rate representing a 4.7% increase on the fee paid for 2008. The full price increase will take effect for customers with July or later renewal dates.[2]

It is our intention that a further market assessment of all our mooring sites in England & Wales will not be necessary until autumn 2011 for the year beginning April 2012. Meanwhile, prices for 2010 and 2011 will normally be adjusted for inflation. Exceptions to this will be where there are significant changes in facilities or amenity, or strong evidence of major market change. In these cases, we would re-visit the market assessment. Such sites may be identified by BW or may be drawn to our attention by customers. Given the current volatility of the economy, flexibility in our

♣ Does not include mooring agreements concluded through the tendering system. These are three year fixed price contracts.

[1] 4.7% represents a 7% increase in the price without the benefit of the recent VAT reduction. The size of price change will vary with the timing of contract renewals – customers with renewal dates from April through November 2009 will notice a smaller increase because their last renewal included VAT at 17.5%.

2 Early renewal to avoid the full effect of the increase will not be possible. Mooring contracts run for 12 months and early termination means that we offer the vacancy to the market via auction.

pricing is desirable, and the new system for allocating BW's mooring vacancies provides objective, new data to inform pricing decisions.

Scope of the pricing review

The review covered our directly managed long term sites and privately owned offside sites where BW invoices individual customers for exclusive use of the water space – so called 'end of garden' and 'farmers field' sites. The prices set for this latter group are typically 50% of those of nearby basic mooring sites with very few or no facilities. Rates for permits to use a proportion of space at visitor moorings during the winter are made by reference to nearby directly managed sites.

Key steps in the process were:

- Checking operating costs – BW must not subsidise uneconomic mooring sites
- Market research to establish prices and site amenity/facilities offered by private mooring providers in the area
- Examination of recent and expected future movements in total demand and supply within the local market
- Analysis of evidence of market strength or weakness revealed through the vacancy tendering system
- Assessment of any significant improvements or deterioration in the site's amenity or facilities which would have an impact on customer demand

For the first time this year, we approached the pricing exercise by defining a number of broad market areas. Our purpose in this was to group together those sites which boat owners living within the area would, on the whole, be likely to consider as broad substitutes for each other (on the basis of geography, if not amenity/facilities). We are not saying this will apply to all customers - some will be prepared to travel further afield, and a reasonable proportion may indeed choose an adjacent region for their boat. However, when considering where to moor, we would expect the majority of boat owners to research mooring options within the defined area. We have divided our network in England and Wales into sixteen areas illustrated in the map appended.

Within each market area, we would expect the overall balance of demand and supply to determine the average market price for moorings. Variations around the average should be explainable in terms of more local, micro effects of the site environment and facilities.

Each market area report includes:

- A list of BW's directly managed sites
- A brief description of the market
- Supply and demand assessments
- An overview of private operator reference sites
- Pricing conclusions for each BW site

Publication of results

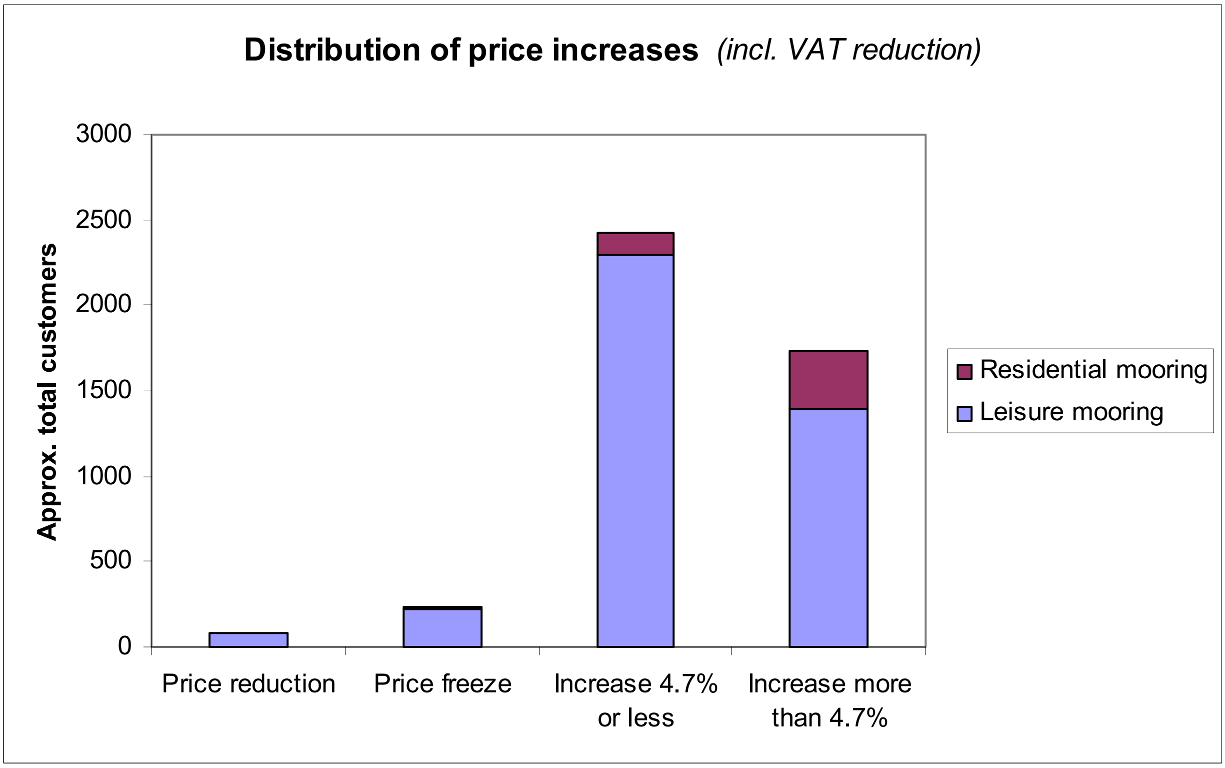
The price list for BW's directly managed sites is published at www.waterscape.com/moorings (click 'useful downloads' near the bottom of the page).

Individual market area reports along with a map defining the market areas and this overview report are published on www.britishwaterways.co.uk/mooringprices09.

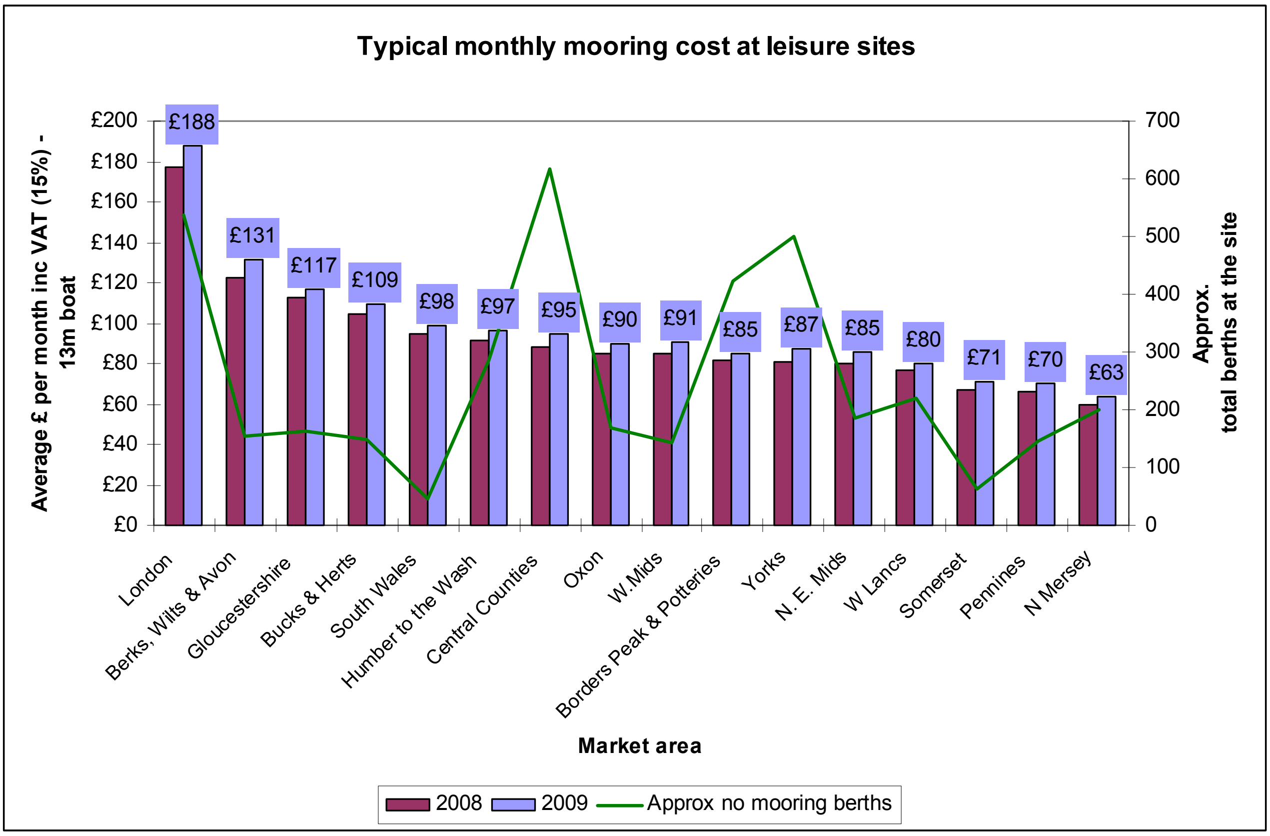
Overview of the price changes

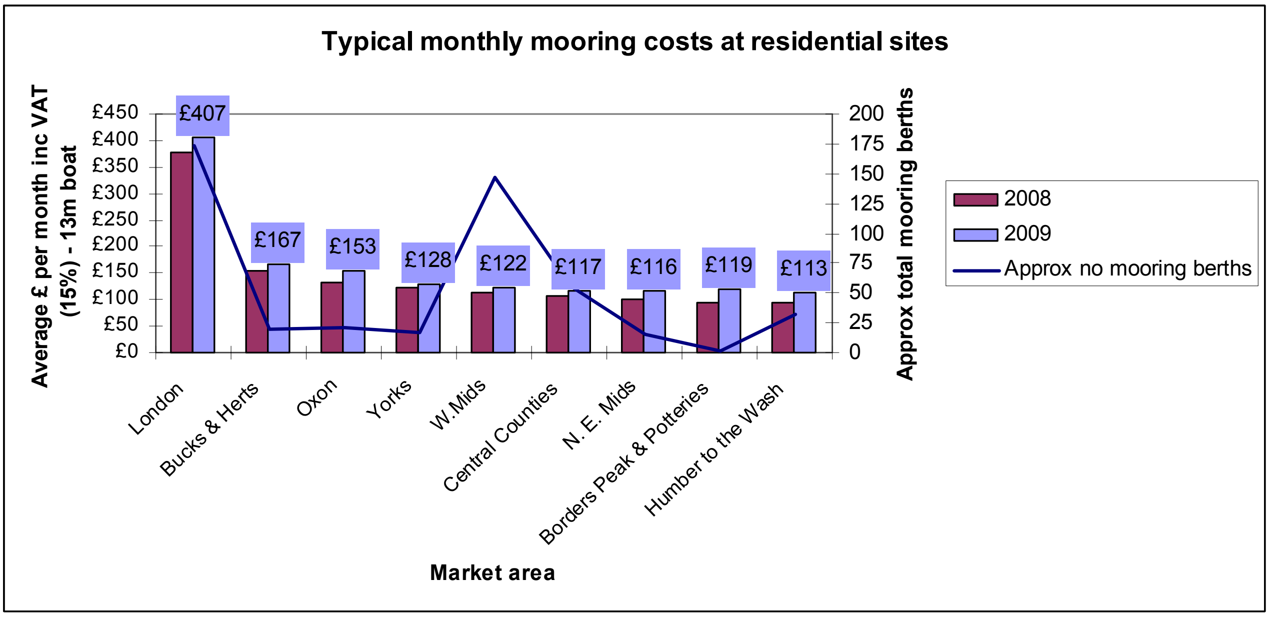
The average customer at a leisure mooring site will notice an increase of about 4% on the amount paid in 2008. This includes the benefit of the VAT reduction (the VAT exclusive fee rises by an average of 6.1%). However, the size of increase varies between sites. Approximately half of all our mooring customers on leisure sites will face an increase in their fee of up to 3% (5% excluding the effect of the VAT reduction).. At residential mooring sites, the increases tend to be higher, reflecting evidence of very strong demand. There is clearly a supply-demand imbalance for residential moorings, and BW is preparing to work with partners on several fronts in efforts to strengthen investment and local authority support for increased provision. In the meantime, we cannot do other than apply our market pricing policy. To hold prices artificially low would be to subsidise individual customers, to reduce the incentive for new investment and to breach fair trading law. Prices at residential moorings will therefore increase by up to about 7% for about half of all residential site customers (9% excluding the VAT reduction). Residential sites account for around 10% of our total directly managed moorings capacity.

Overall, around 1,700 customers are moored at one of the 133 sites scheduled for increases of more than 7% (4.7% after VAT reduction).



The charts below show the average mooring monthly mooring cost for a 13 metre boat (or fixed length berth where charging is per berth) in each of the market areas.





Challenges to pricing decisions

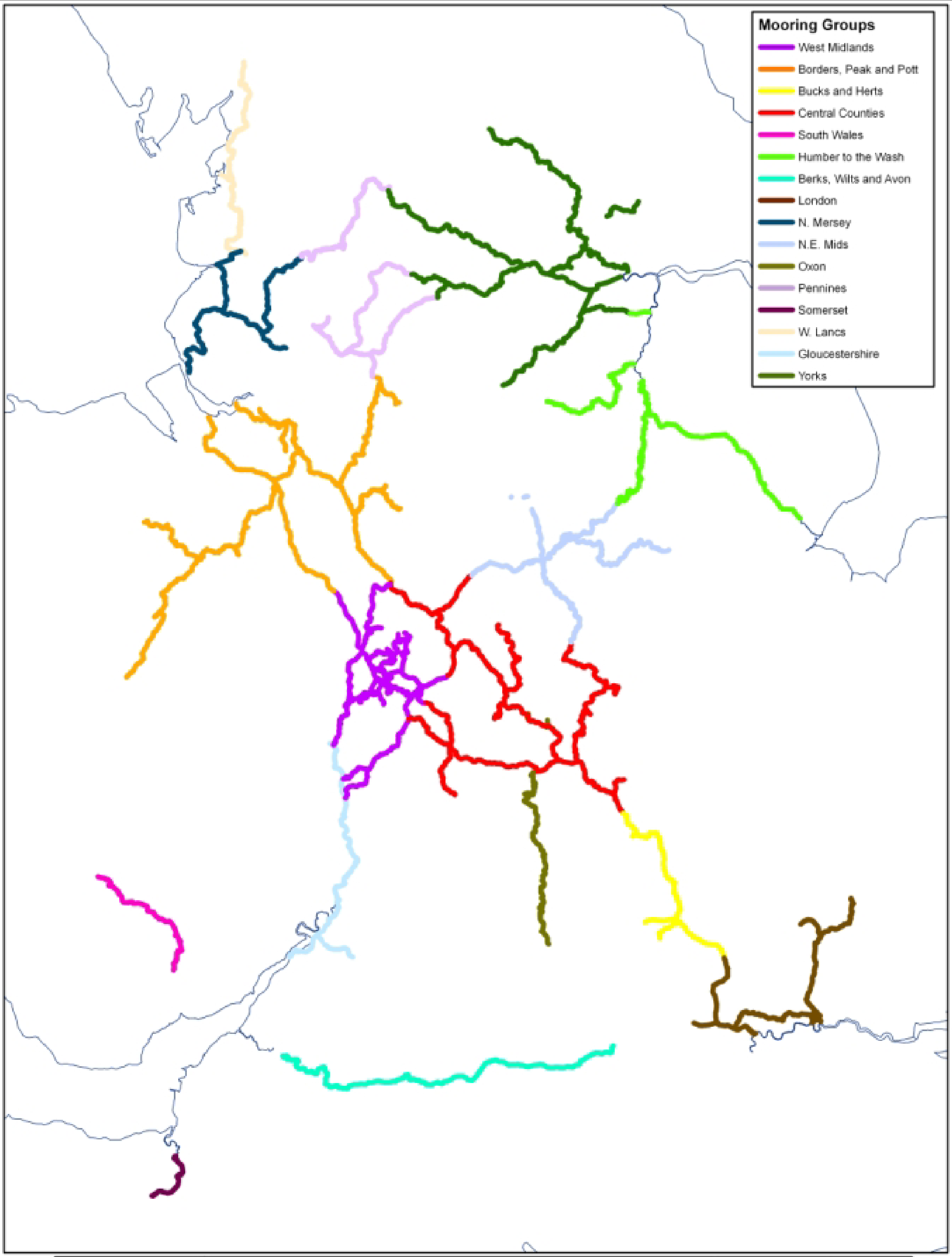
Our aim in publishing this information is to help our customers to understand our reasoning and analysis in setting mooring prices. Our policy, set at Board level, is to set prices to reflect market supply and demand and to compete fairly with private operators. BW has neither powers nor duty to provide subsidised moorings. We are able to consider challenges from customers who believe that a price has been set incorrectly, but in adjudicating challenges, BW's directors must consider only factual evidence relevant to the method of pricing described above.

If you feel that the price decision made for your mooring site is unjustified, we ask that you do the following:

1. Read the summary of pricing guidelines which our managers are required to use to reach their decisions. This is appended below.
2. Download from the internet or request a copy of the market area report covering your mooring site. Use the map below to identify the relevant area.
3. Read the report, in particular the reasoning presented for each site and the supporting data included in the tables included or appended to the report.
4. Decide whether the local manager has made an error – either in the information presented or in the interpretation of it. Explain your conclusion in writing to the business development manager of the British Waterways region in which your mooring is located. Be sure to include any evidence, such as price and descriptions of nearby privately operated mooring sites.

The business development manager will consider your representation and respond in writing within two working weeks. If you are not satisfied with the response, you may request that the matter is dealt with through our formal complaints procedure.

Simon Salem
Marketing & Customer Service Director
23February 2009



British Waterways

Mooring Areas

1:1,575,300

Produced by:
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N W E S

Appendix: Summary of the 2009 pricing review guidelines (as published in October 2008 public consultation report)

1. BW must not run long term moorings at a loss. Managers are required to check the profitability of each site as a first step in the price review.

2. They are required to research and maintain good quality information and data about privately operated mooring sites to provide reference points for BW sites.

3. The relevant market within which each mooring site operates is to be defined. For 2009, we have assigned each of our mooring sites to one of a number of defined local market areas. These frequently span different BW administrative units. We have aimed to capture sensible boundaries based on population concentrations and accessibility such that each market area would broadly be expected to contain all the sites which most boaters would consider, on geographic grounds, to be reasonably close substitutes.

4. Within each area, the overall balance of demand and supply will be an important influence on its average level of mooring prices. Differences between prices will, on the whole, reflect site-specific or more 'micro' location factors. Managers are required to provide a brief assessment of supply and demand for each area, taking account of upcoming marina openings, and judge whether overall demand will be expected to increase faster or slower than supply during 2009/10. Managers are also asked to consider recent and imminent changes affecting the site that may be affecting demand or BW costs – e.g. changes to the local environment, improvement (or deterioration) in the quality of service at the site etc.

5. We set out specific guidance on the use of mooring tender results in the pricing judgement. This is as follows:

1. Use of tendering data

The highest tender price is NOT an indicator of the market price, but under some circumstances, the results of tenders can provide a steer on whether the price should be higher or lower than the current level. The data must only be used in conjunction with other evidence.

Because we are seeing significantly different tendering results for small berths compared with larger ones, you should analyse vacancies for boats up to 10m separately from those over 10m. **Where you have strong evidence that demand for smaller berths is significantly weaker than for larger ones, you should seriously consider establishing a lower price per metre for small boats – in practice, cabin cruisers.** This can be done easily within the existing pricing framework simply by setting up a new 220 price zone. This will be a progressive move that will support our objective of making 'entry level' boating more affordable.

For drawing conclusions about price increases or reductions, you need to consider:

- Total number of tenders placed
- Number of tenders above/below guide price
- Consistency of results across different vacancies

As a rule of thumb, where you have fewer than around 5 tenders in total across one or two vacancies, you can't safely conclude much other than interest in the site is relatively low. Even if the contract price is above the guide, this is not on its own a signal to increase the price.

Where you have more plentiful data, establish what the top one third percentile value of the total set of tenders was [i.e. one third of all tenders submitted were above this figure – the excel formula is Percentile(array,0.67)]. If this value is greater or less than the guide price by more than 10%, this is a reasonably strong indicator that your current price is too low or too high. (When manipulating the data, exclude the highest tender values in the few cases where the highest bidder did not complete the contract. For more recent data where the contract is still in the pipeline, it is reasonable to assume that it will confirm.)

6. Managers are then asked to tabulate key features of private benchmark sites alongside equivalent information for our own directly managed ones.

7. The final step is to document a concise report for each market area to include the key conclusions from the above assessments. Appended to each report is to be a list of all BW directly managed and private reference sites showing key features and current prices (published only where we have the consent of the relevant private operator). A separate table lists the price recommendations for BW sites for 2009 with a note of the reasoning based on all above analysis.

8. Rules for price setting at sites where BW does not provide facilities or land access (e.g.'end of garden' sites) are as follows:

   The price should be set to 50% of the average new price for all towpath moorings in the area, where no facilities are provided. If there are no such moorings, use the price of basic, online moorings provided by other operators. If these don't exist either, take the average of BW sites with level 1 or level 2 facilities, use your judgement to make a downward adjustment to reflect the value of facilities provided, then take 50% of the reduced sum (or average of sums if you can identify several suitable reference sites). To estimate the value of added facilities, consider price differentials between other pairs of comparable sites with and without the facilities.

   It is NOT acceptable to apply blanket % price increases to L2/3 moorings. It is important that customers see consistency in the pricing and that you can explain how each price is derived. This is best done by::

   - clearly tabulating for all offside moorings, which reference sites you are using for the pricing
   - being clear on the adjustment you have made to reflect facilities
   - and then cross checking other L2/3 sites in the vicinity to ensure that differences are fair.

   It may be feasible to introduce just a single L2/3 price within each newly defined market area. This would be logical, but you should not rush to do this if it would result in large price increases for some customers.

9. The rule for caps to price increases for 2009 is as follows:

   Given the current concerns over the economic climate, and pending significant licence fee increases, no existing customer on a leisure mooring site should face a mooring price increase of more than 15% for 2009/10. Previously agreed phasing plans should be respected.

   For residential moorings where there is evidence of substantial, below-market pricing it may be necessary to apply higher increases, but these must be flagged for consideration at Director level during the moderation phase of price setting.

   This replaces previous phasing guidelines

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