



# **Primary Wholesale Charges 2020/21**

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Indicative scope of changes to charges

12 July 2019

## Primary Wholesale Charges 2020/21 – Indicative Scope of Changes to Charges

1. The Wholesale Charging Rules, published by the Water Services Regulation Authority (WSRA), under sections 66E and 117I of the Water Industry Act 1991, require that if Affinity Water intends to make any significant changes to its primary Wholesale Charges, it should publish information that, at a minimum, informs stakeholders of the scope of its proposed changes. For these purposes, changes will be 'significant' if a reasonable person would consider them to be material.
2. This year, 2019 is a Periodic Review year, which means that the five-year regulatory controls on primary wholesale charges are to be re-set in December 2019. The outcome of the Periodic Review process will be a major influence on changes in bills between this year and next. Affinity Water does not know yet what the regulatory controls on charges will be so there is greater uncertainty around future charges than normal.
3. The next charging year is also the first year of Affinity Water's new Water Resources Planning period. Compared to previous planning periods, the investment necessary to maintain the balance between supply and demand could be larger than in the past. It will be necessary for us to review the volumetric rates we charge to retailers for large users using more than 50,000m<sup>3</sup>/year. This is to ensure that the volumetric rates continue to reflect the long-run marginal cost of water and that there will be appropriate price signal incentives towards careful water use. This review however must also take place alongside the Periodic Review outcome.
4. Our central forecast is that charges to retailers for large users will be about the same in real terms as today, assuming that general inflation will be about 2%. It remains possible that charges will need to increase in real terms and the position will become clearer when our draft price control determination is published later this month. Charges for households and under 50,000m<sup>3</sup>/year non-household customers are not likely to change significantly from today.
5. We are committed to consult with retailers about the scope for changes to wholesale charges next year and how we might best implement changes to manage the effects on bills. For this purpose, we intend to consult with retailers in the run up to preparation of indicative charges.
6. Affinity Water also intends to introduce a small change to unmeasured non-household tariffs in its East region to take effect on 1 April 2020. The change will correct an anomaly in the operation of tariffs in the settlement system, where a small number of customers (50) have not been billed for the rateable value element of charges.
7. Therefore,
  - Except as noted above and considering the best information available, Affinity Water does not expect to make any significant changes to its primary Wholesale Charges effective from 1<sup>st</sup> April 2020.
  - Except as noted above, Affinity Water considers it unlikely that there will be instances where Wholesale bill increases for licensees (as a whole or in groups) who

are retailing wholesale services to eligible customers, and on customers occupying Eligible Premises (as a whole or in groups) will exceed 5%.

8. We expect to publish indicative Wholesale Charges by 12<sup>th</sup> October 2019 after considering the information we gain through consultation with retailers and the information in draft price control determinations expected to be published later in July 2019.

**Marie Whaley**  
**Interim Director of Regulation**  
**12<sup>th</sup> July 2019**