



Primary Wholesale Charges 2021/22

Indicative scope of changes to wholesale charges

15 July 2020

Primary Wholesale Charges 2021/22 – Indicative Scope of Changes to Wholesale 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 the purposes of this rule, changes are 'significant' if a reasonable person would consider them to be material. We interpret this to mean that changes greater than 5% in nominal terms can be deemed significant.
2. To project primary wholesale charges for 2021/22, we need to forecast the level of customer billed consumption for water in that year. This is unusually difficult this year because we have observed significant disturbances to water demand patterns from the economic and social consequences of the coronavirus pandemic. It is uncertain how the pandemic will evolve and to what extent the disturbances to demand we observe today will persist into next year. To allow for uncertainty, we have considered a number of scenarios to inform this statement.
3. As the forecasting environment is uncertain, the conclusions of this statement should be interpreted with caution. They are indications based on our view of prospects for next year. They are subject to revision as our evidence base and detailed understanding of changes to demand develops between now and January 2021 when we will publish our final charges.
4. Our current projection is that the average increase in primary wholesale charges to retailers operating in the competitive non-household market is likely to be in the range of 4-9%.
5. Our current projection is that the average increase in the wholesale component of charges for household customers and for non-household customers ineligible for competition, is also likely to be in the range of 4-9%.
6. The key factors influencing our projected changes in charges are as follows:
 - a. Our wholesale price control, which determines an overall K factor of +2.88%.
 - b. Our forecast of November 2020 CPIH inflation rate, 0.3%.
 - c. Changing patterns of billed consumption that alter the charging base over which we recover our revenue, in particular :
 - i. Effect of the pandemic on the consumption of household customers.
 - ii. Effect of our programme to reduce per capita consumption.
 - iii. Lower expected demand in the non-household competitive market compared to before the pandemic.

- d. Revenue adjustments in relation to 2019/20 (for example reflecting financial penalties and rewards related to our performance against regulatory service commitments).
7. We wish to consult further with business retailers, customers and customer representatives about the scope for changes to wholesale charges next year. We intend to engage with stakeholders in the period up to our publication of indicative charges in October 20.
8. We will also study the incidence effects of bill changes on customers and consider how we might best implement changes to charges to manage the effects on bills. In October 20, if we still consider that there are likely to be significant changes to customers' bills, we will submit to Ofwat, and publish, a study of the incidence effects and information about our strategy for handling bill increases.
9. In addition to the changes noted above, Affinity Water intends to change its Low Income Fixed Tariff (LIFT) social tariff from 1 April 2021. The tariff currently offers a 40% discount compared to the average household bill for domestic customers on low incomes who apply and meet eligibility criteria. We plan to increase the discount to around 60% for approximately 3,000 of our most vulnerable customers, whilst retaining the 40% discount for all other LIFT customers. We project that the additional assistance to the most vulnerable can be afforded within the parameters of the social tariff scheme.
10. We expect to publish indicative Primary Wholesale Charges on 14th October 2020 after considering information from consultation with retailers and customers and informing our charges projection with new evidence that will become available between now and then.