



# **Statement of Significant Changes 2021/22**

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15 October 2020

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## 1. Background

The purpose of this Statement of Significant Changes is to provide our stakeholders with information about the significant changes we need to make to our primary wholesale charges. It sets out our assessment of the impact of those changes and information about our handling strategy.

Primary wholesale charges are the charges we make for providing wholesale water supplies to retailers operating in the competitive market, but they also form a significant component of the tariffs we charge to household customers. Wholesale activities include water abstraction, raw water transport, treatment and distribution and typically make up about 90% of end customers' water bills.

Ofwat regulate primary wholesale charges through enforceable limits to the total amount of wholesale revenue that we may recover in any year. We calculate our charges so that the revenue we expect to recover from those charges does not exceed the amounts allowed by the revenue limit. In setting primary wholesale charges we must also follow charging rules published by Ofwat that set guidelines and principles for charging.

The charging rules require that if we need to make significant changes to charges we should publish a Statement of Significant Changes setting out:

- (i) what changes are expected;
- (ii) how water supply and sewerage licensees (as a whole or in groups) and customers occupying Eligible Premises (as a whole or in groups) are likely to be affected; and
- (iii) the handling strategies that may be adopted by the undertaker or why the undertaker considers that no handling strategies are required.

The following sections provide detailed information on these items.

## 2. Summary of Changes to Charges

Our primary wholesale charges vary according by region as shown in the diagram below. In our Central Region, there are also four sub-regions for unmetered rateable value charges: Colne Valley, Lee Valley, Rickmansworth and North Surrey which reflect historical company boundaries.



In 2020/21 we project that we will need to increase our primary wholesale charges by 7% on average. The main drivers of the change in charges are:

- Our wholesale K factor, +2.88% for next year's charges
- Our forecast of CPIH inflation, 0.28%, based on the Bank of England Monetary Policy Committee's central projection published on 6<sup>th</sup> August 2020
- Revenue correction adjustments from 2019 – this includes the net effect of prior year's revenue under recovery offset by net performance penalties
- Changes to the charging base over which we recover our charges. We project that in 2021/22, non-household customer demand will make partial recovery from the coronavirus pandemic impacts that have severely reduced demand in 2020/21. However we forecast that it will remain 4.8% lower than it was before the pandemic. We also project that for household demand, the pandemic effects that have elevated demand in 2020/21 will continue into 2021/22, but that these effects will not be as strong. We have also built into our projection, the effects of our programme to reduce per capita consumption. In aggregate, expected household demand will be 2.5% lower, therefore we expect the overall size of our billable customer base to diminish.

Demand projections are this year subject to uncertainty because the coronavirus pandemic has caused significant disturbances to levels and the distribution of demand between the household and non-household sectors. It is not clear how the pandemic will evolve in the months ahead and so it is difficult to predict when and to what extent, demand might revert to historical norms. We have projected our indicative charges using the latest information available to us and our

current view of prospects for 2021/22, informed by projections and scenarios published by external bodies, such as the Bank of England. Our demand forecasts were also scrutinised by Atkins, our external assurance provider.

It is likely that new evidence will become available before we finalise our charges for 2021/22 and informed by this, our final charges may change from the indicative charges we present now.

### 3. Impact Assessment – Non-Household customers

Our primary wholesale charges to retailers operating in the competitive market typically comprise a fixed charge per customer (that varies according to meter size) and volumetric charges that vary according to consumption. Retailers pay wholesale charges to us on the basis of the applicable fixed charges and consumption aggregated across all of the customers they supply. By studying the impacts on typical customer bills across a range of customer size, types and regions, we can assess by how much aggregated charges to retailers are likely to change.

Table 1 sets out the impact of our indicative charges on typical small business customers. The table assumes that consumption is held constant at the levels indicated and that small business customers use a 25mm meter.

**Table 1 Typical bills to measured small business customers £/year and % change**

	Typical consumption (m <sup>3</sup> /year)	Typical Bill 2020/21 £/year	Typical Bill 2021/22 £/year	Change
Central region	488	454.93	481.14	+6.9%
East region	303	507.75	641.29	+6.9%
Southeast region	385	603.64	539.75	+6.9%

Table 2 sets out the impact of our indicative charges on typical medium business customers. For the purposes of comparison the table assumes that consumption is held constant at 5,000m<sup>3</sup>/year and that medium business customers use a 40mm meter.

**Table 2. Typical bills to measured medium business customers £/year and % change**

	Typical consumption (m <sup>3</sup> /year)	Typical Bill 2020/21 £/year	Typical Bill 2021/22 £/year	Change
Central region	5,000	4,151.70	4,439.36	+6.9%
East region	5,000	6,832.20	7,305.36	+6.9%
Southeast region	5,000	7,644.20	8,174.36	+6.9%

We offer large user tariffs for customers using in excess of 50,000m<sup>3</sup> per year who meet eligibility criteria. The large user tariff has a lower volumetric rate, based on differential use of network infrastructure by large users, but an additional fixed charge. Table 3 sets out the impact of our indicative charges on typical large business customers. The table assumes that consumption is held constant at 50,000m<sup>3</sup>/year and that large business customers use a 100mm meter.

**Table 3. Typical bills to measured large business customers £/year and % change**

	Typical consumption (m <sup>3</sup> /year)	Typical Bill 2020/21 £/year	Typical Bill 2021/22 £/year	Change
Central region	50,000	42,077.92	<b>44,989.76</b>	+6.9%
East region	50,000	60,287.92	<b>64,462.28</b>	+6.9%
Southeast region	50,000	57,112.92	<b>61,069.76</b>	+6.9%

Table 4 shows the impact of our indicative charges on extra large customers assuming that extra large business customers use 500,000m<sup>3</sup> per year and are supplied on large user tariffs using a 150mm meter.

**Table 4. Typical bills to measured extra large business customers £/year and % change**

	Typical consumption (m <sup>3</sup> /year)	Typical Bill 2020/21 £/year	Typical Bill 2021/22 £/year	Change
Central region	500,000	290,567.92	310,939.76	+7.0%
East region	500,000	415,207.88	443,937.24	+6.9%
Southeast region	500,000	570,247.92	609,754.76	+6.9%

For unmeasured customers, we charge retailers a fixed charge per property and a rateable value element that varies according to the rateable value of each property. The rateable value element of tariffs varies by region reflecting historical company boundaries.

**Table 5. Typical bills to unmeasured business customers £/year and % change**

	Typical rateable value (£RV)	Typical Bill 2020/21 £/year	Typical Bill 2021/22 £/year	Change
Colne area	619	323.56	346.01	+6.9%
Rickmansworth area	638	341.15	364.81	+6.9%
Lee area	494	330.91	353.85	+6.9%
North Surrey area	542	301.79	322.72	+6.9%
Folkestone area	376	606.00	648.02	+6.9%

Overall, the tables show that across the range of typical customers assessed, the increase in primary wholesale charges will be in the range 6.9% to 7.0%. Our indicative charges do not apply differential rates of increase to different customer types, therefore the charges to retailers aggregated across all their customers would also be expected to increase in the range 6.9% to 7.0%.

#### 4. Impact Assessment – Household customers

Household customers fall into two broad categories, metered and unmetered. Metered customers pay a fixed charge and a volumetric charge depending upon usage. Unmetered customers pay a fixed charge that does not vary with water use, but varies according to the rateable value of the property they occupy. Broadly this means that unmetered customers who occupy larger properties pay a higher unmetered water bill than those occupying smaller properties.

Household customer bills comprise two components, wholesale and retail. The wholesale element recovers our costs of activities including water abstraction, raw water transport, water treatment and distribution. The retail element recovers our costs of billing, revenue collection, customer service and meter reading. This statement is concerned with the impacts of changes to the wholesale element of household bills, which makes up about 90% of the final bill charged to household customers. It does not include the retail element.

### Metered customers

Table 6 shows the impact of our indicative charges on the wholesale element of metered household bills. The table assumes that consumption is held constant at the levels indicated.

**Table 6. Typical wholesale element of bills to measured household customers £/year and % change**

	Typical consumption (m <sup>3</sup> /year)	Typical Bill 2020/21 £/year	Typical Bill 2021/22 £/year	Change
Central region	118	120.18	128.52	+6.9%
East region	82	139.72	149.43	+6.9%
Southeast region	98	173.56	185.62	+6.9%

### Unmetered customers

Table 7 shows the impact of our indicative charges on the wholesale element of unmetered household bills. The table assumes that rateable value is held constant at the levels indicated.

**Table 7. Typical wholesale element of bills to unmeasured household customers £/year and % change**

	Typical rateable value (£RV)	Typical Bill 2020/21 £/year	Typical Bill 2021/22 £/year	Change
Colne area	248	157.72	170.24	+7.9%
Rickmansworth area	278	177.29	191.34	+7.9%
Lee area	251	193.76	209.14	+7.9%
North Surrey area	249	165.29	178.40	+7.9%
East area	184	210.72	227.45	+7.9%

The indicative percentage increase for unmetered customers is larger than for metered customers. This is necessary to keep metered and unmetered bills in cost reflective balance. We accomplish this balance by adjusting tariffs so that unmetered customers pay a charge that reflects the level of water used by unmetered customers but because they do not have a meter, do not have to contribute towards the additional costs of operating metered accounts. In 2021/22 we assess that the costs of operating a metered account have fallen compared to last year, so there is a smaller deduction to make for the costs of operating a metered account. As a result, unmetered tariffs need to be higher in relation to metered tariffs than they were last year.

## 5. Handling Strategy

We have commenced a programme of work called Customer Impact Assessment (CIA) which is our handling strategy to manage the implementation of changes to charges. We have already established a cross-functional team, and supported this with a dedicated project manager and weekly governance in place to track progress.

The purposes of our CIA are:

- Provide an assessment of the impact of the tariff changes on our customers (Household and Non-Household) and Affinity Water
- Enable the creation and development of a proactive customer communication and support strategy to minimise any increased risk or impact to our customers or our business
- Provide the evidence and support required to fulfil our obligations to our stakeholders (including but not limited to Ofwat, CCW, CCG and MOSL)

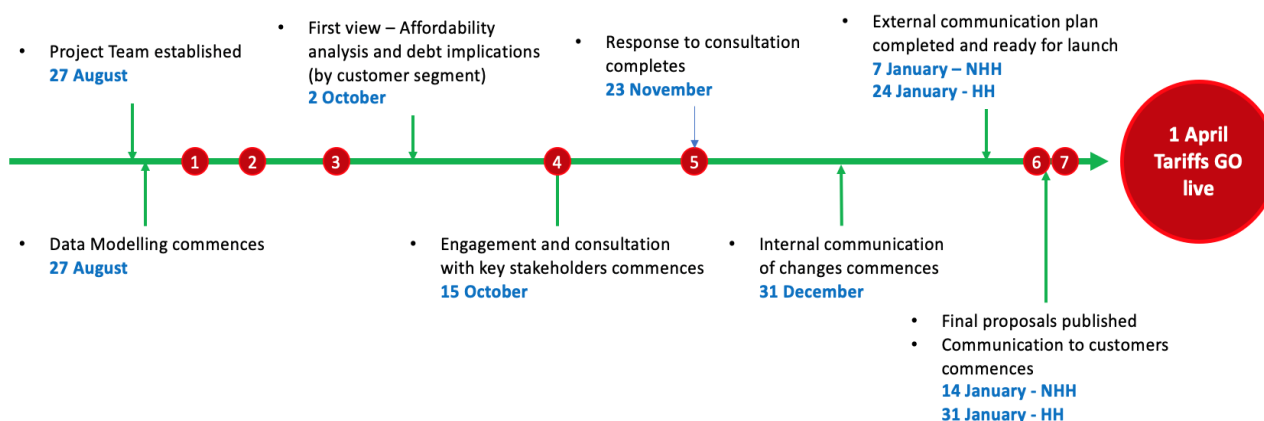
All customers, household, non-household and retailers are within the scope of the CIA. The key deliverables of the CIA are that we will:

- Make an assessment of how many customers may move into financial hardship as a consequence of our tariff changes
- Assess how many customers may be at risk of not paying their current and/or future bills as a consequence of the tariff changes
- Understand what is the potential loss and/or risk to our revenue from customers who may move into financial hardship/be at risk of non-payment as a result of the tariff changes
- Assess the scale and distribution of the actual impact across our whole supply area
- Determine how we will proactively communicate the changes to our customers and show what this means to them personally
- Determine how we will make customers aware and signpost the support available to them to minimise the impact of an increased risk in non-payment



The diagram below sets out the timetable and key milestones for our CIA between now and 2021/22 tariffs becoming effective

**High level activity timeline (Critical milestones marked with 1)**



Date	Critical Milestone
1. 8 September 2020	CCW informed of Charges at quarterly review meeting
2. 16 September 2020	Audit Committee approval of approach to CIA
3. 29 September 2020	Board approval of outline approach to CIA
4. 15 October 2020	Draft consultation statement published on website
5. 23 November 2020	Response to consultation complete
6. 14 January 2021	Final Non Household consultation statement published on website and communications commence
7. 31 January 2021	Final Household consultation statement published on website and customer communications commence

Our Board discussed the requirement for impact assessments and handling strategy at its July meeting. Acting through its Audit Committee, it has noted the impact assessments made by the company (sections 3 and 4 of this statement) and the handling strategy developed by the company’s management. Having made due consideration and enquiries of management, it approves the impact assessments and handling strategies developed.

## 6. Next steps

We will deliver the planned programme of work to implement our Customer Impact Assessment.

We will publish final wholesale charges on 14<sup>th</sup> January 2021, after consulting with stakeholders on charges and relevant aspects of our handling strategy.