

AffinityWater

Statement of Significant Changes 2024/25

13th January 2024



Statement of Significant Change 2024/25

Background

1. As part of Ofwat's Charges Scheme Rules re-issued on 5 December 2022 (Clause A2), each undertaker is required, no later than 13 January, to provide to the Water Services Regulation Authority a statement setting out any significant changes anticipated by the undertaker.
2. During the year, the Board has overseen preparation of the Charges Scheme charges. It met on 5 January 2024 to review the Company's proposed charges, including assessing the effect of proposed charges on customers and groups of customers. The Board has:
 - Noted the requirements published in "Information Notice 23/09", setting out Ofwat's expectations for this Statement of Significant Changes
 - Considered the requirements of Annex A2 of Ofwat's Charges Scheme Rules in respect of this Statement of Significant Changes
 - Considered the actions undertaken by management to prepare the Charges Scheme for 2024/25
 - Reviewed management's assessment of the effects the charges will have on customers' bills for about 30 types of customer, differentiated according to factors including the following:
 - Geographical location
 - Charging method - measured / unmeasured / assessed
 - Consumption band - average, low and high consumption
 - Watersure and social tariff customers.
 - Considered the actions undertaken by management to develop its impact assessments and handling strategies, including stakeholder engagement and consultation, for those instances where the bill increase is expected to be greater than 5%
 - Considered management's assessment of the effects of Affinity Water's household bill changes when combined with expected wastewater bill changes in the Thames Water and Anglian Water wastewater regions, where our customers receive a combined bill for water and wastewater services, as well as in the Southern Water wastewater region (although this region differs slightly in that water and wastewater services are billed separately)

3. A schedule of the expected bill changes is set out in Appendix 1.
4. The charging rules require that if we need to make significant changes to charges we should publish a Statement of Significant Changes setting out:
 - (a) Confirmation of whether the undertaker is expecting there to be any bill increases of more than 5% from the previous year (for a given customer type assuming a constant level of consumption) and, if such increases are expected:
 - (i) what size increase is expected;
 - (ii) which customer types are likely to be affected; and
 - (iii) the handling strategies adopted by the company or why the company considered that no handling strategies are required.
 - (b) Details of any significant changes in charging policy by the company from the previous year.

Summary of Changes to Charges

- Our 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 2024/25 we project that we will increase our charges by 11.4% on average. The main drivers of the change in charges are:
 - Our wholesale K factor, net of performance related rewards and penalties, -1.5% for next year's charges
 - The CPIH inflation rate, +4.17%
 - Revenue correction adjustments from 2023 – this includes the net effect of prior year's revenue over recovery.
 - Changes to the charging base over which we recover our charges. The two-year transition period for compulsory metered customers is being reduced to one year as of 1st April 2024, and those customers we expect to be better off on metered billing will be transferred early. This includes customers currently in transition and future customers.
- In addition to the drivers of bills noted above, we propose this year to address the differential between measured and unmeasured tariffs and to continue with updates to our tariff structure from last year. These changes in

combination with inflation and K factor adjustments result in significant changes to unmeasured rateable value charges of > 5%. The changes we propose to our tariffs are summarised below.

- increase rateable value unmeasured tariffs greater than measured tariffs to reduce the cost reflective differential built up over the last two years.
 - continue the process of adjusting our large user tariffs to place more weight on the volume element and less on the fixed element.
 - rebalance household volumetric charges towards the central area and away from our east and southeast regions, based on forthcoming WRMP expenditure.
 - carry out further alignment of the east region large user meter tariff structure with the aim of eventual alignment with our other regions.
 - the rateable value tariffs for Colne and Rickmansworth have been equalised to the North Surrey region.
8. Regarding reducing the cost reflective tariff differential built up over the last two years between metered and unmetered tariffs, a 6.0% increase has been applied to measured customers and 15.2% to unmeasured customers. This will result in a reduction of the differential between measured and unmeasured tariffs from £23 in 2023/24 to £10 in 2024/25. The aim is to remove the differential at most within a three-year period but also to look at options of reducing it in a shorter time frame. All 305,000 RV unmeasured customers will be affected by the change.
9. There is now a single uniform tariff in the Colne, Rickmansworth and North Surrey areas. This proposed change to the Rickmansworth and Colne rateable value charging area tariffs means they would increase by about 3.0% more than otherwise to equalise with North Surrey.
10. Our large user tariffs apply to customers using more than 50,000m³ per year. Typically, they set a volumetric rate that is lower than the standard tariff rates and a supplementary fixed charge. By applying an additional 5% increase to the volumetric element we plan to re-balance the tariff to place greater weight on the volumetric element and less weight on the fixed charge element. Over time, rebalancing the tariff in this way will produce a tariff structure that is common across our 3 regions. Further, by placing more weight on the volumetric element of charges rather than fixed, we increase the economic incentives in our charges towards efficient water use.

Charges for Household customers

11. There are two broad categories of household customers, metered and unmetered. Metered customers pay a fixed charge and a volumetric charge depending upon usage. Unmetered customers pay a fixed charge that 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.
12. 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 concerns the combined wholesale and retail elements, in other words final prices charged to customers.
13. Table 1 shows the impact of our charges on metered household bills. The table assumes that consumption is held constant at the levels indicated.

Table 1. Typical bills to measured household customers £/year and % change

	Typical Consumption (m3/year)	Typical Bill 2023/24 (£/year)	Typical Bill 2024/25 (£/year)	Change (%)
Central region	118	171.01	179.59	5.0%
East region	82	192.02	199.20	3.7%
Southeast region	98	236.18	244.91	3.7%

14. Table 2 shows the impact of our charges on unmetered household bills. The table assumes that rateable value is held constant at the levels indicated.

Table 2. Typical bills to unmeasured household customers £/year and % change

	Typical Rateable Value (£)	Typical Bill 2023/24 (£/year)	Typical Bill 2024/25 (£/year)	Change (%)
Rickmansworth area	248	226.29	264.81	17.0%
Colne area	278	247.79	290.11	17.1%
Lee area	251	269.61	308.88	14.6%
North Surrey area	249	231.86	265.66	14.6%
East area	184	286.59	328.35	14.6%

15. The percentage increase for unmetered customers is larger than for metered customers. This is necessary to keep metered and unmetered bills in cost reflective balance. Since 2020/21 we have observed water use per unmeasured property to have increased faster than seen in metered

properties. To remain in cost reflective balance, unmetered tariffs need to be higher in relation to metered tariffs to reflect the additional water use. Making the necessary adjustments in a single year would result in larger bill effects, so we are spreading the adjustments needed over time, to smooth the effects on bills for our unmetered customers.

16. We offer two social tariffs, our Low Income Fixed Tariff (LIFT) and Watersure. Both of these tariffs operate by capping the bills of participating customers at a maximum level, related to the average household bill. The LIFT tariff sets a cap reflecting a 40% discount to average bill, and we also offer enhanced LIFT which represents a 60% discount. The movements in our social tariffs are shown in the table below. Social tariff changes are at, or below the inflation rate.

Table 3. Typical social tariff bills for household customers £/year and % change

	Maximum Bill 2023/24 (£/year)	Maximum Bill 2024/25 (£/year)	Change (%)
Watersure Central area	170.31	177.32	4.1%
Watersure Southeast area	236.82	246.69	4.2%
Watersure East area	208.82	217.52	4.2%
LIFT tariff all areas	115.10	119.50	3.8%
Enhanced LIFT all areas	76.70	79.70	3.9%

Impact Assessment and Handling Strategy

17. We understand that we are proposing significant changes to our water charges at a time when many customers are already experiencing significant cost of living pressures. Whilst our water bill accounts for a smaller proportion of household expenses than other services such as council tax, gas and electricity, we recognise that it will nevertheless add to pressures on household budgets. Therefore, we have developed and are implementing a handling strategy to mitigate the effects of bill changes on our customers and manage changes to charges.
18. In setting our tariffs for next year, we propose initiatives designed to mitigate the impact of household bill changes. Firstly, we will continue to promote our LIFT social tariff to customers likely to be eligible and we plan to accept an additional 16,900 customers by 31 March 2025 over and above the 91,000 customers we already supply on these terms. We cap LIFT customer bills at a level that represents a 40% discount to the average household bill. About 1,700 additional customers will be eligible for enhanced LIFT that caps their bills at 60% discount to average household bills.
19. We have developed a scheme to assist customers at greatest affordability risk. We will assist customers at risk by making automatic £50 per customer credits against their water bills, to a total value around £3.0m. We project that we will assist up to 60,000 customers with their water bills in this way. We will identify customers at risk proactively, for example customers we know to already be in difficulties with their bills and also reactively, for example for customers referred to us by third party agencies.
20. Mindful of the greater rate of bill increases for unmetered RV customers, we have agreed adjustments to our metering policy that will allow us to accelerate the transition to metered charges for some compulsory metered customers. This will help customers by moving them to the most advantageous tariff.
21. In addition to the tariff assistances described above, we have analysed the impact of water bill changes on different customer groups. This has allowed us to make affordability assessments, modelling the effects of bill changes on customer affordability, bad debt risk and vulnerable customers. We have used the insights to plan how we may mitigate these effects.
22. We plan that customers will receive a letter with their bill to explain why tariffs need to increase, alongside information on the different ways we can help them, for example promotion of discounted tariffs, different ways to pay, how to save water (and energy and money) and the benefits of water meters in

giving customers control of their bills. We will also replicate these communications with messaging in customers' online accounts.

23. We are using our understanding of customer segments and bill impacts to tailor our communications. Our aim is to target different customer segments with information and advice that is tailored to their needs and is delivered via the communication channels that they prefer. Therefore, we will operate a targeted email, social media, and text message campaign in February to those who we know to be under financial strain or at risk of becoming so, with information on financial help and support available.

24. During February and March (coinciding with unmeasured billing) we will raise customer awareness of our help and support schemes:

- Homepage website banner linking to bill increase hub page
- Upweighted message on billing website pages
- Social media
- Press release

25. Our external communications activities are centred on improving engagement with customers via third party organisations. By communicating with external organisations, we can raise awareness of the help we offer so that they can better advise and support their clients, helping us extend our engagement to customers and groups that we find harder to reach through other channels. Therefore, early in 2024 we will deliver a communications campaign aimed at the following stakeholders including promotion of social tariff uptake for those likely to be eligible. In this way we aim to engage and mobilise external organisations such that in carrying out their activities they complement our affordability approaches.

Key audiences for external communications campaign	
Financial hardship groups	Council leaders
BME Groups	Councillors (e.g. social services portfolio holders)
Citizens Advice	Parish Councillors
Foodbanks	Housing Associations
Disability and illness groups	Family Centres
Bulk owners	Local Authority communications depts

26. We plan an internal communications campaign, for example briefing through our Senior Leaders Team, 'toolbox talks' and preparation of FAQ brief for customer facing employees. This will cover the reasons why bills are increasing and include the different ways we can help customers. The aim is that our people are well briefed and properly prepared for changes to charges, and in position to assist and support customers.

27. We are also mindful that many of our employees are also Affinity Water customers so we will also run internal communication messages highlighting the information and financial support available for water bills as part of our wider employee wellbeing campaign.

Appendix 1

Typical Water Bill Changes

Movement in retail bills	Typical Bill £/year		change
	2023/24	2024/25	
Average Household Measured Customer (Central Region)	171.01	179.59	5.0%
Average Household Measured Customer (East Region)	192.02	199.20	3.7%
Average Household Measured Customer (Southeast Region)	236.18	244.91	3.7%
Average Household Unmeasured Customer (Rickmansworth Region)	226.29	264.81	17.0%
Average Household Unmeasured Customer (Colne Region)	247.79	290.11	17.1%
Average Household Unmeasured Customer (Lee Region)	269.61	308.88	14.6%
Average Household Unmeasured Customer (North Surrey Region)	231.86	265.66	14.6%
Average Household Unmeasured Customer (East Region)	286.59	328.35	14.6%
Social tariff Central and East Region	115.10	119.50	3.8%
Social tariff Southeast Region	115.10	119.50	3.8%
Household Measured Customer Low consumption 65m3/year Central Region	107.32	112.70	5.0%
Household Measured Customer Low consumption 42m3/year East Region	112.46	116.84	3.9%
Household Measured Customer Low consumption 65m3/year Southeast Region	166.39	172.66	3.8%
Household Measured Customer High consumption 300m3/year Central Region	390.78	410.40	5.0%
Household Measured Customer High consumption 225m3/year East Region	476.45	493.64	3.6%
Household Measured Customer High consumption 300m3/year Southeast Region	663.39	687.15	3.6%
Household Assessed 1 occupier (Central Region)	107.30	112.70	5.0%
Household Assessed 2 occupiers (Central Region)	167.60	176.00	5.0%
Household Assessed 3 occupiers (Central Region)	232.80	244.40	5.0%
Household Assessed 4 or more occupiers (Central Region)	297.90	312.90	5.0%
Household Assessed 1 occupier (East Region)	112.50	116.80	3.8%
Household Assessed 2 occupiers (East Region)	184.10	191.00	3.7%

Appendix 1 (cont.)

Typical Water Bill Changes

Movement in retail bills	Typical Bill £/year		change
	2023/24	2024/25	
Household Assessed 3 occupiers (East Region)	257.70	267.10	3.6%
Household Assessed 4 or more occupiers (East Region)	365.10	378.30	3.6%
Household Assessed 1 occupier (Southeast Region)	166.40	172.70	3.8%
Household Assessed 2 occupiers (Southeast Region)	272.10	282.10	3.7%
Household Assessed 3 occupiers (Southeast Region)	386.30	400.40	3.7%
Household Assessed 4 or more occupiers (Southeast Region)	500.50	518.60	3.6%
Watersure customer (Central & Saffron Walden Region)	170.31	177.32	4.1%
Watersure customer (Southeast Region)	236.82	246.69	4.2%
Watersure customer (East Region)	208.82	217.52	4.2%
Average Measured Non-contestable Business Customer Central Region (15mm meter)	617.55	648.56	5.0%
Average Measured Non-contestable Business Customer Southeast Region (15mm meter)	843.16	873.24	3.6%
Average Measured Non-contestable Business Customer East Region (15mm meter)	631.59	654.24	3.6%