



# **Primary Wholesale Charges 2022/23**

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Indicative scope of changes to charges

15 July 2021

## Primary Wholesale Charges 2022/23 – 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 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 2022/23, we must forecast the level of customer demand for water for that year. This is again difficult this year because we continue to observe significant disturbances to water demand patterns from the economic and social consequences of the coronavirus pandemic. 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 2022 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 will be in the range 1-3%.
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, will also be in the range 1-3%.
6. Therefore across domestic customers and our retail licensee customers, it is unlikely that there will be significant changes in charges as described in the charging rules.
7. The key factors influencing our projected changes in charges are as follows:
  - a. Our wholesale price control, which determines an overall K factor of 2.6%
  - b. Our forecast of November 2021 CPIH inflation rate, 2.47%
  - c. Changing patterns of demand that alter the charging base over which we recover our revenue, in particular lower expected demand in the non-household competitive market compared to before the pandemic and low likelihood of household demand returning to pre-pandemic levels of demand, due to shifts in patterns of home working.
  - d. Reconciliation adjustments – these are necessary i) to reflect in customer charges financial rewards and penalties related to our performance against regulatory service commitments and ii) to correct prior years' over and under recovery of revenue against the levels allowed by the price controls.

8. We understand that we need to consult further with 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 October publication of indicative charges. We must also consider the incidence effects of bill changes on customers and how we might best implement and communicate changes to charges.
9. In addition to the changes noted above, Affinity Water plans to modify its Watersure tariff, so that from 1 April 2022, the Watersure bill cap is set equal to the expected average household bill for metered customers. This would replace our current approach where the Watersure bill is capped at the weighted average of both unmeasured and measured household bills. Under the new approach, the Watersure cap amount will fall by about £11/year.
10. We expect to publish indicative Wholesale Charges on 14<sup>th</sup> October 2021 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.

**Nicky Fomes**  
**Interim Director of Strategy and Regulation**  
**15<sup>th</sup> July 2021**