Statement of Significant Change
- Indicative Primary Wholesale Charges 2025/26

13th October 2024

1. Background

1. The purpose of this Statement of Significant Changes is to provide our stakeholders with information about the changes we intend to make to our primary wholesale charges in 2025/26. It sets out our assessment of the impact of those changes and information about our handling strategy.

2. Primary wholesale charges are the charges we make for providing wholesale water supplies to retailers operating in the competitive market, but wholesale charges also form a significant component of the tariffs we charge to household customers.

3. Wholesale activities include water abstraction, raw water transport, treatment and distribution and typically make up about 90% of end customers' water bills.

4. 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 contain guidelines and principles for charging.

5. 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.

6. The following sections provide detailed information on these items.

2. Summary of Changes to Charges

7. 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.

8. In 2025/26 we project that we will need to increase our primary wholesale charges by 23.2% on the average typical bill. This means that all customers across assessed, measured and rateable value will experience a tariff increase greater than 5%. The main drivers of the change in charges are:

    - Our wholesale K factor, net of performance related rewards and penalties, +12.6% for next year's charges.
    - Our forecast of CPIH inflation, +3.5%.
    - Changes to the charging base over which we recover our charges.

9. In addition to the drivers of bills noted above, we propose this year to continue 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 measured and 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 remove the cost reflective differential built up over previous few years
    - continue the process of adjusting our large user tariffs to place more weight on the volume element and less on the fixed element.
    - equalise the volumetric charges for the east and southeast regions.
    - carry out further alignment of the east region large user meter tariff structure with the aim of eventual alignment with our other regions.

- converge the rateable value tariffs for Colne, Rickmansworth and Southern region with the Lee region over a period of three years.
- an additional 5% increase has been applied to the competitive market over 100Ml volumetric charge to rebalance the charge away from the fixed charge. In addition, in the east region, we have equalised the 50-100Ml volumetric charge and the over 100Ml volumetric charge to simplify the structure of large user tariffs

10. Regarding removing the cost reflective tariff differential built up over the last few years between metered and unmetered tariffs, a 17.5% increase has been applied to measured customers and 21.1% to unmeasured customers. This will result in the removal of the £10 differential from 2024/25 between measured and unmeasured tariffs and the restoration of cost reflective balance between the tariffs. All 324,000 RV unmeasured customers will be affected by the change.

11. As of 2024/25 there is a single uniform tariff in the Colne, Rickmansworth and North Surrey areas. An additional 5% has been added to the tariff with a view to converging with the Lee region over a period of three years.

12. 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.

13. We have projected our indicative charges using the latest information available to us and our current view of prospects for 2025/26, informed for example by projections of inflation published by external bodies. Our demand forecasts were also scrutinised by Atkins, our external assurance provider.

3. Wholesale charges for Non-Household customers

14. 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.

15. Table 1 sets out the impact of our indicative charges on typical small business customers in each of our 3 charging regions. The table assumes that consumption is held constant at the levels indicated and that small business customers use a 25mm meter. Equalising the tariff between the East and Southeast regions has resulted in the East region having a higher yearly increase.

Table 1. Typical Bills to Measured Small Business Customers £/year and % Change

	Typical Consumption (m3/year)	Typical Bill 2024/25 (£/year)	Typical Bill 2025/26 (£/year)	Change (%)
Central region	488	586.73	689.30	17.5%
East region	303	606.62	756.84	24.8%
Southeast region	385	814.36	956.63	17.5%

16. 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 5,000m3/year and that medium business customers use a 40mm meter.

Table 2. Typical Bills to Measured Medium Business Customers £/year and % Change

	Typical Consumption (m3/year)	Typical Bill 2024/25 (£/year)	Typical Bill 2025/26 (£/year)	Change (%)
Central region	5,000	5,561.37	6,533.40	17.5%
East region	5,000	8,711.24	10,233.66	17.5%
Southeast region	5,000	7,460.80	8,764.36	17.5%

17. We offer large user tariffs for customers using in excess of 50,000m3 per year who meet eligibility criteria.

18. Our large user tariffs currently offer lower volumetric rates than standard, based on differential use of network infrastructure by large users, but an additional fixed charge. In addition to changes in expected bills driven by inflation and K factor and as noted earlier, we propose to rebalance our tariffs away from the fixed element of charges and towards the volumetric rate.

19. Table 3 sets out the impact of our indicative charges on typical large business customers. The table assumes that consumption is held constant at 50,000m3/year and that large business customers use a 100mm meter.

Table 3. Typical Bills to Measured Large Business Customers £/year and % Change

	Typical Consumption (m3/year)	Typical Bill 2024/25 (£/year)	Typical Bill 2025/26 (£/year)	Change (%)
Central region	50,000	54,590.00	64,860.04	18.8%
East region	50,000	79,802.44	95,572.60	19.8%
Southeast region	50,000	74,191.30	87,154.36	17.5%

20. Table 4 shows the impact of our indicative charges on extra-large customers, assuming that extra-large business customers use 500,000m3 per year and are supplied on large user tariffs using a 150mm meter. As noted above, we propose to continue the re-balancing of our large user tariffs so that a greater proportion of revenue is derived from the volumetric element of our tariffs and less from fixed charges. This change continues to strengthen the tariff incentives towards efficient water use for large business customers. The change means that wholesale bills for the largest customers will increase by a greater percentage than for other large users, because we are increasing the contribution of volumetric use towards bills. The different rates of change for wholesale bills for large and extra-large customers can be seen by comparing the percentage bill increases between Table 3 and Table 4.

Table 4. Typical Bills to Extra Large Business Customers £/year and % Change

	Typical Consumption (m3/year)	Typical Bill 2024/25 (£/year)	Typical Bill 2025/26 (£/year)	Change (%)
Central region	500,000	406,715.00	496,140.04	22.0%
East region	500,000	577,492.40	700,597.60	21.3%
Southeast region	500,000	741,496.30	871,054.36	17.5%

21. 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 supplied. The rateable value element of tariffs varies by region reflecting historical company boundaries.

22. As noted above we propose to increase unmetered rateable value tariffs by a greater amount than measured tariffs to reduce the cost reflective differential built up over the last two years.

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

	Typical Rateable Value (£/RV)	Typical Bill 2024/25 (£/year)	Typical Bill 2025/26 (£/year)	Change (%)

Central area	580	427.79	518.14	21.1%
Colne area	638	504.76	611.37	21.1%
Lee area	494	476.34	576.91	21.1%
North Surrey area	542	434.07	525.76	21.1%
Folkestone area	376	580.69	703.30	21.1%

4. Wholesale charges for Household customers

23. 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 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.

24. 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.

25. Table 6 shows the impact of our indicative charges on the wholesale element of metered household bills. By equalising the volumetric charges for the east and southeast regions the yearly increase for the southeast region is lower than the other regions. 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 (m3/year)	Typical Wholesale Bill 2024/25 (£/year)	Typical Wholesale Bill 2025/26 (£/year)	Change (%)
Central region	118	154.21	181.17	17.5%
East region	82	176.88	207.81	17.5%
Southeast region	98	220.14	244.28	11.0%

26. 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. By converging the rateable value tariffs for Colne, Rickmansworth and Southern region with the Lee area over a period of three years the yearly increases for these areas are greater than for the Lee and East areas.

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

	Typical Rateable Value (£/RV)	Typical Wholesale Bill 2024/25 (£/year)	Typical Wholesale Bill 2025/26 (£/year)	Change (%)
Rickmansworth area	248	237.34	297.59	25.4%
Colne area	278	261.82	328.46	25.5%
Lee area	251	279.95	339.06	21.1%
North Surrey area	249	238.16	298.62	25.4%
East area	184	304.84	369.20	21.1%

27. 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.

28. 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 than they have been in prior years, to reflect this additional water use in bills. We have spread the adjustments needed over 2024/25 and 2025/26, to smooth the effects on bills for our unmetered customers.

5. Impact Assessment and Handling Strategy

29. We understand that we are proposing significant changes to our water charges at a time when our 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 gas and electricity, we recognise that it will nevertheless add to pressures on household budgets. Therefore, we are developing the handling strategy instigated in 2023/24 and further enhanced in 2024/25, to mitigate the effects of bill changes on our customers and manage the implementation of changes to charges.

30. 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 social tariff to customers likely to be eligible and we plan to accept an additional 18,009 customers by 31 March 2026 over and above the 96,773 customers we already supply on these terms. We cap the bills of social tariff customer bills at a level that represents a 40% discount to the average household bill.

31. In 2023/24 we developed a scheme to target the way we return revenue over recovery amounts towards customers at greatest affordability risk. We assist customers at risk in the form of a credit of £50 against their water bills. In 2023/24 £1.5m was allocated to customers at greater affordability risk, in 2024/25 we doubled this to £3.0m. For 2025/26 we will again allocate £3.0m for customers at greater affordability risk. This amount corresponds with the un-used capacity for cross subsidy supported by a majority of customers in customer research. We project that we may again be able to assist up to 60,000 customers with their water bills in 2025/26, that we identify both proactively and reactively, alongside customer cases referred to us by third party agencies.

32. In addition to the tariff assistance approaches described above, we are also analysing the impact of water bill changes on different customer groups. As in 2024/25, we intend to use the results to tailor our customer communications around next year's charges. The principal features of our strategy are:

- Affordability assessments, to model the effect of bill changes on customer affordability, bad debt risk and vulnerable customers, and use the insights to understand and plan how these effects can be mitigated.
- Deciding our approach to customer communication, determining the different requirements of different customer groups, the appropriate communication channels and the content and timing of our communications.
- Determine how we will make customers aware of and signpost the support available to them.
- Determining our internal communication plans so that our personnel are well briefed and in position to assist customers in the run up to and after tariff changes.
- Producing our engagement plan for regulators, stakeholder groups and third-party agencies to determine key messages and optimal timings for communications and consultations.

6. Next Steps

33. We will consult with stakeholders about our proposals for charges next year, including the measures we have proposed to mitigate the impacts of bill changes. Following consultation, we will refine and finalise our handling strategy and charges and expect to publish our final wholesale charges in mid-January 2025 should we receive the PR24 Final Determination in December 2024, or to publish the final wholesale charges in February should we receive the Final Determination in January 2025.