

# AffinityWater

## Statement of Significant Changes 2025/26

13<sup>th</sup> January 2025



# Statement of Significant Change 2025/26

## 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 10 January 2025 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 2025/26
  
  - 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:
  - 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 2025/26 we project that we will need to increase our primary wholesale charges by 25.6% on the average typical bill. The average typical bill increase for 2025/26 is 19.3% for measured customers and 29.4% for unmeasured customers. 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, +12.88% for next year's charges.
  - Our forecast of CPIH inflation, +3.54%.
  - Changes to the charging base over which we recover our charges.
- 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 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 100MI volumetric charge to rebalance the charge away from the fixed charge. In addition, in the east region, we have equalised the 50-100MI volumetric charge and the over 100MI volumetric charge to simplify the structure of large user tariffs
8. Regarding removing the cost reflective tariff differential built up over the last few years between metered and unmetered tariffs, a 17.6% increase has been applied to measured customers and 23.0% 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.
9. 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.
10. Our large user tariffs apply to customers using more than 50,000m<sup>3</sup> 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 (m <sup>3</sup> /year)	Typical Bill 2024/25 (£/year)	Typical Bill 2025/26 (£/year)	Change (%)
Central region	118	179.59	215.37	19.9%
East region	82	199.20	238.90	19.9%
Southeast region	98	244.91	278.42	13.7%

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 2024/25 (£/year)	Typical Bill 2025/26 (£/year)	Change (%)
Rickmansworth area	248	264.81	345.71	30.5%
Colne area	278	290.11	379.00	30.6%
Lee area	251	308.88	391.05	26.6%
North Surrey area	249	265.66	346.82	30.6%
East area	184	328.35	415.70	26.6%

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. The

necessary adjustments were spread over several years to smooth the effects on bills for our unmetered customers, and for 2025-26 the remaining differential has been removed.

16. We offer two social tariffs, our Low Income Fixed Tariff (LIFT) and Watersure. Both 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 2024/25 (£/year)	Maximum Bill 2025/26 (£/year)	Change (%)
Watersure Central area	177.32	209.81	18.3%
Watersure Southeast area	246.69	289.35	17.3%
Watersure East area	217.52	259.30	19.2%
LIFT tariff all areas	119.50	143.80	20.3%
Enhanced LIFT all areas	79.70	95.80	20.2%

## 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 tariffs to customers likely to be eligible and we plan to accept a total of 128,134 customers by 31 March 2026 onto these tariffs. We cap LIFT Standard customer bills at a level that represents a 40% discount to the average household bill, and Lift Enhanced at 60% discount to the average household bill.
19. 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.

20. Our charges for 2025/26 complete the alignment of standard domestic wholesale tariffs in our Southeast and East regions, which mitigates the rate of tariff increase for those customers in our most expensive charging area. This can be seen in table 1 above where bills are increasing at a slower rate in our Southeast area.
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 in early January, 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. In this way we aim to engage and mobilise external organisations such that in carrying out their activities they complement our affordability approaches. We will promote social tariff uptake to customers likely to be eligible through a communications campaign targeted at key audiences to complement our affordability approaches.
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.

## **Wholesale Charges for Retailers/Non-Household Customers**

28. 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 based on the applicable fixed charges and consumption aggregated across all 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.
29. Table 4 sets out the effect of our 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 (see later) between the East and Southeast regions has resulted in the Southeast region having a slower rate of increase. Whilst the headline rate of increase is significantly ahead of general inflation,

for a typical small business customers this translates to a change in wholesale water bills of a little under £2 per week on average.

**Table 4. Typical Wholesale 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	689.84	17.6%
East region	303	606.62	713.15	17.6%
Southeast region	385	814.36	901.23	10.7%

30. Table 5 sets out the effect of our 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 5. Typical Wholesale 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	6,538.02	17.6%
East region	5,000	8,711.24	10,241.28	17.6%
Southeast region	5,000	7,460.80	8,771.48	17.6%

31. We offer large user tariffs for customers using more than 50,000m3 per year who meet eligibility criteria.

32. 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 continue to rebalance our large user tariffs away from the fixed element of charges and towards the volumetric rate. This enhances incentives towards efficient water use and supports environmental objectives towards reducing business demand.

33. Table 6 sets out the effect of our 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 6. Typical Wholesale 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	64,905.00	18.9%
East region	50,000	79,802.44	95,642.52	19.8%
Southeast region	50,000	74,191.30	87,224.48	17.6%

34. Table 7 shows the effect of our charges on extra-large customers, if 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 6 and Table 7.

**Table 7. Typical Wholesale 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	496,500.00	22.1%
East region	500,000	577,492.40	701,117.52	21.4%
Southeast region	500,000	741,496.30	871,754.48	17.6%

35. 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.

**Table 8. Typical wholesale 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	462.05	589.81	27.6%
Colne area	638	504.76	644.48	27.7%
Lee area	494	476.34	586.06	23.0%
North Surrey area	542	434.07	553.99	27.6%
Folkestone area	376	580.69	714.41	23.0%

## Impact Assessment and Handling Strategy for Retailers/Non-Household Customers

36. We understand that we are proposing significant changes to our wholesaler water charges at a time when many business customers are facing challenging conditions in their own markets. We know that some will find it difficult to recover increases in costs from their customers. Whilst for many business customers our water bill accounts for a much smaller proportion of their business expenses than other items such as wages, business rates, employers' national insurance and cost of sales, we recognise it will nevertheless add to cost pressures. Therefore, we are further developing our handling strategy to mitigate the effects of bill changes on business customers and retailers.
37. Firstly, we project that we will upgrade 20,000 business customers' meters to smart meters over the next 5 years to allow customers greater control of their water use and bills. Smart meters can also bring benefits such as easier identification of plumbing losses.
38. During 2024/25 we put in place alternative payment arrangements which are available to any retailer operating in our area. These arrangements allow retailers to move their R2-RF invoice due date to the end of the month, roughly an extra 10 days of credit, the benefits of which can be shared with customers to mitigate bill changes.
39. In November 2024 we consulted on Alternative Eligible Credit Agreements (AEC) with business retailers<sup>1</sup>. Our proposals, which we plan to introduce from April 2025, increase the AEC discounts available to retailers up to a maximum of £150,000 and are available to any retailer operating in our area. The benefits of these alternative terms could be shared with customers to mitigate bill changes.
40. Our charges for 2025/26 complete the alignment of small business wholesale tariffs in our Southeast and East regions, which mitigates the rate of tariff increase for those customers in our most expensive charging area. This can be seen in table 4 above where bills are increasing at a slower rate in our Southeast area.
41. In 2024/25 we revised our leak allowance policy<sup>2</sup> for business customers.

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<sup>1</sup> <https://www.affinitywater.co.uk/docs/Retailers/2024/AW-Alternative-Eligible-Credit-2025.pdf>

<sup>2</sup> <https://www.affinitywater.co.uk/docs/Retailers/2024/NHH-LeakAllowance-24-25.pdf>

42. We anticipated industry proposals<sup>3</sup> for wholesalers to align volumetric bands and commenced changes two years ago. This means we are spreading necessary tariff adjustments over a longer period than others and our early movement means that we are mitigating the bill effects associated with tariff simplification.
43. We want to be transparent about the prospects for water bills to help business customers and retailers to plan their businesses. One retailer suggested that we publish a 5-year projection of bills for this purpose. Therefore, we have included indicative bills for a range of typical customers to 2030 in Appendix 2. The projections in this table include CPIH inflation at 2% per year. They represent our current view of the prospects for typical business customer wholesale water bills but actual bills could vary from the projections shown. For instance, inflation may turn out differently to our assumption, regulatory performance-related rewards and penalties may be incurred during the projection period and there may be differences in the charging base over which we recover our allowed revenue compared to our current view. Changes in these factors may mean that actual bills differ from those projected at this time.

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<sup>3</sup> <https://mosl.co.uk/documents-publications/8314-rwg-tariff-sub-group-metered-consumption-bands-consultation-report/file>

# Appendix 1

## Typical Water Bill Changes

Movement in retail bills	Typical Bill £/year		change
	2024/25	2025/26	
Average Household Measured Customer (Central Region)	179.59	215.37	19.9%
Average Household Measured Customer (East Region)	199.20	238.90	19.9%
Average Household Measured Customer (Southeast Region)	244.91	278.42	13.7%
Average Household Unmeasured Customer (Rickmansworth Region)	264.81	345.71	30.5%
Average Household Unmeasured Customer (Colne Region)	290.11	379.00	30.6%
Average Household Unmeasured Customer (Lee Region)	308.88	391.05	26.6%
Average Household Unmeasured Customer (North Surrey Region)	265.66	346.82	30.6%
Average Household Unmeasured Customer (East Region)	328.35	415.70	26.6%
Social tariff Central and East Region	119.50	143.80	20.3%
Social tariff Southeast Region	119.50	143.80	20.3%
Household Measured Customer Low consumption 65m3/year Central Region	112.70	135.13	19.9%
Household Measured Customer Low consumption 42m3/year East Region	116.84	140.10	19.9%
Household Measured Customer Low consumption 65m3/year Southeast Region	172.66	196.91	14.0%
Household Measured Customer High consumption 300m3/year Central Region	410.40	492.24	19.9%
Household Measured Customer High consumption 225m3/year East Region	493.64	592.11	19.9%
Household Measured Customer High consumption 300m3/year Southeast Region	687.15	777.36	13.1%
Household Assessed 1 occupier (Central Region)	112.70	135.10	19.9%
Household Assessed 2 occupiers (Central Region)	176.00	211.10	19.9%
Household Assessed 3 occupiers (Central Region)	244.40	293.20	20.0%
Household Assessed 4 or more occupiers (Central Region)	312.90	375.20	19.9%
Household Assessed 1 occupier (East Region)	116.80	140.10	19.9%
Household Assessed 2 occupiers (East Region)	191.00	229.00	19.9%

## Appendix 1 (cont.)

### Typical Water Bill Changes

Movement in retail bills	Typical Bill £/year		change
	2024/25	2025/26	
Household Assessed 3 occupiers (East Region)	267.10	320.40	20.0%
Household Assessed 4 or more occupiers (East Region)	378.30	453.80	20.0%
Household Assessed 1 occupier (Southeast Region)	172.70	196.90	14.0%
Household Assessed 2 occupiers (Southeast Region)	282.10	320.40	13.6%
Household Assessed 3 occupiers (Southeast Region)	400.40	453.80	13.3%
Household Assessed 4 or more occupiers (Southeast Region)	518.60	587.20	13.2%
Watersure customer (Central & Saffron Walden Region)	177.32	209.81	18.3%
Watersure customer (Southeast Region)	246.69	289.35	17.3%
Watersure customer (East Region)	217.52	259.30	19.2%
Average Measured Non-contestable Business Customer Central Region (15mm meter)	648.56	777.92	19.9%
Average Measured Non-contestable Business Customer Southeast Region (15mm meter)	873.24	987.31	13.1%
Average Measured Non-contestable Business Customer East Region (15mm meter)	654.24	784.77	20.0%

## Appendix 2

### Projection of Indicative Wholesale Water Bills for Typical Non-Household Customers

Indicative Typical Wholesale Water Bill £/year (nominal)	2025/26	2026/27	2027/28	2028/29	2029/30
Average Measured contestable Small Business Customer Central Region	690	753	784	826	871
Average Measured contestable Small Business Customer East Region	713	779	811	855	901
Average Measured contestable Small Business Customer Southeast Region	901	984	1,025	1,080	1,138
Typical non-household contestable medium customer Central Region	6,538	7,140	7,434	7,834	8,258
Typical non-household contestable medium customer East Region	10,241	11,184	11,645	12,271	12,935
Typical non-household contestable medium customer Southeast Region	8,771	9,579	9,974	10,511	11,080
Typical non-household contestable large customer Central Region	64,905	70,881	73,802	77,772	81,979
Typical non-household contestable large customer East Region	95,643	104,448	108,752	114,603	120,803
Typical non-household contestable large customer Southeast Region	87,224	95,255	99,180	104,516	110,170
Typical non-household contestable extra-large customer Central Region	496,500	542,211	564,554	594,926	627,110
Typical non-household contestable extra-large customer East Region	701,118	765,666	797,217	840,107	885,555
Typical non-household contestable extra-large customer Southeast Region	871,754	952,013	991,243	1,044,571	1,101,080
Average Unmeasured RV contestable business customer Rickmansworth Region	590	644	671	707	745
Average Unmeasured RV contestable business customer Colne Region	644	704	733	772	814
Average Unmeasured RV contestable business customer Lee Region	586	640	666	702	740
Average Unmeasured RV contestable business customer North Surrey Region	554	605	630	664	700
Average Unmeasured RV contestable business customer Folkestone Region	714	780	812	856	902