

# Updated statement of significant changes to primary non-household wholesale charges (Published October 2017)

## (a) Introduction

This statement of significant changes is an update to the statement we published in July, and is made under Ofwat's wholesale charging rules (rule A4) <http://www.ofwat.gov.uk/publication/wholesale-charging-rules/>. It sets out potential significant changes that we are considering regarding our primary non-household wholesale charges for the 2018-19 charging year.

Our primary non-household wholesale charges for the current charging year, 2017-18, are set out in Section 3 of our Wholesale Statement of Principles and Charges document, which can be found on our website (<https://www.southernwater.co.uk/information-leafletscharges>). They are the charges that we make under sections 66E and 117I of the Water Industry Act 1991, to water and sewerage licensees with a retail authorisation or a restricted retail authorisation. The charges relate to the supply of water and sewerage services, both on an enduring or temporary basis, and including:

- (i) fixed and volumetric charges and allowances;
- (ii) any other charges set out in Section 3 of our Wholesale Statement of Principles and Charges document in relation to specific circumstances or events.

This updated statement of significant changes is published alongside our indicative primary non-household wholesale charges for 2018-19, in accordance with Ofwat's wholesale charging rules (rule A3).

## **(b) Significant changes in charging policy from the previous year**

### **Methodology used to calculate primary non-household wholesale charges**

We are developing separate wholesale charges for new appointments and variations (NAVs), which apply where we have been replaced by another company as the appointee for a specific geographic area within our operating area (e.g., a new housing development).

## **(c) Increase in primary non-household wholesale charges**

Under Ofwat's wholesale charging rules (rules A1(b) and A5(b)), our Board are required to provide assurance to Ofwat that they have assessed the effects of the new charges on water supply and sewerage licensees, and that they approve the impact assessments and handling strategies developed in instances where bill increases for licensees exceed 5%.

Without intervention by our Board, the increase in wholesale charges for some classes of business customer would exceed 5% for the two reasons set out below.

The first reason is principally driven by our forecast of the November 2017 RPI (3.9%). Based on this forecast, and our forecast of billed properties and billed volumes of water and sewage for the 2018-19 charging year, the maximum allowed increase in our wholesale sewerage charges under Ofwat's wholesale price control is 5.2%. The equivalent increase in our wholesale water supply charges is 4.2%.

The second reason is in connection with the new structure of fixed non-household wholesale charges that we implemented with effect from 1 April 2017, following consultation with retailers and other stakeholders in 2016. Full details of this consultation can be found on our website <http://beta.southernwater.co.uk/working-with-us/retailer-consultation/>.

Our intention remains that these fixed charges should be phased out, because they do not relate to specific fixed wholesale costs. However, given the underlying increase in our wholesale charges set out above, commencing this process in 2018-19 would result in wholesale charges increasing by significantly more than 5% for some classes of business customer. In this context, we have received a formal request from Business Stream, the principal retailer in our area, that we do not begin the phasing out process in 2018-19.

The Board has given these matters due consideration, and decided to:

1. Defer the take-up £1.4m of revenue until the next price control period in order to ensure that the overall increase in our wholesale sewerage charges is capped at 5%.
2. Not commence the phasing out of the fixed charge structure in 2018-19.

These decisions were aimed at ensuring that retailers did not experience an increase in wholesale sewerage charges above 5% for any class of business customer.

The position regarding the phasing out of the fixed charge structure will be reviewed when indicative wholesale charges for 2019-20 are set.

## Footnote

On 25 September 2017 we were advised by South East Water that they are consulting stakeholders on a proposed restructure of their assessed charges for non-household customers.

In instances where we are the sewerage wholesaler but not the water wholesaler, we base our assessed sewage volume on the water volume assessed by the water wholesaler. We currently have some 270 premises attracting assessed sewerage charges in South East Water's supply area.

If South East Water were to proceed with the proposed restructure, retailers will therefore experience a change in sewerage wholesale charges as well as water wholesale charges for these joint customers. For some of these customers, wholesale sewerage charges may be due to increase by more than 5% as a result of a reassessment of their water volume by South East Water. However, until we receive information about any reassessment of water volumes from South East Water we will not be able to undertake a detailed impact analysis.

We have asked South East Water to consider deferring the implementation of the restructure until RPI provides more headroom for the restructuring, or phasing in any increase in assessed water volumes over time in order to mitigate the financial impacts for retailers and business customers. If the proposed restructure goes ahead, we will consider whether we need to develop our own handling strategy for these customers once we understand the impacts and South East Water's approach to implementation. We will also work closely with South East Water to ensure retailers are kept fully informed about the changes in charges.