

Preliminary statement of significant changes to primary non-household wholesale charges (Published July 2017)

(a) Introduction

This preliminary statement of significant changes is made under Ofwat's wholesale charging rules (rule A2) <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 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.

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

Methodology used to calculate primary non-household wholesale charges

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the development of separate wholesale charges for new appointments and variations (NAVs), which apply where we have been replaced by another company as the appointee for a specific geographic area within our operating area (e.g., a new housing development).

At the time of writing this statement, we are not planning any other material changes to the methodology used to calculate wholesale charges.

Restructure of primary non-household wholesale charges

Following consultation with retailers and other stakeholders in 2016, we implemented a new structure of fixed non-household wholesale charges with effect from 1 April 2017, with a corresponding reduction in wholesale variable charges.

In accordance with our published consultation decision document (<https://www.southernwater.co.uk/media/default/PDFs/wholesale-charges-decision.pdf>) we will begin the phasing-out of these charges in 2018-19.

A consequence of phasing-out the new fixed wholesale charge structure will be that the wholesale charges to retailers in respect of some classes of business customer will increase by more than the overall average increase in wholesale charges.

(c) Increase in primary non-household wholesale charges

Under Ofwat's wholesale charging rules (rules A1 and A5), 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%.

At the time of publishing this statement, we forecast that the maximum allowed increase in our primary non-household wholesale charges under Ofwat's wholesale price controls will be between 5% and 6%. The principal driver of this forecast maximum increase is our current forecast of the November 2017 retail price index (RPI), which is 3.9%. The actual level of increase will also be dependent on our forecast of billed properties and billed volumes of water and sewage for the 2018-19 charging year.

As an alternative to setting our charges to take up this maximum allowed increase, the operation of Ofwat's wholesale price controls means we could choose to defer some of this increase to a future year. However, in doing so, we would need to consider carefully the impact on future year charges such a deferral may cause.

In accordance with Ofwat's wholesale charging rules (rule A3), we are required to publish indicative primary non-household wholesale charges for 2018-19 in October 2017. Prior to publication of these indicative charges, and taking full regard of its obligations as outlined above, our Board will give due consideration to the proposed level of increase.