

# AffinityWater

## Primary Wholesale Charges 2023/24

Indicative scope of changes to wholesale charges



# Primary Wholesale Charges 2023/24 – Indicative

## Scope of Changes to Wholesale 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. Projecting primary wholesale charges for 2023/24 is more difficult this year as we have observed a significant increase in inflation. It is uncertain whether inflation will continue to rise, although it is already the main driver behind the rise in tariffs.
3. As the forecasting environment is uncertain, the projections in 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 further inflation and other data becomes available.
4. Our current projection is that the average increase in primary wholesale charges to retailers operating in the competitive non-household market is likely to be in the range of 10-15%.
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, is also likely to be in the range of 10-15%.
6. The key factors influencing our projected changes in charges are as follows:
  - a. Our forecast of November 2022 CPIH inflation rate, 11%.
  - b. Our wholesale price control, which projects an overall K factor of +4.3%
  - c. Revenue adjustments in relation to 2023/24 (for example reflecting financial penalties and rewards related to our performance against regulatory service commitments and revenue imbalances arising from prior years).
7. We wish to consult further with business retailers, customers and customer representatives about the scope for changes to our charges next year. We will engage with stakeholders in the period up to our publication of indicative charges in October 2022.

8. We are mindful of the pressures many of our customers are facing from increasing living costs. Therefore we are developing a bill handling strategy to identify the incidence effects of bill changes on our customers and consider how we might best implement changes to charges. Our handling strategy will include how we communicate with customers using the channels most appropriate to their needs and how we will increase awareness and uptake of the help we can offer to customers with bill payment. We are also considering options in addition to our social tariff to target assistance towards customers who need it most.
9. In addition to the changes noted above, Affinity Water plans to simplify some of its tariffs. We intend to combine unmeasured rateable value (RV) charges to reduce the number of different unmeasured RV tariffs from 6 to 3. We also intend to streamline the metered fixed charges, simplifying 12 charging bands into 3. We do not expect significant rebalancing effects on customer bills from these changes, however we will consider the results of customer and retailer consultations and whether to phase these changes over more than one year to smooth the effects of tariff adjustments over time.
10. Affinity Water is also considering rebalancing the large user tariffs away from fixed charges and onto volumetric charges. Under the current large user tariff structure the average price per unit of water for large user customers falls with higher usage. Rebalancing would sharpen price incentives towards efficient water use, reflect water scarcity in our area and the increasing long term costs of water resources in our area. As part of charging consultations, we wish to engage with retailers on how best to proceed with this change.
11. We expect to publish indicative Primary Wholesale Charges on 14<sup>th</sup> October 2022 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.