

Thames Water Utilities Limited (TWUL) Wholesale
Published date: 13 October 2022



Statement of Significant Change

2023-24

Indicative wholesale charges for the supply of
water and wastewater services

Statement of Significant Change for indicative non-household wholesale charges 2023-24

Introduction

1. The purpose of this Statement of Significant Change is to provide our stakeholders with information as to the significant changes we are making to our primary wholesale charges (the “Charges”) for the 2023-24 charging year, compared with the 2022-23 charging year.
2. This statement is made in accordance with Ofwat Information Notice IN22/03 (‘Expectations, assurance and information requirements for water company charges for 2023-24’) published on 8 September 2022 and section A4 of the Annex to the Wholesale Charging Rules published by Ofwat on 20 October 2021. It confirms:
 - 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 approach (“handling strategies” as referred to by Ofwat) that, if appropriate, we may adopt to mitigate impact on customer bills.
3. The Wholesale Charging Rules require that the Board of Thames Water Utilities Limited (“the Company”) evaluates our impact assessment of any bill increases for Retailers or customers occupying Eligible Premises exceeding five per cent. The Board must also assess any approach developed to mitigate significant bill increases.
4. The Charges covered by this statement have been set based on the allowed revenues as published by Ofwat in the PR19 Final Determination (“FD”) and the Blind Year Adjustment (“BYA”) that relates to the true-up for our actual 2019-20 Outcome Delivery Incentive (“ODI”) performance.
5. Ofwat published the draft in-period determination for consultation on 3 October 2022. This has been used to derive our Charges. The final in-period determination reflecting actual 2021-22 ODI performance will be published by Ofwat in November 2022 and so will be reflected in our final Charges due for publication in January 2023.

Our Charges

6. Our Charges generally include an annual standing charge and/or a variable charge (reflecting the rateable value (‘RV’) of our customer’s property or the volume of consumption) that relate to the supply of water services and the supply of sewerage services, on an enduring or temporary basis.
7. Our Charges also include services provided under a special agreement (as notified to Ofwat under section 142(6A) of the WIA91).

Information about changes to our Charges for 2023-24

8. There are no significant changes in charging policy from the previous year, however, the Retailer Wholesaler Group (“RWG”) project looking at the potential for simplifying and aligning non-household wholesale tariff structures across the industry continues and could lead to some structural changes being made to our primary wholesale charges for 2023-24 (where incidence effects and bill impacts are not significant).
9. Further details will be made available through the RWG who continue to engage with all market participants through consultations to obtain feedback on proposals and the timescales over which changes may plausibly be made.
10. Based on our modelling for 2023-24 charges, we anticipate that year-on-year bill increases will exceed five per cent when compared to 2022-23 for water supply licensees and for water service customers occupying Eligible Premises. We do not anticipate that year-on-year bill increases will exceed five per cent when compared to 2022-23 for sewerage licensees or for wastewater service customers occupying Eligible Premises.
11. For the purposes of our indicative charges publication, we are using an inflation (CPIH) forecast¹ of 8.7%. At the time of publication of our Charges, there is significant uncertainty around the outlook for inflation. Consequently, there is a possibility that our final wholesale charges due for publication in January 2023 will be based on a materially different – potentially higher – inflation figure, as published by the Office for National Statistics.
12. We continue to rebalance our wholesale wastewater fixed charges to ensure that all charges levied by pipe/meter size are set such that the relative values of the charges are consistent with factors derived from the cross-sectional area of each pipe/meter. To limit the bill impact for our customers, this rebalancing exercise is being phased over a number of charging years.

Impact of our Charges for 2023-24 on customer bills

13. In table 1 below we set out the maximum wholesale bill increases for non-household customers relative to 2022-23 bills.

Table 1: Maximum bill increases for non-household customers 2023-24

	Customer type		
	Water-only	Wastewater-only	Dual service
Maximum wholesale bill increases 2023-24	11.2%	3.5%	8.2%

Source: Thames Water tariff model 2023-24 draft v1.7

14. Appendix 1 shows a range of typical non-household bill movements for 2023-24 relative to 2022-23 bills.

¹ Our CPIH consensus uses an average of forecasts from Barclays, HSBC, Morgan Stanley and Natwest Markets.

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15. The figures in table 1 showing maximum wholesale bill movements and our impact assessment of all customer groups seen in appendix 1 indicate that water-only and dual service customers will experience bill increases in excess of five per cent for 2023-24.

Approach to address significant changes to our Charges for 2023-24

16. There is still much uncertainty around how high and when inflation will peak, however the Board recognises that the Charges will increase the water prices included within customer bills by more than five per cent and that the effect on a combined bill will also exceed a five per cent year-on-year increase for dual service customer groups.
17. The primary driver of significant bill increases for 2023-24 is high inflation. The Board recognises the wider cost-of-living crisis, and therefore appreciates the need to identify actions to mitigate against significant price rises for our customers. The scope of these actions will, however, be limited by the inflationary cost pressures faced by the Company and indeed the industry as a whole, in particular those relating to energy costs the Company incurs. These additional costs are already being incurred but will not feature in customer bills until the next charging year.
18. As such, we continue to consider what mitigating actions can be taken to minimise price increases as we approach the publication of our final wholesale charges for 2023-24 in January 2023.
19. Our indicative wholesale charges for 2023-24 as published do not include any such mitigating action, however we will communicate any approach that may have been implemented at the time of publishing our final wholesale charges for 2023-24.
20. We will be publishing on our website information for customers on price rises for 2023-24 for each tariff type (metered and unmeasured) along with the reasons for the increases. Links to the relevant webpages will be shared with Ofwat and CCW as set out in the requirements of Information Notice IN22/03.

Stakeholder engagement on changes to our Charges for 2023-24

21. We are in regular contact with our Retailers and engage with them via various channels to gain insight on a range of topics. We are proactively involved in the RWG project to review non-household tariff structures (see paragraphs 8 and 9 above), so will also continue to engage with Retailers in this way regarding potential changes to wholesale charges.
22. We have had discussions with CCW regarding the proposed approach to our Charges. Acknowledging the possible mitigating action being considered, as discussed above, and the unavoidable impact of high inflation on customer bills, so far, no concerns have been raised by CCW. As required by the Wholesale Charging Rules, we will consult with CCW further in advance of publishing our Wholesale Tariff Document 2023-24 in January 2023.

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Declaration

23. In satisfying the requirements of the Wholesale Charging Rules, we confirm, on behalf of the Board, that the Company has followed robust and rigorous procedures in developing and considering the potential approach that we may adopt to mitigate impact on customer bills, as discussed in this Statement of Significant Change. This was achieved through a series of meetings of the Executive Committee and the Board of the Company.
24. At the Board meeting on 29 September 2022, the Chief Financial Officer, Strategy & External Affairs Director and Nick Land, our Senior Independent Non-Executive Director and Chair of our Audit and Risk Committee, were authorised to sign the Statement of Assurance on the Board's behalf.
25. In order for them to do this they must be able to confirm a review has taken place of whether any customer groups will experience bill increases in excess of five per cent and that any relevant mitigating actions have been appropriately reviewed and approved. This Statement of Significant Change provides the review required and confirms that mitigating actions have been considered but are not being implemented for the purposes of our indicative wholesale charges for 2023-24. As such, this document is also being signed by the same three directors on behalf of the Board.

Dated: 10 October 2022

Signed



Nick Land
Senior Independent Non-Executive Director

Dated: 10 October 2022

Signed



Alastair Cochran
Chief Financial Officer

Dated: 10 October 2022

Signed



Cathryn Ross
Strategy & External Affairs Director

For and on behalf of Thames Water Utilities Limited

Appendix 1: Non-household 2023-24 typical bill movements

Table 2 - Typical bill values of non-household customers

	2022-23 (£)	2023-24 (£)	Change (%)
NHH unmeasured bill water - area 4 £500 RV	498	553	11.2%
NHH unmeasured bill wastewater - area 4 £500 RV	1,185	1,217	2.7%
Combined bill - unmeasured (area 4 £500 RV)	1,683	1,770	5.2%
NHH metered bill water - 8,000m3	12,332	13,714	11.2%
NHH metered bill wastewater - 8,000m3	8,082	8,362	3.5%
Combined bill - metered (40mm pipe)	20,414	22,077	8.1%
NHH metered bill water - 25,000m3	37,883	42,129	11.2%
NHH metered bill wastewater - 25,000m3	25,685	26,571	3.5%
Combined bill - metered (80mm pipe)	63,567	68,700	8.1%
NHH metered bill water - 150,000m3	188,755	209,914	11.2%
NHH metered bill wastewater - 150,000m3	140,685	145,580	3.5%
Combined bill - metered (150mm pipe)	329,440	355,494	7.9%
NHH metered bill water - 500,000m3	535,590	595,634	11.2%
NHH metered bill wastewater - 500,000m3	420,306	434,949	3.5%
Combined bill - metered (1 x 250mm pipe)	955,896	1,030,583	7.8%
Bus assessed - water - 3,000m3	4,625	5,143	11.2%
Bus assessed - wastewater band - 3,000m3	3,188	3,297	3.4%
Combined bill - business assessed (30mm pipe)	7,813	8,440	8.0%
TRADE EFFLUENT			
R (m3)	474	469	-0.9%
V (m3)	554	549	-0.9%
B (kg)	745	738	-0.9%
S (kg)	337	334	-0.9%
Wholesale fixed charge	-84	-38	55.4%
Total TE bill (3,000m3)	2,025	2,052	1.3%
R (m3)	25,660	25,420	-0.9%
V (m3)	29,620	29,340	-0.9%
B (kg)	21,320	21,125	-0.9%
S (kg)	32,442	32,142	-0.9%
Annual large user charge	21,337	21,141	-0.9%
Total TE bill (200,000m3)	130,379	129,168	-0.9%

Source: Thames Water tariff model 2023-24 draft v1.7