

Statement of
significant
change

2019-20

**Indicative wholesale charges for the
supply of water and wastewater
services**



Statement of Significant Change for 2019-20 indicative non-household wholesale charges

Introduction

1. The purpose of this Statement of Significant Change is to provide our stakeholders with information as to the significant changes we intend to make to our primary wholesale charges ('wholesale charges') for the 2019-20 charging year, compared with the 2018-19 charging year.
2. This statement is made in accordance with section A4 of the Annex to the Wholesale charging rules issued by Ofwat in March 2018 and will confirm:
 - 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 handling strategies, if appropriate, that we may adopt.
3. The Wholesale charging rules require that our Board evaluates our impact assessment of any bill increases for retailers exceeding 5%. The Board must also assess any handling strategies developed to address significant bill increases.

Definition of Wholesale Charges

4. 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.
5. Our wholesale charges also include services provided under a special agreement (as notified to Ofwat under section 142(6A) of the WIA91).

Information about significant changes to our Wholesale Charges for 2019-20

6. In the absence of the mitigating actions set out below, charges for many of our customers in 2019-20 will increase by more than 5%. This is due primarily to:
 - a. Outcome Delivery Incentive ('ODI') penalties that we applied early which reduced customers' bills in 2018-19 compared to what they would have been. This amplifies the effect of year-on-year increases to 2019-20 bills;
 - b. an increase to the Thames Tideway Tunnel ('TTT') Infrastructure Provider charge that we collect on behalf of Bazalgette Tunnel Limited from our wastewater service customers;
 - c. Inflation (RPI), which is forecast to remain relatively high at 3.3%;
 - d. 'K' factors, as set out in the Final Determination ('FD') for AMP6, published in December 2014. The K factor for wholesale water is 0.67% (increasing charges), for wholesale wastewater is minus 2.22% (decreasing charges) and for the TTT price control delivered by Thames Water is 2.47% (increasing charges); and
 - e. reductions in our billable customer base that have arisen due to meter reading issues in the non-household market.

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7. There are no significant changes in charging policy from the previous year and we are not making any significant changes to the structure of primary wholesale charges for 2019-20.
8. We are however applying a new regulatory mechanism to return money to customers following the investigation into our leakage performance. This will take the form of a rebate which will reduce charges to our water service customers without changing the structure of our tariffs.

Impact of significant changes on licensees and customers occupying eligible premises

9. Table 1 below sets out the average bill increases for our customers if no mitigating action were to be taken.

Table 1: Average wholesale price rises before mitigation actions

	Water only (%)	Wastewater only (%)	Dual service (%)
Average bill impacts (pre-mitigation)	7.3	5.7	6.5

Source: Thames Water draft Tariff model 2019-20 v15c

10. Appendix 1 shows a range of typical non-household bill increases before any mitigating action is taken.

Handling strategies to mitigate against significant bill increases – water service

11. Following the conclusion of the investigation by Ofwat into our recent performance on leakage, we have made commitments following the section 19 undertaking to compensate customers for our poor performance. As such, we will be returning more money to customers through a new regulatory mechanism.
12. The new regulatory mechanism, which was the conclusion of careful consideration and internal debate, will take the form of a rebate. This will enable us to pass money back to our customers in a fair and transparent way. The total amount to be returned to our water service customers through 2019-20 bills is just under £31m.
13. We will apply the rebate as a proportional reduction of around 3% to all 2019-20 water service bills. This means that in practice bill increases for all customers will be less than 5%.

Handling strategies to mitigate against significant bill increases – wastewater service

14. In order to smooth the effects of bill increases for our wastewater service customers, we have decided to set our tariffs below the level allowed in the FD.
15. This means that, all else being equal, the revenue that we will recover in 2019-20 will be lower than that allowed in the wholesale wastewater price control. This under-recovery will be added to our revenue allowance either in AMP7 through the wholesale revenue forecasting incentive mechanism ('WRFIM') or through the price review process for AMP8, known as PR24.
16. As a result of our decision to set our tariffs below the level allowed in the FD, bill increases for all customers will be less than or equal to 5% in 2019-20.

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Impact of handling strategies on customer bills

17. The handling strategies discussed above are sufficient to bring the wholesale water and wholesale wastewater bill for all of our customers down to below the 5% threshold. Table 2 below sets out the impact on average wholesale bill increases both before and after the mitigating actions has been taken.

Table 2: Average wholesale price rises before and after mitigation actions

	Water only (%)	Wastewater only (%)	Dual service (%)
Average bill impacts (pre-mitigation)	7.3	5.7	6.5
Average bill impacts (post-mitigation)	3.7	5.0	4.3

Source: Thames Water draft Tariff model 2019-20 v15a and v15c

18. While the figures in table 2 show average wholesale bill increases, our impact assessment of all customer groups confirms that after the mitigating action has been taken no customer groups will experience increases in excess of 5%. This is demonstrated in the post-mitigation bill impacts as seen in appendix 2.

Additional information

19. For those household customers struggling to pay their bill we will continue to offer support through our WaterSure and WaterSure Plus tariffs. More information on household charges will be available in our Charges Scheme due to be published by 1 February 2019.
20. The final wholesale charges to be published in January 2019 are subject to the review and final approval of the Board of Thames Water Utilities Limited.

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Declaration

21. 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 approving the handling strategies set out in this Statement of Significant Change. This was achieved through a series of meetings of the Executive Committee and the Board of the company.
22. At the Board meeting on 27 September 2018, the Chief Financial Officer, Director of Strategy and Regulation and Nick Land, one of our non-executive directors, were authorised to sign the statement of assurance on the Board's behalf.
23. 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 5% and that handling strategies have been appropriately reviewed and approved. This Statement of Significant Change provides the review required and sets out the handling strategies to be adopted. As such, this document is also being signed by the same three directors on behalf of the Board.

Dated: 5 October 2018 Dated: 9th October 2018

Signed Nick Land
Nick Land, Non-Executive Director

Signed Nick Fincham
Nick Fincham, Executive Director

Dated: 9 October 2018

Signed Brandon Rennet
Brandon Rennet, Executive Director

For and on behalf of Thames Water Utilities Limited

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Appendix 1: Non-household indicative 2019-20 typical bill increases
(with no mitigating action applied)

Table 3 - Typical bill values of non-household customers before mitigating action

	2018-19 (£)	2019-20 (£)	Change (%)
Non HH unmeasured bill water – area 1 £500 RV	411	445	8.2%
Non HH unmeasured bill wastewater – area 1 £500 RV	335	355	6.0%
Combined bill – unmeasured (area 1 £500 RV)	747	800	7.2%
Non HH metered bill water - 8,000m3	10,390	11,046	6.3%
Non HH metered bill wastewater - 8,000m3	7,086	7,459	5.3%
Combined bill - metered (40mm pipe)	17,476	18,506	5.9%
Non HH metered bill water - 25,000m3	31,917	33,935	6.3%
Non HH metered bill wastewater - 25,000m3	22,544	23,730	5.3%
Combined bill - metered (80mm pipe)	54,461	57,665	5.9%
Non HH metered bill water - 150,000m3	159,122	169,177	6.3%
Non HH metered bill wastewater - 150,000m3	123,351	129,836	5.3%
Combined bill - metered (150mm pipe)	282,473	299,013	5.9%
Non HH metered bill water - 500,000m3	451,737	480,327	6.3%
Non HH metered bill wastewater - 500,000m3	368,551	387,933	5.3%
Combined bill - metered (1 x 250mm pipe)	820,288	868,260	5.8%
Bus assessed - water - 3,000m3	3,896	4,142	6.3%
Bus assessed - wastewater band - 3,000m3	2,804	2,951	5.3%
Combine bill - business assessed (30mm pipe)	6,700	7,094	5.9%
TRADE EFFLUENT			
R (m3)	420	443	5.4%
V (m3)	482	507	5.2%
B (kg)	1,158	1,219	5.2%
S (kg)	294	309	5.2%
Wholesale fixed charge	-95	-100	5.3%
Total TE bill (3,000m3)	2,258	2,377	5.3%
R (m3)	22,840	24,080	5.4%
V (m3)	25,800	27,160	5.3%
B (kg)	55,695	58,620	5.3%
S (kg)	23,540	24,775	5.2%
Annual large user charge	18,580	19,553	5.2%
Total TE bill (200,000m3)	146,455	154,188	5.3%

Source: Thames Water draft Tariff model 2019-20 v15c

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Appendix 2: Non-household indicative 2019-20 typical bill increases (with mitigating action applied to water and wastewater service charges)

Table 4 - Typical bill values of non-household customers after mitigating action

	2018-19 (£)	2019-20 (£)	Change (%)
Non HH unmeasured bill water – area 1 £500 RV	411	430	4.6%
Non HH unmeasured bill wastewater – area 1 £500 RV	335	352	5.0%
Combined bill – unmeasured (area 1 £500 RV)	747	782	4.7%
Non HH metered bill water - 8,000m3	10,390	10,678	2.8%
Non HH metered bill wastewater - 8,000m3	7,086	7,440	5.0%
Combined bill - metered (40mm pipe)	17,476	18,118	3.7%
Non HH metered bill water - 25,000m3	31,917	32,802	2.8%
Non HH metered bill wastewater - 25,000m3	22,544	23,671	5.0%
Combined bill - metered (80mm pipe)	54,461	56,473	3.7%
Non HH metered bill water - 150,000m3	159,122	163,542	2.8%
Non HH metered bill wastewater - 150,000m3	123,351	129,517	5.0%
Combined bill - metered (150mm pipe)	282,473	293,059	3.7%
Non HH metered bill water - 500,000m3	451,737	464,317	2.8%
Non HH metered bill wastewater - 500,000m3	368,551	386,986	5.0%
Combined bill - metered (1 x 250mm pipe)	820,288	851,303	3.8%
Bus assessed - water - 3,000m3	3,896	4,004	2.8%
Bus assessed - wastewater band - 3,000m3	2,804	2,944	5.0%
Combine bill - business assessed (30mm pipe)	6,700	6,948	3.7%
TRADE EFFLUENT			
R (m3)	420	441	5.1%
V (m3)	482	506	5.0%
B (kg)	1,158	1,216	5.0%
S (kg)	294	308	5.0%
Wholesale fixed charge	-95	-100	5.3%
Total TE bill (3,000m3)	2,258	2,371	5.0%
R (m3)	22,840	24,020	5.2%
V (m3)	25,800	27,080	5.0%
B (kg)	55,695	58,470	5.0%
S (kg)	23,540	24,710	5.0%
Annual large user charge	18,580	19,505	5.0%
Total TE bill (200,000m3)	146,455	153,785	5.0%

Source: Thames Water draft Tariff model 2019-20 v15a