



Statement of significant changes to primary wholesale charges

(Published October 2024)

(a) Introduction

This statement sets out potential significant changes to our primary wholesale charges for the 2025-26 charging year.

Our primary 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/wholesale-charges>). 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 statement of significant changes is published alongside our indicative primary wholesale charges for 2025-26, in accordance with Ofwat's wholesale charging rules (rule A3).

(b) Overall level of expected bill increases

Transition into AMP8

In October 2023 we submitted our business plan for the period 2025-30 to Ofwat. Our business plan included significant service improvements along with substantial efficiency savings and a significant increase in investment needed to fund new regulatory and environmental requirements as set out by our regulators. On 11 July 2024, Ofwat published its draft determination. This draft determination forms the basis of our published indicative charges. Our final charges will reflect Ofwat's final determination.

Based on the draft determination there is an increase in non-household water charges of 36.2% above inflation (as measured by CPIH, assumed at 3.4%)¹. The majority of non-household wastewater charges reflect an increase at 23.1% above inflation. The increase to combined metered household bills will be 31.6% above inflation, slightly higher due to increases in the retail charge above the wholesale charge increases.

As required by Ofwat, the Board has considered customer impacts and handling strategies where customer bills are increasing by greater than 5%.

We will be consulting further with our stakeholders, including customers, retailers and customer representatives, about the scope for changes to our 2025-26 charges.

Our 2025-26 charges will be available for final publication, once they have been reviewed and approved The Board of Southern Water Services Ltd., no later than 13 January 2025 ("Final Charges"). The level of Final Charges may vary from those of the Indicative Charges.

(c) Factors affecting the level of our wholesale charges for 2025-26

Under Ofwat's regulatory formula, each year we can increase our charges by inflation, as measured by CPIH, plus or minus a percentage determined by Ofwat – known as the K factor. The K factor reflects Ofwat's assessment of the efficient costs of running our business as determined at the 2024 price review.

¹ These % changes include ODI impacts that are based on our own view of in-period adjustments, which may differ from Ofwat's final determination of these adjustments. The final charges will take account of Ofwat's final decisions on in-period adjustments.

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In addition, charges reflect any penalties or rewards associated with performance against our Ofwat targets (ODI payments) in previous years, adjustments in relation to under or over-recovery of revenues in previous years.

Inflation

Our charges for 2025-26 will reflect inflation, as measured by the November 2024 CPIH figure published by the Office for National Statistics. The latest forecast for November CPIH inflation is 3.4%. This value may be higher or lower by the time final charges are set.

(d) Significant changes in charging policy

Social Tariff: 'Essentials' tariff

In 2021-22, we amended the eligibility criteria for our social tariff so that we could engage with more customers in need of financial support. In 2022-23, in response to the cost-of-living crisis our customers were facing, we significantly increased the minimum discount offered from 20% to 45% and increased the customer cross-subsidy so we can reach even more customers who are most in need.

In 2024-25 the cross-subsidy was set at £13, which was accepted by customers as part of our PR19 Willingness-To-Pay research. As part of our PR24 customer research, we asked our customers if they are willing to accept a further increase to this annual support. Results show the equivalent proportion of customers accepted an increase up to £20 per year in real terms (2022-23 price-base). We will continue to offer a minimum 45% discount, and this additional funding will allow us to support 160k customers each year throughout AMP 8, an increase of 30k customers compared to today's level. This will result in additional meaningful support and benefit to our most vulnerable customers.

Large User Tariff

We are continuing a phased approach to reducing the discount that Large Users attract. Most customers will see increases to their bills which are 3-4% higher than standard non-household charges. Currently, there are over 800 non-household connections attracting these discounted Large User Tariffs. It is expected that these discounts will be phased out by 2026-27.

New ammonia charge for trade effluent

We introduced a separate trade effluent charge for ammonia within the Mogden formula for the first time in our 2021-22 charges. The decision was made to introduce this charge in a phased way, to minimise the impact on affected customers whose bills could have increased by more than 5%. This means that full cost-reflectivity for this charge will be achieved over a number of years. We will continue with this phased approach in 2025-26 charges to appropriately balance the competing objectives of stable bills and cost reflectivity.

Removal of non-household fixed charges

In 2017-18, we introduced a new transitional fixed charge for non-household customers. This was intended to help smooth the transition to the opening of the non-household retail market and reduce the risk of bill increases for larger customers. When we introduced these fixed charges, we made clear that they were temporary and that they would be phased out over time.

We removed the fixed wastewater charges in 2020-21 and reverted to fully volumetric charges. We commenced phasing out the fixed charges in 2024-25 and will continue to do so in 2025-26 with an expectation that they will be fully phased out by 2026-27.

E) Innovative tariff development for the future

Surface water drainage fixed charge

Our existing tariff structure reflects a fixed annual charge to recover the costs of surface water drainage for all customers. The charge is linked to meter-pipe-size of a customer and the vast majority of both household and non-household customers incur the lowest charge of £24.

We are currently investigating the potential benefits and customer-impact of moving to site-area-based-charges or volumetric-band charges. We have identified that such bases of charge could more accurately reflect the costs associated with the drainage of surface water into our network and/or serve to apportion the burden of charge more appropriately. We have also identified that such a change to this charge could serve as a catalyst to encourage the use of more sustainable drainage systems across our area, and we are keen to work with our customers to support such enhancements.

While we will not reflect any change to the existing basis of charge in 2025-26, we intend providing “shadow charges” for those customers with very large site areas draining to our network at some point during 2025-26. We hope that such shadow charges will help us to assess customer impact and to identify benefits and potential next steps for this project.

Our 2025-26 Indicative Wholesale Charges also reflect an adjustment to the balance of revenue recovered via surface water drainage charges versus foul water treated, without altering the basis of charge.

Tariff trials - Rising Block tariffs

As part of the PR24 drive for innovation in charges to support affordability, we welcome Ofwat’s request to commence trials as soon as possible. We have already completed some customer research and internal analysis of consumption to assist in the development of progressive and effective tariffs to support our affordability and sustainability goals.

The guiding principles for the design of a tariff trial include:

- Simplicity - for customers to understand and engage
- Affordability – to support our customers with increasing bills in a cost-of-living crisis
- Sustainability – information and signals for behaviour change in our water-scarce region
- Support – vulnerable customers and those most in need will not be disadvantaged

We intend commencing trials in 2026-27 using rising block tariffs, alongside the implementation of our new billing system, and will share details in due course regarding consumption analysis, tariff design and trial size.