

Significant changes in our wholesale charges

2020-21

Draft Wholesale Access Charging Rules, published by the Water Services Regulation Authority (WSRA), under sections 66E and 117I of the Water Industry Act 1991, require that if Severn Trent Water intends to make any significant changes to its wholesale access charges, it should provide to the WSRA and publish a statement of significant changes no later than the July immediately preceding the Charging Year for which the changes would have effect.

Below we set out changes we are making across five areas:

- Fixed charges for unmetered customers;
- Non-household charges for water;
- Non-household charges for waste; and
- New appointments and variations.

We also note that in 2020/21 our charges will be updated consistent with Ofwat's 2019 Final Determination, due to be published in December 2019. Although this determination does not require any structural changes, it is useful to note that it will lead to a material change in revenues between AMP6 and AMP7. Our official K factors¹ for all controls will be zero next year, because wholesale controls have been split into two wholesale controls for each service. However, our business plan proposes effective wholesale K factors of +2.9% for water and -0.2% for wastewater.

- The positive "K factor" for wholesale water relates partly to the reversal of in-period regulatory penalties. Water charges for 2019-20 included Outcome Delivery Incentives (ODIs) and a revenue correction totalling minus £0.2m. These will be reversed in the first year of the next AMP.
- Likewise, the slightly negative "K factor" for wastewater is influenced by a reduction in the level of in-period incentives. Wastewater charges for 2019-20 included ODIs and a revenue correction totalling +£0.1m.

Fixed charges for unmetered customers

Non-household customers in the Powys area that are still charged by rateable value pay a small fixed charge for each service that they receive (fresh water, foul water and surface water). We intend to implement a gradual increase in these charges, in order to reduce the proportion of the overall bill that is linked to rateable value.

Unmetered households in the Powys area currently pay no fixed charge. We will introduce a fixed element for each service. The initial level of the charge will be small, to avoid incidence effects on low bill customers.

Customers in Hafren Dyfrdwy zones B and C (i.e. customers that were previously served by Dee Valley Water) already pay a higher fixed (standing) charge for wholesale water. There will be no significant change to the level of this charge in the near future.

¹ Real change in wholesale revenues before inflation

Highway drainage

Where customers pay a wholesale fixed charge for wastewater, this will include the cost of highway drainage. Metered non-households will also see a small increase in fixed charges for highway drainage (with a reduction in the proportion of overall bills paid through other charges). At a wholesale level, we will split the cost of highway drainage from the wastewater standing charge paid by metered households; there should be no increase in charges as there will be a corresponding reduction in the residual amount they already pay.

Non-household charges for water

We intend to phase out seasonal charging, which applies to larger customers in the Powys area. The level of charge and discounts applied for larger customers should not change as a result of this measure. Having looked at the pattern of seasonal usage for large and intermediate users in our area, we will stagger this change to avoid sharp changes in bills. Next year we will narrow the differential between peak and off-peak charges.

We currently apply Intermediate and Large User Tariffs (IUT and LUT) to any sites within Severn Trent's original area where usage exceeds the relevant thresholds (currently 10,000 and 50,000 cubic metres of water respectively). If usage falls outside the estimate at the beginning of the year, there is a reconciliation at year end.

Next year, we intend to make the IUT and LUT available to customers in our area that were formerly served by Dee Valley (DVW). Since the metered water charges for these customers are lower than the standard rate in the Powys area, they will need a higher level of usage to benefit from the IUT or LUT.

Accordingly, it will be for customers (with the advice of their retailers if they are eligible for the market) to opt for the IUT or LUT. We will apply the same approach for all sites in the Hafren Dyfrdwy area. We will assume that all existing IUT and LUT customers remain on the tariff unless notified that they wish to change. Once selected, the rate will apply for the full charging year.

For non-households that were previously served by Dee Valley we will apply the same approach to wholesale fixed charges as for Powys – charges for customers eligible for the market will include a small charge to reflect the associated costs such as fees from MOSL².

Non-household charges for wastewater

We currently charge for wastewater using a falling block approach, where a lower rate is charged for volumes above 10,000m³, with a further reduction above 50,000m³. In order to simplify our charges, we will move to the same method and bandings as we apply to water charges – that is:

- A discounted volumetric rate with an intermediate fixed charge; or
- A higher discount on the volumetric rate with a higher (large user) fixed charge.

² Market Operator Systems Ltd

This is a different way of achieving the same result, so we do not believe this will have significant incidence effects for customers. We will convert the discount arising on the falling block approach to provide the same effective rate.

Customers will need to select an Intermediate or Large User Tariff (IUT or LUT) for a site. We will assume that all sites discharging more than the thresholds based on last year's usage (10,000 cubic metres and 50,000 cubic metres) will elect for the IUT and LUT unless we are notified that customers do not wish to be charged at this rate.

This change will not affect any customer discharging less than 10,000 cubic metres of waste water.

New Appointments and Variations

The New Appointments and Variations (NAV) tariff will alter to reflect new Ofwat guidance. The "income offset" relating to the cost of new on-site assets will no longer be reflected within the bulk water charge and will be provided separately. This means that the discount included in the NAV tariff will reduce in future.

We will not apply these changes retrospectively. The discount for NAVs which commence before 1 April 2020 will remain at the existing rate, because they will not have received the "income offset" as a separate sum.

Stakeholder engagement on tariff changes

Retailers operating in our area have a dedicated account manager, and we have already begun to discuss these changes with retailers through normal channels. We have a team responsible for dealing with NAVs; although there are no NAV sites in the Hafren Dyfrdwy area we will discuss the impact with potential operators.

This document deals with wholesale charges and is primarily aimed at retailers, but we'll also be discussing the impact of these changes with CCWater, the customer representative body. We have regular meetings with CCWater and are required to consult with them in advance of publishing our Scheme of Charges.