

1. INTRODUCTION

As required in Section A2 of “Wholesale charging rules issued by the Water Services Regulation Authority under sections 66A and 117I of the Water Industry Act 1991”, this document provides information on any significant changes currently anticipated to 2021/22 charges.

2. UNDERLYING FACTORS

The changes in our primary wholesale charges for 2021/22 detailed below in section 3 are in addition to the following underlying factors which are anticipated to impact primary wholesale charges for 2021/22:

- November 2020 CPIH inflation – current forecasts estimate this to be around 0.8%;
- Changes in allowed revenue – our final determination for the period to March 2022 allows for wholesale revenue for the combined water resources and water network plus services and the wastewater network plus and bioresources services to decrease by 0.2% and 2.5% respectively in 2021/22;
- Movements in the adjustments resulting from the 2019/20 blind year adjustment; and,
- Updated information on the costs associated with providing services, changes in anticipated customer numbers, and associated consumption.

3. CHANGES TO SPECIFIC CHARGES

We currently anticipate the removal of the tariffs and charges listed below from our charging structure for 2021/22. It is expected that no customer will be on these tariffs or charges in 2021/22 and they will therefore be unused.

- Select Plus water tariff;
- “additional R” charge from the trade effluent charges for discharges that are not received at a treatment works; and
- reservation charges for trade effluent.

However, in light of the current COVID-19 pandemic, there may be a requirement to consider other potential changes to charges for 2021/22 as the situation develops.

4. COVID-19 IMPACT ON ANTICIPATED CHARGES

We recognise that the coronavirus pandemic is likely to have an impact both on the drivers of charges (such as consumption and customer numbers) and our ability to forecast those drivers for 2021/22 with the same degree of certainty as we have had in previous years.

Whilst the economic impact of the COVID-19 pandemic remains so difficult to forecast with any degree of certainty, we have considered a range of plausible scenarios, guided by the latest expert views. These scenarios involve variations in non-household consumption and customer numbers. Our baseline forecast (before the impact of COVID-19) would lead to tariffs, in general, falling by 1.1% (after an assumed inflation of 0.8%). However, if non-household volumes reduced then tariffs could increase above this baseline assumption. For example, if non-household volumes fell by 15% then this would lead to tariffs increasing by 3.6%, all other things being equal.

We will follow any required charging rules in reflecting in future charges any changes to forecast customer volumes. We will also consider the incidence effects of such changes and suitable handling strategies should charges to any particular group of customers appear likely to rise above the 5% threshold.

5. SUPPORT FOR THE NON HOUSEHOLD RETAIL MARKET

We recognise that the success of an effective non-household market requires the proactive involvement and constructive support of water companies in ensuring the efficiency of market interactions and the delivery of better customer outcomes. We have focussed significant effort on developing an approach that meets the needs of retailers and supports their provision of services to customers.

Steps taken by UUW to support the non-household retail market include:

Liquidity - We have been working closely with Ofwat and MOSL to develop the process by which retailers have been offered additional flexibility on their payment terms, helping retailer liquidity. In supporting this provision we have extended the level of credit we provide to retailers.

Vacancy flag - The introduction of a COVID-19 vacancy flag has enabled retailers to quickly identify premises that are substantially closed and ensure that the wholesale charge reflects this reduced water usage. We have supported this activity and will be looking to work with retailers to help identify premises as they reopen.

Passive automatic meter reading (AMR) data - During this period of impact connected to COVID-19 we have continued to provide passive AMR meter read data free of charge to retailers. This provision is more important than ever as it has been more difficult to read meters and therefore this data can be used to maximise the number of meter reads getting into the market, helping provide accurate bills for customers and retailers.

These steps are in addition to key products and services that we have already developed to proactively support the non-household market:

Incentive schemes – On 1 April 2020 we introduced a range of incentive schemes to support retailers and customers:

- **Vacancy** – incentivises retailers who identify and correct occupied premises that are identified as being vacant in the market. (Due to restrictions related to the COVID-19 pandemic this scheme is currently suspended and will be reviewed for implementation on 1 October 2020)
- **Gap site** – incentivises retailers to identify, and bring into charge, premises not currently registered in the market
- **Water efficiency** – pay retailers up to £3,000 who support their customers in delivering water efficiency interventions
- **Sustainable Drainage Systems (SuDS)** – an incentive scheme which enables customers to apply for a reduction in surface water charges if they install approved SuDS

Alternative Eligible Credit Support – We have taken innovative and proactive steps to support the market by introducing two Alternative Eligible Credit Support options:

- To support new retailers entering the market we introduced an unsecured credit allowance covering the first £200,000 of the retailer's Credit Support Requirement
- To support retailers who do not have an investment grade credit rating, but can otherwise demonstrate a very high level of financial security and very low credit risk, we introduced an option for retailers to obtain unsecured credit to the value of 2% of a retailer's Dun & Bradstreet credit score report's "maximum recommended credit limit".

Alignment to RWG¹ good practice - We are keen to adopt industry good practice wherever practicable and have made a number of policy changes in order to align where possible to the RWG Good Practice Guides such as burst allowance, data logging and planned and unplanned events.

Consolidated billing – To help reduce retailers’ costs of processing settlement invoices and payments we have recently introduced the option for consolidated billing which consolidates multiple monthly invoices into one.

We are also developing the following services to further support the market:

Trade Effluent meter reading data – Recognising the challenge faced by retailers and the opportunity to avoid duplication we will soon be providing meter read data from private trade effluent meters, where we have collected this data as part of our routine activity. This will be provided free of charge in 2020/21 to support the immediate improvement of trade effluent charging accuracy, although charges may be introduced in 2021/22.

Non household meter reading service – United Utilities hopes to launch a commercial meter reading service, available to all retailers within the UU region, by December 2020. Retailers will be under no obligation to use this offering and are free to undertake meter reading themselves or procure a meter reading service through an independent provider.

Vacancy charging - In our 2020/21 Statement of Significant Changes we set out that from 1 April 2020 we would levy wholesale charges for all volumetric water and sewerage services provided to premises that are marked as vacant in the Central Market Operator System (CMOS). The ultimate aim of this charge is to ensure that customers are making an appropriate contribution towards the costs of providing the services they receive, with action on the part of the retailer being essential to deliver this in the non-household market. However, in February 2020 we announced that we would suspend the introduction of vacancy charging for 2020/21.

UU continues to be committed to reducing the number of premises incorrectly marked vacant, but we are also aware that there are a range of different approaches that have been, or are being, adopted by different wholesalers. Added to this, we recognise that there are a number of other actual, or potential, uncertainties about the future landscape for vacant and void charging in the market, not least because of the disruption that COVID-19 has caused for non-household customers.

Depending on a) market and regulatory developments, b) the level of retailers’ response to the AMP7 vacancy incentive scheme and c) the impact of coronavirus on the level of vacancy in the market, UU may still proceed to apply such charges in future charging years, subject to providing six months’ notice to retailers.

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¹ Retailer Wholesaler Group