



Statement of Board Assurance provided to the Water Services Regulation Authority 2019-20 Wholesale charges

11 January 2019

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Statement of Board Assurance provided to the Water Services Regulation Authority: 2019-20 Wholesale Charges

The Company, under the direction of the Board, has undertaken a thorough process of internal and external assurance with regard to the setting of wholesale charges for the 2019-20 charging year. As a result of the assurances it has received, the Board has satisfied itself to the best of its ability that:

- a) the Company complies with its legal obligations relating to the Wholesale Charges it has published;
- b) the Board has assessed the effects of the new charges on water supply and sewerage licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as a whole or in groups) and approves the impact assessments and handling strategies developed in instances where bill increases for licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as a whole or in groups) exceed 5%;
- c) the Company has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published about its Wholesale Charges is accurate;
- d) the Company has consulted with relevant stakeholders in a timely and effective manner on its Wholesale Charges; and
- e) where final Wholesale Charges are significantly different from the indicative Wholesale Charges published for the same period, the Board has considered the reasons why those changes occurred and has issued a statement explaining why those changes were not anticipated and/or mitigated.

We provide information on our compliance with Ofwat's wholesale charging rules in the Annex to this assurance statement.



Ian McAulay
Chief Executive Officer



Paul Sheffield
Senior Independent Non-Executive Director

Annex to wholesale charges assurance statement - compliance with Ofwat's wholesale charging rules

Rule no.	Wholesale charging rule	Compliance statement
1-6	<i>Introduction and Interpretation</i>	N/A
Part 1: Rules for Wholesale Charges other than Wholesale Connection Charges		
7-12	Publication	
7	Each water undertaker must publish the Wholesale Charges payable by a water supply licensee for the supply of water to Eligible Premises that are connected to the undertaker's supply system. This includes the Eligible Premises to which a Special Agreement would otherwise apply (although nothing in these rules requires the publication of a customer's name or address).	Compliant. We have published our wholesale charges, including those subject to a special agreement, on our website by the prescribed deadline of 11 January 2019. We have published the charges in two formats: our "Wholesale Statement of Principles and Charges" document, which includes wholesale charges for residential customers, and non-primary wholesale charges for retailers in accordance with Ofwat's wholesale charging rules; and in the spreadsheet template developed by Ofwat to aid comparability of wholesale charges across the industry.
8	Each sewerage undertaker whose area is wholly or mainly in England must publish the Wholesale Charges payable by a sewerage licensee in respect of the provision of sewerage services to Eligible Premises that are connected to the undertaker's sewerage system. This includes the Eligible Premises to which a Special Agreement would otherwise apply (although nothing in these rules requires the publication of a customer's name or address).	Compliant. As rule 7.

Rule no.	Wholesale charging rule	Compliance statement
9	<p>Each relevant undertaker must also, as a minimum, publish the Wholesale Charges (or the methodology for calculating such charges where the charges cannot be determined in advance) that would, where relevant, be payable by a water supply or sewerage licensee for:</p> <ul style="list-style-type: none"> (a) the replacement of lead service pipes; (b) the provision and maintenance of fire hydrants; (c) damage to apparatus; (d) the carrying out of inspections to ascertain whether any provision contained in or made or having effect under the Water Industry Act 1991 with respect to any water fittings or with respect to the waste or misuse of water is being or has been contravened; (e) site inspections; (f) the provision and use of standpipes; (g) the testing of meters; and (h) the disconnection of a service pipe (or for otherwise cutting off a supply of water) to any premises and the reconnection of such premises to a water main. 	<p>Compliant. Our “Wholesale Statement of Principles and Charges” document includes all Non-Primary charges that we will make to retailers in the new business retail market. This includes all the charge types listed in rule 9 ((a) to (h)).</p>
10	<p>Wholesale Charges must be published at least eleven weeks before the start of the period for which the charges will be imposed.</p>	<p>Compliant. We have published our wholesale charges by the prescribed deadline of 11 January 2019.</p>
11	<p>Wholesale Charges must be published on a relevant undertaker’s website and in such other manner as the undertaker considers appropriate for the purpose of bringing it to the attention of persons likely to be affected by it.</p>	<p>Compliant. As rule 7, we have published our “Wholesale Statement of Principles and Charges” document on our website. In addition, we have published our wholesale charges using the spreadsheet template developed by Ofwat to aid comparability of wholesale charges across the industry.</p>

Rule no.	Wholesale charging rule	Compliance statement
12	Wholesale Charges must be published with such additional information or explanation as is necessary to make clear what services are covered by each charge.	Compliant. In addition to setting out the financial value of our wholesale charges for 2019-20, our “Wholesale Statement of Principles and Charges” document provides explanatory narrative for each area of charging. In May 2018, our Wholesale Services Team proactively invited Retailers to take part in a survey on our charges and related publications, in order to understand any areas of potential concern or improvement. As a result of the survey, we have made a number of amendments to our Wholesale Statement of Principles and Charges in order to provide additional clarity on the operation of our wholesale charges.
13	<i>General charging principles</i>	Compliant. Our charges for the surface water drainage service use meter size as a proxy for surface area. We recognise that using actual surface area to set surface water drainage charges is more cost-reflective and has the potential to provide a stronger environmental price signal. However, implementing this basis of charge will create significant bill impacts, and for some classes of customer it may not be practicable or affordable for them to modify their surface water drainage arrangements in order to mitigate the charge. Based on our high-level assessment of costs and benefits, we currently don’t see a compelling case for moving to area-based charges.
14-18	<i>Principles for determining the amount of charges</i>	Compliant. We apply consistent principles and methodologies to the calculation of charges for different classes of Eligible Premises, regardless of the services provided.
14	Consistent principles and methodologies must be applied to the calculation of charges for different classes of Eligible Premises, regardless of the services provided.	Compliant. We apply consistent principles and methodologies to the calculation of charges for different classes of Eligible Premises, regardless of the services provided.

Rule no.	Wholesale charging rule	Compliance statement
15	Charging structures must reflect the long-run costs associated with providing the relevant service.	<p>Compliant.</p> <p>With the exception of a small number of properties that attract a fixed annual charge, our wholesale water supply revenue from customers not on our large user tariff is recovered by variable charges.</p> <p>The costs of providing surface water drainage and highway drainage are recovered by fixed annual charges.</p> <p>Otherwise, with the exception of a small number of properties that attract a fixed annual charge, our wholesale sewerage revenue from customers not on our large user tariff is recovered by variable charges.</p> <p>Our water and sewerage large user tariffs comprise a lower volume charge and a fixed annual charge. The fixed annual charge is volume-related, and is set to ensure parity of the unit charge at the band threshold volumes.</p> <p>In the case of wholesale trade effluent revenue, the majority is recovered by variable charges based on the Mogden formula, with the costs of monitoring consents recovered by a fixed annual charge structure, which better reflects the risk presented by the discharge and the associated monitoring requirements.</p> <p>The underlying position outlined above is temporarily subject to a small change as a result of the new wholesale fixed charge structure implemented in 2017-18. In accordance with the assurance of our 2017-18 wholesale charges, it remains our intention to phase out this structure over time. However, in order to contain bill increases within the 5% threshold (rules A1(b) and A5(b)), our Board has decided not to commence the phasing out process in 2019-20. This position will be reviewed when indicative wholesale charges for 2020-21 are set.</p>

Rule no.	Wholesale charging rule	Compliance statement
16.	Differences between charges for services provided to Eligible Premises that are larger users of water and sewerage services and charges for services provided to Eligible Premises that are smaller users of water and sewerage services must only be based on cost differences associated with differential use of network assets, differential peaking characteristics, different service levels and/or different service measurement accuracy.	Compliant. The difference in charges between our standard charges and large user charges are based on cost differences associated with differential use of network assets. The differences are supported by our cost model, and are broadly in line with the rest of the industry.
17	Where cost differences associated with differential peaking characteristics are used as a basis for differences between charges for services provided to Eligible Premises that are larger users of water and charges for services provided to Eligible Premises that are smaller users of water, the charges fixed on that basis must be structured on an appropriate peak demand basis.	N/A. We do not have charges associated with differential peaking characteristics.
18	Charges for sewerage services must take into account the different pollutant loads associated with foul water, trade effluent, surface water draining from Eligible Premises and surface water draining from highways.	Compliant. We have separate charges for foul drainage, surface water drainage, highway drainage, and trade effluent.
19	<i>Unmetered charges</i>	Compliant. Our “Wholesale Statement of Principles and Charges” document specifies the Rating Valuation List that unmetered charges are fixed or determined by reference to. Additionally, the document sets out how we may apply a notional Rateable Value in certain circumstances.
19	No Unmetered Wholesale Charges may be imposed unless the basis on which those charges are fixed or determined is clear and, in the case of Rateable Value Charges, it is clear: (a) which Rating Valuation List charges are fixed or determined by reference to; and (b) if the undertaker uses a different value or other amount to that specified in such a list, the methodology or other basis on which that different value or other amount is calculated.	Compliant. Our “Wholesale Statement of Principles and Charges” document specifies the Rating Valuation List that unmetered charges are fixed or determined by reference to. Additionally, the document sets out how we may apply a notional Rateable Value in certain circumstances.

Rule no.	Wholesale charging rule	Compliance statement
20-21	<i>Wastewater charges</i>	
20	<p>Sewerage undertakers whose area is wholly or mainly in England must, in relation to each period beginning on or after 1 April 2020, separate Wholesale Charges for sewerage services provided to Eligible Premises into separate charges for the reception, treatment and disposal of:</p> <p>(a) foul water; (b) trade effluent; (c) surface water draining from Eligible Premises; and (d) surface water draining from highways.</p>	<p>Compliant. As rule 18. We have separated sewerage charges in this way since April 2000.</p>
21	<p>Sewerage undertakers must provide for an appropriate reduction in the Wholesale Charges payable for the provision of sewerage services to any Eligible Premises where the sewerage undertaker knows, or should reasonably have known, that surface water does not drain to a public sewer from those premises.</p>	<p>Compliant. We have provided customers with a rebate of the surface water drainage charge, upon successful application, since April 2000. Where we make a rebate, we proactively apply the rebate to other properties in the immediate vicinity. Prior to 2015-16, we only backdated the rebate to the start of the charging year in which the claim was made. With effect from 2015-16, we make the rebate effective from 1 April 2015 or the customer's occupation date if this is later.</p>
22	<i>Trade effluent</i>	
22	<p>Charges to be paid in connection with the carrying out of a sewerage undertaker's trade effluent functions must be based on the Mogden Formula, a reasonable variant of the Mogden Formula or on a demonstrably more cost-reflective basis.</p>	<p>Compliant. Our trade effluent charges are based principally on the Mogden formula, supplemented by our fixed annual consent monitoring charge structure, which better reflects the risk presented by the discharge and the associated monitoring requirements.</p>

Rule no.	Wholesale charging rule	Compliance statement
23-24	<i>Concessionary drainage charges</i>	
23	<p>The Wholesale Charges published by each sewerage undertaker must set out:</p> <p>(a) the classes of community group (if any) in relation to which the undertaker allows reductions in the Wholesale Charges payable by a sewerage licensee in respect of surface water drainage from Eligible Premises; and</p> <p>(b) the reductions allowed.</p>	<p>N/A</p> <p>We do not offer concessionary drainage charges, and this is explicitly stated in our “Wholesale Statement of Principles and Charges” document.</p> <p>We note that these concessionary charges are principally offered by those water and sewerage companies that have implemented area-based charges for surface water drainage to mitigate the impacts of those charges on groups such as schools, churches, and community organisations.</p>
24	<p>Where a sewerage undertaker’s charges scheme under section 143 of the Water Industry Act 1991 includes a provision designed to reduce charges to community groups in respect of surface water drainage from their Eligible Premises, the amount of Wholesale Charges payable by a sewerage licensee in respect of the provision of sewerage services to Eligible Premises occupied by community groups must be determined in accordance with the principles that:</p> <p>(a) Wholesale Charges must be reduced in relation to the same classes of community group; and</p> <p>(b) the reductions in Wholesale Charges must be the same and apply for the same period.</p>	<p>N/A.</p> <p>As rule 23.</p>

Rule no.	Wholesale charging rule	Compliance statement
25	<i>Special agreements</i>	<p>Compliant.</p> <p>For each of our special agreements, the special agreement only relates to the wholesale element of the total charges; i.e., customers subject to a special agreement pay standard retail charges in addition to the wholesale charges.</p> <p>Since the opening of the business customer retail market in April 2017, there has been no change to the way we calculate the wholesale charges that we pass on to retailers in respect of special agreements.</p> <p>This allows the retailer to charge for those services at the same rate.</p>
26	<i>Small companies</i>	<i>N/A</i>

Rule no.	Wholesale charging rule	Compliance statement
Part 2: Rules for Wholesale Connection Charges (English Undertakers)		
27	Subject to paragraphs 28, 29 and 30, relevant undertakers whose areas are wholly or mainly in England must set and publish their Wholesale Connection Charges as if:	
(a)	those charges related to services in respect of household premises rather than non-household premises, and	Compliant. The charges set out in our Charging Arrangements document also apply where a developer or a customer requests new connection services through a retailer of water supply and/or sewerage services, rather than directly.
(b)	the Charging Rules for New Connection Services (English Undertakers) applied to them.	
28	The obligation in paragraph 27 excludes the rules in paragraphs 44 to 46 of the Charging Rules for New Connection Services (English Undertakers).	
29	Relevant undertakers must publish their initial Wholesale Connection Charges in their Charging Arrangements by 1 June 2018.	Compliant. We updated our Charging Arrangements document to the effect that the charges set out in the document also apply where a developer or a customer requests new connection services through a retailer of water supply and/or sewerage services, rather than directly.
30	Thereafter, relevant undertakers must consult on their Wholesale Connection Charges at the same time as their charges under the Charging Rules for New Connection Services (English Undertakers), and must publish them in their Charging Arrangements.	Compliant. The charges set out in our Charging Arrangements document also apply where a developer or a customer requests new connection services through a retailer of water supply and/or sewerage services, rather than directly.
31	The provisions for Small Companies in paragraph 17 of the Charging Rules for New Connections Services (English Undertakers) apply in relation to Wholesale Connection Charges as they apply in relation to the charges covered by those rules.	N/A

Rule no.	Wholesale charging rule	Compliance statement
<i>Annex</i>	<i>Information requirements</i>	
<i>A1</i>	<i>Assurance statements</i>	
A1	Each undertaker should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statement no later than the time of publication of its final Wholesale Charges confirming that:	Compliant. We have submitted our assurance statement to Ofwat and published it at the same time we published our wholesale charges.
(a)	the company complies with its legal obligations relating to the Wholesale Charges it has published;	Compliant. Licence Condition B (compliance with price controls): Oxera Consulting LLP has provided assurance that our wholesale charges are compliant with the wholesale price controls. Licence Condition E (undue discrimination and undue preference): In some areas our cost allocation is necessarily based on assumption as opposed to actual data. Where assumptions have been used these have been verified by subject matter experts within the Company. Compliance in this area is subjective, and therefore cannot be stated absolutely. As per our statement re: rule 15, the underlying position outlined above is temporarily subject to a small change as a result of the new wholesale fixed charge structure implemented in 2017-18. In accordance with the assurance of our 2017-18 wholesale charges, it remains our intention to phase out this structure over time. However, in order to contain bill increases within the 5% threshold (rules A1(b) and A5(b)), our Board has decided not to commence the phasing out process in 2019-20. This position will be reviewed when indicative wholesale charges for 2020-21 are set.

Rule no.	Wholesale charging rule	Compliance statement
(b)	<p>the Board has assessed the effects of the new charges on water supply and sewerage licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as a whole or in groups) and approves the impact assessments and handling strategies developed in instances where bill increases for licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as a whole or in groups) exceed 5%;</p>	<p>Compliant. We include below, as part of this assurance statement submission, a statement explaining the Board's assessment of bill increases. See also our statements re: rules 15, A1(a) and A1(d).</p>
(c)	<p>the company has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published about its Wholesale Charges is accurate;</p>	<p>Compliant. Deloitte LLP provided assurance on the appropriateness of our systems and processes for the assurance of our 2017-18 wholesale charges, and our Head of Group Accounts has advised that there have been no material changes to those systems and processes that would affect the setting of indicative and final wholesale charges for 2019-20. Deloitte also audited our 2017-18 accounts. While they were unable to adopt a control reliance strategy for their audit, due to IT issues, they undertook substantive testing and made the following comment in their report to our Audit Committee: "...we have tested the design and implementation of controls related to significant risks. We consider these controls to be appropriately designed and implemented". In addition there were no material issues raised in Deloitte's report, and they issued an unmodified audit statement on our financial statements. Oxera Consulting LLP have assured our 2019-20 indicative and final charges. As part of their work, Oxera performed checks on the base data used for forecasting the number of billed properties and volumes of water and wastewater. For the ten most material charges in terms of revenue yield, Oxera checked the base data used for forecasting purposes back to source systems.</p>

Rule no.	Wholesale charging rule	Compliance statement
(d)	the company has consulted with relevant stakeholders in a timely and effective manner on its Wholesale Charges; and	<p>Compliant.</p> <p>We commenced engagement with CCWater on 2019-20 charges in June 2018.</p> <p>The engagement to date has comprised an on-going exchange of emails, including the provision of information to CCWater both proactively and in response to their queries.</p> <p>Additionally, information on our 2019-20 charging proposals was presented to CCWater at their regular Quarterly Meeting with our Customer Services Directorate in August 2018.</p> <p>A follow-up teleconference with CCWater took place on 18 September 2018. The content of this telecon was based on CCWater's proforma. CCWater asked a number of questions during the telecon, which we responded to prior to.</p> <p>We received a letter from the regional Chair of CCWater on 8 January 2019 confirming the engagement that had taken place and summarising the key matters arising from it.</p> <p>A summary log of our consultation with CCW is provided with this Annex.</p>

Rule no.	Wholesale charging rule	Compliance statement
(d), continued		<p>In May 2018, our Wholesale Services Team proactively invited Retailers to take part in a survey on our charges and related publications, in order to understand any areas of potential concern or improvement. As a result of the survey, we have made a number of amendments to our Wholesale Statement of Principles and Charges in order to provide additional clarity on the operation of our wholesale charges.</p> <p>In addition to publishing our preliminary Statement of Significant Changes on our website in July 2018, our Wholesale Services Team proactively contacted retailers to make them aware of the Statement and to offer them the opportunity to provide feedback and seek clarification. We received feedback from Business Stream, the principal retailer in our area. Given the potential level of charges increase indicated in our statement, they requested that we consider delaying the phasing out of the fixed charge structure in order to mitigate bill impacts for business customers. This feedback was taken into account by our Board in their assessment of bill increases. See also the statement below explaining the Board's assessment of bill increases.</p> <p>As set out in our preliminary and updated Statement of Significant Changes, following retailer representation we are changing the way we apply fixed charges for large user tariff sites that comprise more than one SPID. These Statements can be viewed on our website https://www.southernwater.co.uk/information-leaflets.</p>

Rule no.	Wholesale charging rule	Compliance statement
(e)	<p>where final Wholesale Charges are significantly different from the indicative Wholesale Charges published for the same period, the Board has considered the reasons why those changes occurred and has issued a statement explaining why those changes were not anticipated and/or mitigated. For these purposes, “indicative Wholesale Charges” means the information referred to in A3 below and charges are “significantly different” if a reasonable person would consider the changes to be material.</p>	<p>Compliant. Our forecast of the annual movement in RPI from November 2017 to November 2018 RPI, on which our indicative wholesale charges were set, was 3.12%. This forecast was only 0.07% different to the actual movement of 3.19%. This difference has resulted in a small upward adjustment of our wholesale charges from the indicative charges we published in October. In summary, the adjustment has added a tenth of a penny to the unit cost of water per cubic metre (an increase of 0.07%), and has added two tenths of a penny to the unit cost of wastewater per cubic metre (an increase of 0.08%).</p>
<p>A2-A5 <i>Indicative charging information</i></p>		
A2	<p>No later than six months before publishing its final Wholesale Charges, each undertaker (other than a small company), should if considering making any significant changes to its primary Wholesale Charges publish information that, at a minimum, informs stakeholders of the scope of its proposed changes. For these purposes, changes will be “significant” if a reasonable person would consider them to be material. The information provided does need not be as detailed as that referred to in A3 and A4 below.</p>	<p>Compliant. We published a preliminary Statement of Significant Changes on our website in July 2018.</p>
A3	<p>No later than three months before publishing its final Wholesale Charges, each undertaker (other than a small company) should provide to the Water Services Regulation Authority and publish indicative Wholesale Charges. For these purposes, “indicative Wholesale Charges” are the primary Wholesale Charges that the undertaker reasonably expects to fix for the following period (based on the information available to it at that time).</p>	<p>Compliant. We published indicative wholesale charges for 2019-20 on our website on 9 October 2018, and notified Ofwat accordingly.</p>

Rule no.	Wholesale charging rule	Compliance statement
A4	No later than three months before publishing its final Wholesale Charges, each undertaker (other than a small company) should, if it intends to make any significant changes to its primary Wholesale Charges, provide to the Water Services Regulation Authority and publish a statement of significant changes. For these purposes:	Compliant. We published an updated Statement of Significant Changes on our website on 9 October 2018, and notified Ofwat accordingly.
(a)	changes to the level of primary Wholesale Charges, or to the methodology for calculating them, will be significant if a reasonable person would consider them to be material; and	
(b)	a statement of significant changes should include:	
(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 that may be adopted by the undertaker or why the undertaker considers that no handling strategies are required.	

Rule no.	Wholesale charging rule	Compliance statement
A5	Each undertaker (other than a small company) should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statement no later than the time of publication of its indicative Wholesale Charges confirming, using the best available information available at that time, that:	Compliant. We submitted our assurance statement to Ofwat and published it at the same time we published our indicative wholesale charges.
(a)	the company complies with its legal obligations relating to the indicative Wholesale Charges it has published;	See A1 (a) above.
(b)	the Board has assessed the effects of the new charges on water supply and sewerage licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as a whole or in groups) and approves the impact assessments and handling strategies developed in instances where bill increases for licensees (as a whole or in groups) who are retailing wholesale services to eligible customers and on customers occupying Eligible Premises (as a whole or in groups) exceed 5%;	See A1 (b) above.
(c)	the company has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published about its indicative Wholesale Charges is accurate; and	See A1 (c) above.
(d)	the company has consulted with relevant stakeholders in a timely and effective manner on its indicative Wholesale Charges.	See A1 (d) above.

Statement regarding the Board's assessment of bill increases

In accordance with Ofwat's wholesale charging rules, the scope of this statement is restricted to the wholesale charges made to retailers participating in the business customer retail market.

Under Ofwat's wholesale charging rules (rules A1(b) and A5(b)), our Board are required to provide assurance to Ofwat that they have assessed the effects of the new charges on water supply and sewerage licensees, and that they approve the impact assessments and handling strategies developed in instances where bill increases for licensees exceed 5%.

Primary non-household wholesale charges will increase by 0.5% on average for the water supply service, and by 2.8% on average for the wastewater service. This reflects the November 2018 retail price index (RPI), and reflects all the other drivers of change in wholesale charges, including our forecast of billed properties and billed volumes of water and sewage for the 2019-20 charging year.

Following consultation with retailers and other stakeholders in 2016, we implemented a new structure of fixed non-household wholesale charges with effect from 1 April 2017, with a corresponding reduction in wholesale variable charges.

Following consultation with retailers and other stakeholders in 2016, we implemented a new structure of fixed non-household wholesale charges with effect from 1 April 2017, with a corresponding reduction in wholesale variable charges.

In accordance with our published consultation decision document (<https://www.southernwater.co.uk/media/default/PDFs/wholesale-charges-decision.pdf>) we are committed to phasing-out of these charges.

A consequence of phasing-out the new fixed wholesale charge structure will be that the wholesale charges to retailers in respect of some classes of business customer will increase by more than the overall average increase in wholesale charges.

Our Board decided not to commence this phasing-out process in 2018-19 because, in a significant number of instances, it would have resulted in retailers experiencing a year-on-year increase in wholesale charges significantly in excess of the 5% threshold referenced in rules A1 and A5 of Ofwat's wholesale charging rules.

This remains the position for 2019-20, and in consideration again of the potential impact on retailers our Board has decided to delay commencing the phasing-out process until 2020-21, the first year of the new price control period. We are anticipating that our charges in general will fall in 2020-21, and this would create additional headroom in which to manage the phase-out the fixed charge structure implemented in 2017-18.

This means that the increase in wholesale charges experienced by retailers will be below 5%.

The table below provides total wholesale charge impacts for a range of sample business customers.

Volume m3/a >>>	50	100	500	1,000	5,000	12,000	20,000	60,000	100,000	150,000
Dual Service										
Change £	5	8	35	73	359	836	1,404	4,176	7,031	9,589
Change %	2.02%	1.98%	1.94%	1.92%	1.94%	1.96%	1.98%	2.00%	2.01%	1.98%
Sewerage Only										
Change £	5	8	32	66	323	758	1,277	3,808	6,420	8,728
Change %	2.79%	2.78%	2.77%	2.75%	2.77%	2.77%	2.78%	2.78%	2.78%	2.78%
Water Only										
Change £	0	1	3	8	36	78	127	368	611	861
Change %	0.49%	0.48%	0.48%	0.53%	0.53%	0.51%	0.51%	0.52%	0.52%	0.51%

Summary Log of Consultation with CCWater

Date	CCWater	Southern Water
15 February 2018		Emailed results of analysis of average consumption of metered single occupier households in response to CCW challenge re: assessed volume underpinning our single occupier assessed charge.
27 February 2018	Email re: CCW's ongoing concerns re: our single occupier assess charge and advising that Ofwat had asked them to gather data from all companies.	
1 June 2018	Email to kick-off the annual process of reviewing charging proposals for the next charging year, including specific questions on significant bill impacts, HH/NHH reclassification, single occupier assessed charge.	
14 June 2018		Email response sent to CCW's email of 1 June, including responses to the specific questions.
6 July 2018		Emailed copy of Preliminary Statement of Significant Changes to Non-Household Primary Wholesale Charges.
9 July 2018	Emailed acknowledgement of receipt of Preliminary Statement of Significant Changes, and advised contact details of new Policy Manager for Southern Water.	
2 August 2018	Emailed proforma containing our responses of 14 June, requesting any updated information prior to Quarterly Meeting with our Customer Services team on 23 August.	
7 August 2018		Emailed CCW proforma updated with an early view of the year on year movement in wholesale charges and average household bills.
10 September 2018	Emailed request for telecon.	
11 September 2018	ii. Emailed telecon invite for 18 September.	i. Emailed availability for a call and sent an updated version of the proforma. ii. Accepted invite and asked whether any additional information was required for discussion on the call.
18 September 2018	Telecon held. Southern Water went through the latest information provided on the CCW proforma, and answered CCW's questions.	
8 October 2018	Email requesting clarification re: timing of phasing out of NHH wholesale fixed charge structure.	Email response sent.
		Emailed soft copy of information re: 2019/20 non-household wholesale indicative charges due to be published on website by 12 October, including web

Date	CCWater	Southern Water
20 October 2018		Email sent to advise CCW that, following consultation with them and local water supply companies, we have decided to change the eligibility criteria for our Essentials (social) tariff. An updated CCW proforma was sent with the email.
	Email requesting additional information from Ofwat's WRFIM Model.	Email response sent.
13 December 2018	Email requesting information re: final charges for 2019-20 once November 2018 RPI available.	Email response sent advising that November 2018 RPI would be available on 19 December 2018, and that details of final charges for 2019-20 would be sent as soon as possible after this. Email also enquired when we would receive CCW's formal acknowledgement of the consultation process we had undertaken with them on 2019-20 charges.
	Email response advising that the formal acknowledgment was likely to be sent in early January.	
19 December 2018		Email providing substantive response to CCW's email of 13 December.
8 January 2019	Emailed letter from regional Chair thanking us for consulting on 2019-20 charges	

Note re: PR19

As part of our customer and stakeholder consultation for our PR19 Business Plan, we consulted extensively with CCWater during the 2018-19 charging year on changes to the design of our social (Essentials) tariff and the level of bill cross-subsidy paid by household customers to fund the tariff.