



Statement of significant changes to primary wholesale charges

(Published October 2025)

(a) Introduction

This statement sets out potential significant changes to our primary wholesale charges for the 2026-27 charging year.

Our primary wholesale charges are set out in Section 3 of our Wholesale 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 Charges document in relation to specific circumstances or events.

This statement of significant changes is published alongside our indicative primary wholesale charges for 2026-27, in accordance with Ofwat's wholesale charging rules (rule A3).

(b) Overall level of expected bill increases

Ofwat published its PR24 final determination (FD) in December 2024. This final determination (FD), along with the 'blind-year adjustments' only for ODI penalties relating to 2024-25, forms the basis of our 2026-27 published indicative charges. Since the publication of Ofwat's FD, our Board took the decision to seek a re-determination from the Competitions and Markets authority (CMA). Our final charges will reflect all the blind-year adjustments and should reflect the CMA's final re-determination due to be published in December 2025. In the event the re-determination is delayed, our final charges will reflect the PR24 final determination with the blind year adjustments.

The 2026-27 indicative wholesale charges reflect a decrease in wholesale wastewater charges of (5.4%) (November CPIH – 8.3%), and an increase in wholesale water charges of 18.4% (November CPIH +15.5%). When we also take into account the nominal retail revenue (which has increased by 23.8%), the indicative household combined bill increase is 5.1% (November CPIH +2.2%). 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 2026-27 charges.

Our 2026-27 final charges will be available for publication, once they have been reviewed and approved by The Board of Southern Water Services Ltd., no later than 13 January 2026 ("Final Charges"). The level of final charges may vary from those of the indicative charges and will be published alongside a Final Statement of Significant Changes.

(c) Factors affecting the level of our wholesale charges for 2026-27

Summary of key drivers of movement in wholesale charges

Impacts on wholesale charges	Water	Waste
Remove year 1 impact of AMP 7 totex cost-sharing	(30.1%)	(19.0%)
Remove year 1 impact of AMP 7 revenue under-recovery	(6.5%)	(3.6%)
Remove year 1 impact of cost of new debt	(1.9%)	(2.4%)
Remove year 1 impact of developer services	2.4%	1.7%
CPIH inflation	2.9%	2.9%
K - increased allowance for investment and opex	19.9%	16.0%
Net movement from AMP 7 ODI penalties (including BYA*)	31.7%	(1.1%)
Increase / (decrease) in wholesale charges	18.4%	(5.4%)

*BYA = Blind-Year-Adjustment, the difference between forecast 2024-25 and actual.

K factor

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.

Inflation

Our charges for 2026-27 will reflect inflation, as measured by the November 2025 CPIH figure published by the Office for National Statistics. The latest forecast for November CPIH inflation is 2.9%. 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 2025-26, the cross-subsidy was set at £21 (3% of average bill), which was the nominal level accepted by customers as part of our PR24 Business Plan customer insight surveys. Given our decision to seek a re-determination from the CMA, we recognised there could be increased financial pressure on those customers most in need. In June 2025-26, we re-opened our customer acceptance testing and gained an increase of acceptance to 4% of the annual average bill value. We will continue to offer a minimum 45% discount, and this additional funding will allow us to support 198,000 customers in 2026-27, increasing to 202,000 customers by the end of AMP 8. This will result in additional meaningful support to 20,000 more customers than stated in our PR24 Business plan.

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 - 7% higher than standard non-household charges. Currently, there are over 800 non-household connections attracting these discounted Large User Tariffs. It is expected that the discounts in water charges will be phased out by 2028-29.

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 2026-27 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 2026-27 with an expectation that they will be fully phased out by 2027-28.

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 £41.

We are currently investigating the potential benefits and customer-impact of moving to site-area-based-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 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 2026-27, we intend providing “shadow charges” for those customers with very large site areas draining to our network at some point during 2026. The intention of publishing the shadow charges is:

- to highlight the affordability benefits that all household and most non-household customers will gain as a result of lower wastewater volumetric charges for all (as they will be offset by higher surface water drainage charges for some)
- to engage with non-household customers and retailers and share information on sustainable drainage features
- to analyse bill impact and offer guidance and support to those most affected

Our 2026-27 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.

Innovative tariff trials

As part of the PR24 drive for innovation in charges to support affordability, we welcome Ofwat’s request to conduct tariff trials. 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
- 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 aim to commence trials in 2026-27, possibly based on seasonal tariffs or rising block tariffs, and will share details in due course regarding consumption analysis, tariff design and trial size.