

Email: [wholesaleservicedesk@wessexwater.co.uk](mailto:wholesaleservicedesk@wessexwater.co.uk)

Date: 1 October 2024

Dear NAVs and other relevant stakeholders,

We are writing to you to:

- inform you of forthcoming changes in our 2025-26 charges arising from Ofwat's PR24 price review; and
- update you on ongoing work by the RWG in respect of new charging bands.

### **PR24 price review**

We are currently going through the price review planning process with Ofwat (known as PR24). This will determine the amount of revenue we can recover from our customers for the period April 2025 to March 2030.

In July, Ofwat published its PR24 Draft Determination (DD) which sets out its provisional view of revenue allowances and returns<sup>1</sup>. Both are elements used in the wholesale minus calculation to set bulk supply charges. We have presented in this letter the high-level impact of these elements on our 2025-26 charges, although, as noted below, there remains significant uncertainty about our final charges until Ofwat's PR24 Final Determination (FD) is published. As such, these impacts are purely indicative at this stage.

#### *Increases in our wholesale charges*

Wholesale charges form the starting point of the wholesale minus approach to setting bulk charges for NAVs. The calculation of wholesale charges in any one year is made up of three elements – *wholesale revenues* determined by Ofwat, adjusted for the impact of *regulatory mechanisms*, which is then indexed using November CPIH *inflation*.

We have a duty, if we expect charges to go up by more than 5%, to publish a statement of significant changes which sets out how we have communicated with our customers and what, if any, mitigations we are undertaking.

At this stage, based on Ofwat's provisional view set out in its DD, we expect our wholesale charges to increase by around 7-8% in nominal terms (i.e. including inflation). We will be publishing a full set of indicative wholesale charges in mid-October 2024 on this basis, alongside a statement of significant changes.

For the avoidance of doubt, we expect the increase in allowed revenues to also increase the avoided costs element of the bulk supply charge (as well as the wholesale starting point). In absolute terms, this will result in a greater avoided cost being applied when compared to last year.

---

<sup>1</sup> [PR24 Draft Determinations - Ofwat](#).

### *Wholesale allowed return*

We recognise that when a NAV takes on a site they will be taking a risk as a result of owning and operating the on-site assets. It is appropriate that the NAV receives a return for this risk, and we therefore include an avoided return in our bulk charges calculation. This is derived from the allowed return set at the most recent price review determination.

Looking at current market data, we expect the allowed return for 2025-26 (and future years) to be higher than the current level. Again, this will increase the wholesale starting point, but also increase the avoided costs.

### *Likely direction for final bulk charges*

In summary, based on the provisional view set out by Ofwat in its DD, we expect the wholesale starting point and the avoided costs to increase for the 2025-26 charging year. However, due to the ongoing price control process, there remains significant uncertainty around both these elements. While the increase presented in this letter is consistent with Ofwat's DD, as the latest available information, we do not consider that the provisional allowance in the DD is sufficient to fund our future activities, or that the provisional rate of return is sufficient to finance those activities. We have reiterated in our response to Ofwat's DD the need to allow additional investment and a higher rate of return for the 2025-2030 period, which, if accepted, would result in a larger increase for 2025-26. Further details of our response to Ofwat's DD can be found [here](#).

We want to take this opportunity to highlight the likely increases in all elements of the wholesale minus calculation; and the increased uncertainty around the net impact on bulk charges compared to similar communications in previous charging years, as we await Ofwat's FD.

We currently expect to finalise and publish next year's charges in early February 2025, once Ofwat has published its FD in December 2024 (which will confirm revenue allowances and returns for 2025-26). However, Ofwat has indicated that this publication may be delayed until early 2025, in which case our wholesale charges would not be confirmed until later in February. We will keep stakeholders informed of any updates to this timetable via our website.

### **New charging bands proposed by the RWG**

The tariff sub-group of the national Retailer Wholesaler Group (RWG) exists to investigate how to simplify the existing primary tariff structure in the non-household market.

In April 2023 the RWG consulted<sup>2</sup> on changing the water meter charging band structure and on introducing a new volumetric charging band with proposals to make them consistent across wholesalers. The outcome of this consultation was published in June 2024. It identified a shortlist of options to streamline the number of volumetric charging bands for potable water, to between two and four common bands (with thresholds at thresholds at 0.5 MI, 50 MI, 100 MI and 250 MI).

The RWG is shortly due to publish a Good Practice Guide, which will set out its fuller position on harmonising volumetric charging bands across wholesalers.

---

<sup>2</sup> <https://mosl.co.uk/groups-and-forums/industry-groups-forums/retailer-wholesaler-group/tariff-sub-group>

We will consider the implications of this guidance for our own charging structure in due course, though we do not intend to make any changes for 2025-26. Any changes would be introduced from 2026-27 onwards, subject to further stakeholder engagement before then.

**Further communication**

Considering these changes, and in light of the heightened uncertainty over this year's charges-setting process, we would like to extend an invitation for further discussions around charges, either as one-on-one sessions, or as a group session. Please do not hesitate to get in touch with us if you would find this useful.

Yours faithfully

**Sean Larkin**

**Head of Wholesale Services**

**David Peacock**

**Head of Economic Regulation**