

# **WSX-R06 – Affordability**

Response to  
Ofwat's PR24 draft  
determination



**Wessex Water**  
YTL GROUP

**FOR YOU. FOR LIFE.**

## **Representation reference: WSX-R06**

## **Representation title: Affordability**

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# 1. Summary

We, and our long-standing shareholders, are committed to delivering the investment in our plan for the benefit of our customers and the environment. To meet this commitment, we need to strike the right balance and make trade-offs between the following considerations: (a) investment; (b) deliverability; and (c) affordability.

On this basis, our plan proposes the bill profiles set out in Table 1 below.

Table 1 – 2023-24 to 2029-30 bills. Source table RR14

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Headline Dual Service Bill (£/hh)	477	508	554	604	657	658	658

It is the Board's view that our real bill increase should be less than 30%. Under this constraint our bills will remain lower than our 2009-10 bills in real terms.

As set out in our LTDS, we expect the need for investment to continue to increase over future AMPs. On this basis, we do not believe that a short-term focus on reducing bills is appropriate. Subduing revenues (and hence bills) artificially now, will perpetuate downward pressure on investment at a time where there is widespread recognition that a step change is required. However, our Board is committed to maintaining affordability in the context of this much needed investment and believes that, to strike the right balance, the real increase in bills should be less than 30%. This has also been discussed with and supported by our Customer Challenge Group.

In the context of the investment included in our plan, we have utilised some of the affordability levers in the regulatory tool kit. Specifically, we have employed the following levers, in the following in priority order:

1. smoothing the revenues within period;
2. adopting the proposed RCV run off caps; and
3. considering the proportion of revenue collected from households and non-households.

Were Ofwat's view of the appropriate cost allowances to be materially lower than ours at final determination, we would expect Ofwat to unwind some of these measures to balance affordability and the need for investment in the short and long term, to the point of natural bill rises should these be lower than 30%. If there are further increases to bills (e.g. were Ofwat to increase its view of the cost of capital), then we would expect additional levers to be pulled to keep the five-year real increase in bills below 30% in the following priority order:

1. slowing down cost recovery of IRE;
2. further reductions to RCV run off rates; and
3. profiling statutory investment beyond 2030.

However, it is important to note, we would not consider it appropriate to apply any of the levers set out above at the expense of debt financeability. Instead, if there was fundamental pressure on credit metrics, we would consider further bill rises.

## **We remain fully committed to eliminating water poverty by 2030**

We understand that bill rises do not impact all customers equally and are fully committed to eliminating water poverty by 2030. We are proposing to do this by:

- expanding our social tariff offering, funded entirely by our increased cross subsidy willingness to pay;

- trialling innovative tariffs to give customers options and incentives to reduce bills; and
- being involved with industry and policy initiatives to better measure, understand and impact those in water poverty.

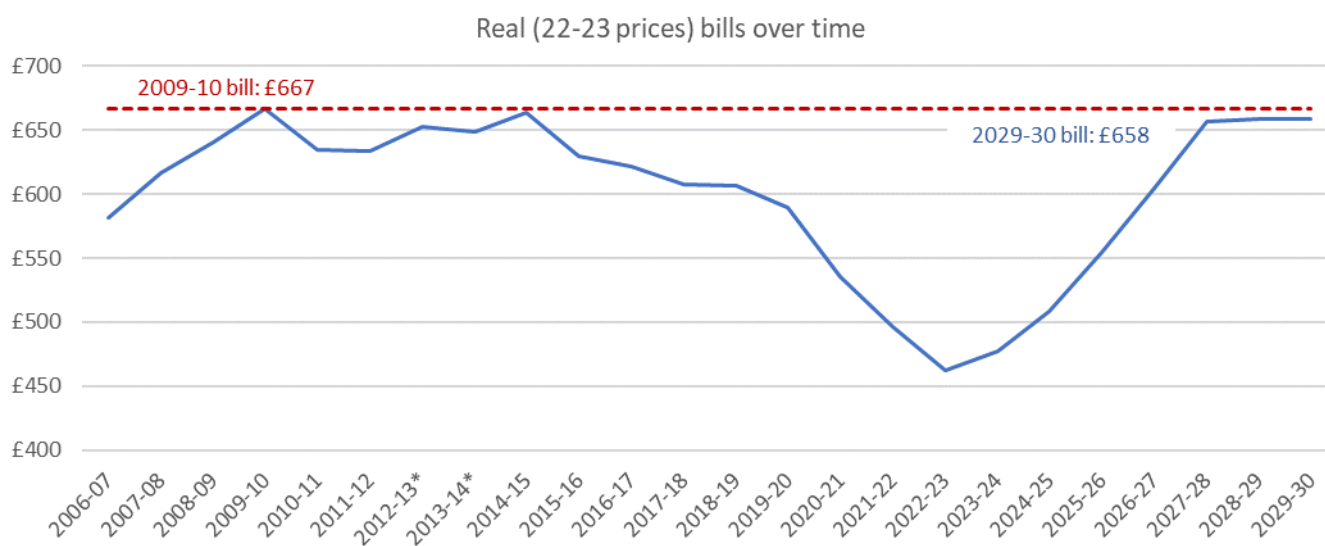
**We encourage Ofwat to consider our affordability measures in the context of our plan, and its view of the appropriate cost allowances.**

As set out above, should natural bill rises be less than 30% at final determination, we would expect Ofwat to unwind these levers such that the increase once again becomes 29%. Should they be higher than 30%, we would expect Ofwat to apply the levers set out above in the priority order provided to keep bill rises below 30% and ensure the appropriate level of investment to meet our Board's commitment and views on this matter. This would put our final determination more in line with the industry average when compared to the draft determination.

## 2. Headline bill profile and affordability levers

Our revised business plan retains a headline bill rise of 29% - a level that is lower, in real terms, than those in 2009-10. Figure 1 below shows the dual service bill in real terms back to 2009-10.

Figure 1 – Bills over time in 2022-23 prices



This is largely unchanged from our initial submission and based on the financial model submitted alongside these representations.

Given the expected continued increase in investment set out in our LTDS we do not believe that a continued short-term focus on reducing bills is appropriate. Subduing revenues (and hence bills) artificially now, will perpetuate downward pressure on investment at a time where there is widespread recognition that a step change is required.

However, to achieve this bill profile, we have had to utilise some affordability levers open to us in the regulatory tool kit. We have smoothed revenues in an NPV neutral way within period, these adjustments are set out in the revenue reprofiling lines in RR10, the net effect is to smooth the bill rise over the first three years and maintain the total step change <30% in the final year.

We have retained our approach to recovery between households and non-households set out in our initial plan. That is, we are assuming that through changes to tariffs, and recovery to pre pandemic levels, the share of revenue

from non-household customers increases. We have also applied caps, in line with the final methodology to RCV-run off rates, this is set out in detail in representation WSX-R07.

We have also made a partial adjustment to our cost recovery of capitalised IRE to mitigate bill impacts. The adjustments are clearly set out in the PAYG adjustment lines of data table RR1.

However, we would expect bills to be higher than those presented here. As mentioned above these figures are presented from the submitted financial model using a WACC that would not attract the equity investment required in the sector.

In this case we would expect this to trigger consideration of further affordability levers. The most natural would be increasing the proportion of capitalised IRE recovered through fast money, as set out in our initial submission. This would slow down the recovery of these costs from customers, reducing current bills at the expense of future bills.

If headline bills exceed 30% we would expect this to be applied, to a degree that brings bills back to an acceptable level.

### **3. Other means to support affordability**

We remain committed to eradicating water poverty by 2030.

Our main lever to achieve this is our comprehensive social tariff offering. Our main social tariff, Assist, offers targeted assistance which considers the financial budget of applicants and their ability to pay and does, by design, lift them out of water poverty. Discounts of up to 90% mean customers are paying as little as £1 a week. We remain committed to not increasing these tariffs by more than the change in benefits annually.

Our social tariffs are funded entirely through an agreed cross subsidy from the wider customer base. This is supported by willingness to pay and agreed with CCW. We believe that this has been misunderstood in the draft determination. Our approach is set out clearly in the data table Sup15 line 4. This sets out the full £78m contribution from customer cross subsidy. We are resubmitting Sup15 alongside this to clarify our position and ask if there are other conflicts within the table, or areas lacking clarity to engage with us through the query process as was done in all other areas.

We remain committed to continued support of debt advice charities in our region, where we currently reinvest outperformance to fund our partner organisations through the Wessex Water Foundation. We also fund a range of community projects to improve financial literacy and money management.

We are continuing to develop tariff trials that may support affordability, or at least provide customers with the correct incentives that enable them to save money on their bills. However, due to the ongoing uncertainty and regulatory burden of PR24, we are not progressing with trials in 2025-26. We plan to implement an initial trial in 2026-27 with the possibility of further trials towards the end of the period, when we have access to more enabling data through the smart meter roll out.