

UNITED UTILITIES WATER LIMITED

ASSURANCE STATEMENT

New Connection Services 2019/20



ASSURANCE STATEMENT AS AT 02 JANUARY 2019

This assurance statement is provided in relation to United Utilities Water Limited's (UUV) New Connections and Developer Services Charges and Charges Scheme for 2019/20.

Our charges for New Connections and Developer Services are the charges that are payable in respect of new connections, for any services we provide in the course of carrying out our regulated duties.

The charges presented are consistent with UUV's revenue controls for 2019/20, for Wholesale Water and Wholesale Sewerage, published by Ofwat on 12 December 2014. Our New Connections and Developer Services charges scheme reflect the relevant revenue from our Wholesale price controls and also include non-primary regulated charges in this area.

1. LEGAL OBLIGATIONS AND GUIDANCE

UUV's New Connections and Developer Services Charges and Charges Scheme have been prepared in accordance with its legal obligations, the Charging rules for New Connection Services issued by the Water Services Regulation Authority under sections 51CD, 105ZF and 144ZA of the Water Industry Act 1991, and the Charges Scheme rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991.

UUV has also taken into account the Company's statutory obligations relating to charging.

UUV's legal department has provided a legal review of the Charges Schemes to check for and enable consistency with UUV's operating and legislative requirements under its Instrument of Appointment and principal governing legislation.

Management has undertaken a review of each charging rule to demonstrate how each charging rule has been complied with, and this document will be published on the United Utilities website.

2. SYSTEMS AND PROCESSES

The Board manages the effective and efficient delivery of its obligations and operation of everyday activities within the business by the interaction of:

- **Authorisations, approvals and procedures.** These are set out in the United Utilities Group PLC (UUG) Internal Control Manual (ICM) to provide guidance to employees as to the system of internal controls which they must follow when acting on behalf of UUV and UUG as a whole. The ICM sets out a framework within which underlying detailed procedures and policies operate.

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- **Policies.** The Board has adopted an overriding set of business principles. These are supported by a range of underlying policies that provide guidance to its employees as to how they should conduct themselves when acting on behalf of UUW and UUG as a whole. Everybody working for or on behalf of UUW must comply with the policies (to the extent they are applicable to their roles). Failure to do so may result in disciplinary action being taken. This could lead to dismissal and possible civil or criminal prosecution in serious cases. Significant policy changes are presented to the appropriate committee for discussion to review the potential impacts to customers of proposed changes, prior to being approved for implementation.
- **Governance and control.** The Board delegates responsibility for specific matters to a number of committees and working groups, which meet on a regular basis. This provides a framework that employees are expected to be aware of and comply with where relevant to their role to ensure business decisions are taken in accordance with best business governance practices. Potential changes to charges are presented to the appropriate committee for discussions and potential impacts to customers of proposed changes are reviewed. The Charges Reform Group acts as a focal point for the company to review all developments in charges to ensure that charging issues are given proper consideration by the directors and senior managers with accountability for signing off the Company's annual Charges Schemes.

To oversee and take decisions affecting the execution of its obligations, the UUW Board:

- Receives and reviews performance reports from the relevant employees of the Company.
- Receives and reviews presentations from the UUG Corporate Audit Team, the financial and technical Auditors.
- Receives and reviews presentations from the wholesale, household retail, and functional (eg finance and IT) directorates.
- Has access to executive and senior managers in the Company to verify information.

Specifically in relation to charges, the UUW Board:

- Reviews and approves the Charges Assurance Statements.
- Reviews and approves the Statement of Significant Changes.
- Receives board reports, highlighting progress and any issues from the relevant business areas.
- Has access to senior managers in the Company to verify information.
- Is presented with information regarding compliance with Ofwat charging rules and the management of the various constraints
- Is presented with evidence of stakeholder consultation
- Is presented with significant proposed changes to the charges schemes and any modifications to the tariff structure prior to inclusion within the charges schemes.
- Receives updates on progress with proposed changes at appropriate times.

Policy statements have been developed to support the application of the high level charging principles contained within the Charges Schemes. These statements are

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allocated, owned and reviewed by appropriate operational managers. A process is defined for approval of both changes to policy statements and for the introduction of new policies.

There are processes that support these policy statements with a plan to review these to reflect changes made to the Charges Schemes for 2019/20.

The Company's charges processes also include procedural and quality controls designed to provide assurance of the accuracy, completeness and reliability of data reported. The Company's procedures for the charges include:

- The written methodologies are subject to annual review and sign off by an appropriate manager.
- The Charges Schemes are subject to a series of reviews by members of the Company's legal team for compliance with the relevant legislation.
- On completion, each section of the Charges Schemes is reviewed and approved by middle and senior managers

The Charges Scheme preparation is subjected to an established series of internal reviews and approvals by employees who are independent of the data compilation process.

The Board considers that the company has appropriate systems and processes in place to make sure that the information contained in the New Connections and Developer Services Charges and the Charges Scheme is accurate.

3. ENGAGEMENT WITH RELEVANT STAKEHOLDERS

UUW has consulted with relevant stakeholders on its New Connections and Developer Services Charges and Charges Scheme for 2019/20. The Company carried out a variety of stakeholder consultation activities during 2018, including a focus group session in June, and the UUW annual developer day in November.

UUW has continued to consult with stakeholders on the approach taken for the development of the connections charges, infrastructure charges and income offset / asset payment, and shared information on the expected changes to the charges. UUW considered the feedback received and made changes to the approach taken in setting the charges as a result. UUW also presented proposed key changes to the charges scheme for 2019/20 at its annual "Developer Day" in November 2018. We also published a set of "frequently asked questions" to address questions raised by stakeholders since 1 February 2018.

Please refer to our separate Engagement With Stakeholders document for details of engagement with CCWater on charging in relation to all of our Charges Schemes, and the response taken by UUW. This document also contains a summary of stakeholder events held during the year, as well as key feedback received from stakeholders and how we have addressed each point.

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4. BALANCE OF CHARGES

Rule 19 of the Charging rules for New Connection Services requires undertakers to take reasonable steps to ensure that the present balance of charges between Developers and other customers is broadly maintained.

UW has carried out an assessment of the balance of charges between Developers and other customers to ensure that the balance is broadly maintained in 2019/20. The Board has been presented with evidence to demonstrate the assessment that the balance has been broadly maintained.

Three methods were used to carry out the assessment:

- The average developer contribution per new connection was compared to a typical bill;
- The annual developer contribution was compared to capital expenditure relating to new connections; and
- Review of a range of developments to understand the proportion that would be expected to experience increases or decreases in the developer contribution towards the cost of a new water main, compared to under the 2018/19 charging arrangements.

The table below shows the results of the assessment of maintaining the balance:

Assessment method	Target	Results
Method 1: Average developer contribution compared to average bill	In line with AMP 6 average to date ratio of 3:1	Broadly maintained at 2.8:1
Method 2: Average developer contribution compared to capital expenditure	In line with AMP 6 average to date at 55%	Broadly maintained at 57%
Method 3: Scenarios	Equal number of increases and decreases in developer contributions to new water mains based on expected dataset excluding the effect of inflation	Schemes where costs have increased by > inflation – 67% Schemes where costs have either decreased or increased by < inflation – 33%

The present balance of charges between Developers and other customers has been broadly maintained through the setting of the income offset / asset payment that will be applied when determining the developer or self-lay provider contribution towards new water mains.

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5. DIRECTORS' STATEMENTS

The Board considers that in preparing and approving the New Connection and Developer Services Charges and Charges Scheme the Company has applied the processes, procedures, governance and internal systems of control described above. They have been applied in a manner which, has enabled it to satisfy itself, to the extent that it is able to do so from the facts and matters available to it, that the Charges Scheme is reliable, accurate and complete in all material respects and meets its obligations.

SIGNED ON BEHALF OF THE BOARD



Steve Mogford

Chief Executive Officer

