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**ASSURANCE STATEMENT AS AT 20 DECEMBER 2019**

This assurance statement is provided in relation to United Utilities Water Limited's (UUW) New Connections and Developer Services Charges and Charges Scheme for 2020/21.

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 UUW's revenue controls for 2020/21, for Wholesale Water and Wholesale Sewerage, published by Ofwat on 16 December 2019. 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**

UUW'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, and the Charges Scheme rules issued by the Water Services Regulation Authority.

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

UUW's legal department has provided a legal review of the Charges Schemes to check for and enable consistency with UUW'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 UUW and UUG as a whole. The ICM sets out a framework within which underlying detailed procedures and policies operate.
- **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

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as a whole. Everybody working for or on behalf of U UW 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 U UW 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 directorates with responsibility for wholesale and household retail services, 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 U UW 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; and
- 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 allocated, owned and reviewed by appropriate operational managers. A process is

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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 2020/21.

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; and
- 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

UW has consulted with relevant stakeholders on its New Connections and Developer Services Charges and Charges Scheme for 2020/21. The Company carried out a variety of stakeholder consultation activities during 2019, including a focus group session in April, and the UW annual developer day in October.

UW has continued to consult with stakeholders on the approach taken for the development of the connections charges, infrastructure charges and income offset, and shared information on the expected changes to the charges. UW considered the feedback received and made changes to the approach taken in setting the charges as a result. UW also presented proposed key changes to the charges scheme for 2020/21 at its annual "Developer Day" in October 2019. We also published a set of "frequently asked questions" to address questions raised by stakeholders since 1 February 2019.

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 UW. 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 balance between contributions to costs by Developers and other customers prior to 1 April 2018, is broadly maintained.

UW has carried out an assessment of the balance of contribution to costs between Developers and other customers for water, to ensure that the balance is broadly maintained in 2020/21. 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 for 2020/21 for water:

- The average net developer contribution per new connection was compared to a typical wholesale water bill;
- The annual developer net contribution was compared to capital expenditure relating to new connections; and
- Review of a range of developments to understand the proportion of schemes that would be expected to experience increases or decreases in the total bill, compared to under the 2019/20 charging arrangements.

The three methods detailed above have been updated for 2020/21 to take account of changes to the treatment of the income offset. As a result of the change, the assessment for method 1 and 2 are based on net developer contribution (i.e. net of the income offset). In previous years the assessment was completed on a gross contribution basis.

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

| Assessment method   | Target   | Results (2020/21)   |
|---|--|---|
| Method 1: Average net developer contribution compared to average wholesale water bill   | In line with AMP 6* average ratio of 0.7:1   | Broadly maintained at 0.6:1   |
| Method 2: Average net developer contribution compared to capital expenditure  | In line with AMP 6* average at 17%   | Broadly maintained at 14.5%   |
| Method 3: Scenarios based on worked example standard industry scenarios and the existing 19/20 New Connection Charges Scheme example developments (section 17). | Bills for the majority of typical developments to vary by no more than +/- 10%, in line with the requirement to support bill stability and predictability for new connection services. | The majority of schemes <sup>1</sup> will typically experience bill decreases / increases in the range +/-10%.<br>The (minority) exceptions to this are: <ul style="list-style-type: none"><li>• Connections to existing mains will experience a larger reduction in bills due to now being eligible for an income offset.</li><li>• Connections to new mains where there has been prior use, and</li></ul> |

<sup>1</sup> Full details of the scenarios are included in appendix 1 and 2 in the "Statement of Significant Changes for New Connections Charges" for 2020/21 <https://www.unitedutilities.com/wholesale-services/wholesale-charges/>

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|  |  | therefore will receive an infrastructure credit, will see a larger increase in bills as such connections will no longer be eligible for an income offset. |
|--|--|---|

*\* AMP6 values are impacted by unusually high values in 2016/17, which are influence by atypical circumstances and reporting in that year. Our proposed 2020/21 incomes offset is within the range of values for the AMP6 average, including and excluding 2016/17.*

The balance of contribution to costs between Developers and other customers has been broadly maintained for water through the setting of the income offset. Due to the uncertainty caused by changes to the income offset, and significant concerns raised by developers in transitioning to the new rules, we have sought to ensure that:

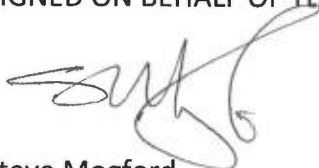
- Changes have been implemented early, where possible – for example, we implemented a “per plot” basis for the income offset from 2018/19, rather than waiting until 2020/21 and implementing all changes at once;
- Overall charges to developers for 2020/21, for the majority of new developments, have focused on bill stability, to mitigate concerns about uncertainty in transitioning to the new arrangements; and
- Maintained high levels of engagement and communication with developers to ensure that any changes are understood.

In relation to wastewater there is no income offset, charges for 2020/21 have been set to recover the costs of providing the service. This is broadly consistent with the approach taken historically when setting charges for wastewater developer services. On this basis the maintaining the balance test above has focused on the water service.

### 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