

UNITED UTILITIES WATER LIMITED

ASSURANCE STATEMENT

New Connection Services 2018/19



ASSURANCE STATEMENT AS AT 20 DECEMBER 2017

This assurance statement is provided in relation to United Utilities Water Limited's (U UW) New Connections and Developer Services Charges and Charges Scheme for 2018/19.

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 U UW's revenue controls for 2018/19, 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

U UW'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.

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

U UW's legal department has provided a legal review of the Charges Schemes to check for and enable consistency with U UW'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 U UW 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 2018/19.

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

UW has consulted with relevant stakeholders in a proportionate, timely and effective manner on its New Connections and Developer Services Charges and Charges Scheme for 2018/19.

The Company carried out a variety of stakeholder consultation activities during 2017, including focus group sessions in April and August, a consultation document in May, and the UW annual developer day in October. Appendix 1 contains a summary of the stakeholder engagement conducted during the year along with the key stakeholders who participated in each activity.

UW has consulted 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. UW considered the feedback received and made changes to the approach taken in setting the charges as a result. UW also presented some indicative charges for 2018/19 and scenarios at its annual "Developer Day" in October 2017. This information was also published on the United Utilities website so that it was available to those unable to attend on the day. We also published a set of "frequently asked questions" to address questions raised by stakeholders in response to the indicative charges and scenarios. Appendix 2 contains a summary of key feedback from stakeholders and how UW has addressed this feedback.

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In addition, the company has shared the Charges Scheme directly with a number of stakeholders – CCWater, the Home Builders Federation and Fair Water Connections. We have considered all the feedback provided by these stakeholders, alongside feedback from our wider stakeholder consultation activities as part of the review both in relation to the proposed changes and other issues raised about our Charges Schemes.

CCWater, the Home Builders Federation and Fair Water Connections have all confirmed that we have consulted in a proportionate, timely and effective manner.

A summary of engagement with CCWater on charging in relation to all of our Charges Schemes, and the response taken by U UW is contained in appendix 3.

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.

U 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 2018/19. The Board have 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
- The impact of the new charges was assessed for a range of developments to understand the proportion of developments 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 previous 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 2.9:1
Method 2: Average developer contribution compared to capital expenditure	In line with AMP 6 average to date at 51%	Broadly maintained at 52%
Method 3: Scenarios	Equal number of increases and decreases in developer contributions to new water	Equal number of increases and decreases in developer contributions to new water

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	mains based on expected dataset (2016/17 completed schemes)	mains based on expected dataset (2016/17 completed schemes)
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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.

An independent expert, Reckon LLP, has carried out a review of the methodology used and the assessment and conclusion drawn from the assessment of maintaining the balance. They agree:

- The income offset is the key means available to comply with Rule 19
- On the basis of the analysis carried out, the forecast level of developer contributions for new water mains (which reflect the planned income offset arrangements for water mains) is reasonable for the purpose of ensuring that the present balance of charges between developers and other customers is broadly maintained in 2018/19.

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

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APPENDIX 1 – STAKEHOLDER ENGAGEMENT EVENTS FOR 2018/19 NEW CONNECTIONS CHARGES

Activity	Date	Developers	SLP	HBF	HBA	Fairwater connections	Consultants	NAVs	Ofwat	CCW
Developer day	30 November 2016	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Webpage and E-shot issued	17 March 2017	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
Phase 1 focus groups held	11 April 2017	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Consultation/ questionnaire issued (26 April) and closed (12 May)	12 May 2017	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
External webpage updated	24 May 2017									
E-shot issued for Phase 2 focus group	10 August 2017	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Phase 2 focus group session held	21 August 2017	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>				
External webpage updated	29 September 2017									
Key stakeholder briefing (Developer day content)	18 October 2017			<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>				
Developer day	19 October 2017	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
New connection charges scheme issued for review	26 October 2017									<input checked="" type="checkbox"/>
New connection charges scheme review session	Early November			<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>				
CCW meeting on stakeholder engagement	28 November 2017									<input checked="" type="checkbox"/>
External webpage updated	Early December 2017									

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APPENDIX 2 – SUMMARY OF STAKEHOLDER FEEDBACK

Our stakeholders said:	UU response
Want charges to be site specific and fair, without different developers subsidising each other	We have a cost reflective approach for requisitions rather than a per plot charge
Want a per plot allowance income offset/asset payment because it will be easier to calculate and will give certainty	We changed our approach to income offset/asset payment from a % allowance to a per plot allowance for developments consisting only of household premises. For non-household developments, or where a development does not solely consist of household premises, income offset/asset payments are calculated based on a fixed % allowance of the mains scheme cost.
Want standardised fixed charges for connections and infrastructure to make it clear and simple	We have standard fixed charges for connections and infrastructure
A water or wastewater infrastructure discount would not on its own change developer behaviour	We simplified our approach to water and wastewater infrastructure discounts
Transition period is an important factor for them and clarity and transparency is really important.	We are following Water UK guidance on transition and held a specific session on transition at Developer Day to discuss our approach and provide our stakeholders with an opportunity to discuss areas of concern.
Want clarity and certainty on new connection charges	We have developed our new charges to enable stakeholders to reasonably estimate charges due without having to wait for a quote.

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APPENDIX 3 – SUMMARY OF CONSULTATION WITH CCWATER ON 2018/19 CHARGES

Date	Activity	CCWater feedback	UUW action
30 March 2017 - April	Discussion with CCWater on introduction of concessionary surface water and highway drainage charges for Schools for 2018/19 and potential bill impacts on other customers.	Requested confirmation of expected customer bill impact	Provided responses
23 May 2017	Shared correspondence sent to Schools with CCWater.	Acknowledged.	
15 June 2017	Informed CCWater that statement of significant changes to be published will include introduction of Schools concession and tariffs will be subject to November RPI.	Requested agenda items for September meeting – including understand bill impacts for 2018/19 and how being managed and significant policy changes planned.	Exchanged emails on questions asked and discussed relevant items during September meeting.
16 June 2017	UU presented initial findings and proposals to extend the “Help to Pay” social tariff to CCWater.	Requested further information on UU’s view on interpretation of results and alignment with Government guidelines.	Provided further information on UU’s view of findings and alignment with Government guidelines.
3 July 2017	Notified CCWater that Statement of significant changes had been published on website.	Acknowledged.	
15 August 2017	UU presented final findings and proposals to extend the “Help to Pay” social tariff to CCWater for review.	Acknowledged.	

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21 September 2017	Meeting held between UUW and CCWater to discuss 2018/19 charges. The expected impact of 2018/19 wholesale charges on a representative set of NHH and HH customers was presented. Provided summary of changes to be made to the charges schemes.	Required further information on proposed change to charging of properties on the AVC tariff on change of occupier.	AVC policy discussed further with UUW Customer Services Director.
13 October 2017	Final review with CCWater of social tariff research.	Agreed with the proposed extension to the "Help to Pay" social tariff.	Provide further information on UU funded customer support.
20 October 2017	Shared draft Household, Wholesale Water and Wholesale Wastewater charges schemes with CCWater for comment.	Requested further information be included on price promise trial in Household charges scheme and requested further discussion to take place with CCWater on the policy change proposed in relation to change of occupier of AVC properties. No comments raised on Wholesale Water and Wholesale Sewerage charges schemes.	Price promise trial wording amended. AVC policy discussed further with UUW Customer Services Director
26 October 2017	Shared draft New Connections and Developer Services charges scheme with CCWater for comment.	No comments raised on content of charges scheme.	None
September to November 2017	Exchanged correspondence with CCWater on the transitional arrangements in place regarding customers who moved between	Requested details of customers' impacted and transitional	Provided information as required.

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	NHH and HH as a result of eligibility guidance and were expected to experience significant bill increases.	arrangement in place.	
28 November 2017	Discussed the AVC policy at the quarterly meeting between CCWater and U UW Customer Services Director.	Requested analysis be undertaken during 2018/19 where there is a change of occupier to an AVC property.	To provide regular feedback to CCWater during 2018/19.
28 November 2017	Met with CCWater to discuss stakeholder engagement undertaken on new connections charges and information presented to developers at the UU annual developer day which took place in October, which included the impact on example schemes.	Requested information on impact of developers of change in income offset.	Information provided.
5 December 2017	Contacted CCWater to confirm wording in Household charges scheme on AVC would remain as per version shared in October. Stated expected impact of latest RPI forecast on bills for 2018/19.	Acknowledged.	
7 December 2017	Shared wording with CCWater to be included in Assurance Statements about CCWater engagement.	Agreed.	