

UNITED UTILITIES WATER LIMITED

ASSURANCE STATEMENT

Wholesale Charges 2019/20



ASSURANCE STATEMENT AS AT 2 JANUARY 2019

This assurance statement is provided in relation to United Utilities Water Limited's (UUV) Wholesale Charges and the Wholesale Charges Schemes for 2019/20 for Wholesale Water and Wholesale Sewerage.

Our Wholesale Charges are the charges that are payable by a Water Supply Licensee and/or Sewerage Licensee for the supply of water and/or sewerage services to eligible premises that are connected to our supply system for 2019/20 for any services we provide in the course of carrying out our regulated duties. In addition our Wholesale Charges Schemes also contains the Wholesale Charges applicable to Household properties.

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 Wholesale Water and Wholesale Sewerage Charges Schemes reflect each of these price controls (excluding the charges in respect of New Connections Services which are contained in the New Connections and Developer Services Charges Scheme) and also include our non-primary regulated charges. Note that special agreement wholesale charges are published on our website but are not contained within the Charges Schemes as they are covered by individual legal agreements.

1. LEGAL OBLIGATIONS AND GUIDANCE

UUV's Wholesale Charges and Charges Schemes have been prepared in accordance with its legal obligations and the Wholesale charging rules issued by the Water Services Regulation Authority under sections 66E and 117I 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. CUSTOMER BILLS, IMPACT ASSESSMENTS AND HANDLING STRATEGIES

The charges presented for 2019/20 have been subject to a cost reflectivity review and the impact of this review on customers has been assessed. Where this review indicated that a charge should be subject to a material change in order to improve its cost reflectivity (particularly where this involves an increase to a charge), UUV has implemented transitional arrangements in order to manage the impact on retailers, eligible premises and to end

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users. Senior managers have reviewed options and strategies for mitigating the impact on customers' bills in the year.

The Board has assessed the effects the 2019/20 charges have on customers' bills for a range of different customer types, including licensees who are retailing wholesale services to eligible customers and on customers occupying eligible premises. The Board approves the impact assessments and handling strategies being developed in instances where bill increases for licensees who are retailing wholesale services to eligible customers and on customers occupying Eligible Premises are likely to exceed 5%.

In setting Wholesale Charges, UUW has made adjustments to ensure the vast majority of customers (considering both households and eligible premises) do not experience price increases of more than 5%, whilst still ensuring compliance with the charging rules.

The majority of customers - 99.9% - will experience bill increases of no more than 5% compared to the previous year (assuming constant characteristics such as consumption).

Bill increases above 5% will be experienced by unmeasured places of worship. The bill increases for unmeasured places of worship where the increases are part of a long term phased approach to bring charges for these customers in line with other customers. This phasing commenced in 2015/16, where we proposed to phase in the increase over a number of years. Phasing of the increase in charges means that the financial impact of the increase in 2019/20 is restricted to £22.20 per customer per annum. There are approximately 1,100 unmeasured places of worship impacted.

Appendix 1 contains a table which illustrates the expected bill impacts of the 2019/20 Wholesale Charges when compared to 2018/19 Wholesale Charges for a representative set of eligible premises.

Licensees are expected to experience increases in 2019/20 of between 2.9% and 3.2%, dependent on their customer mix.

All modifications to special agreements will continue to be notified to Ofwat in a timely manner.

3. 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 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

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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 discussion 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 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.

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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 Scheme is reviewed and approved by operational 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 Wholesale Charges and the Charges Schemes is accurate.

4. ENGAGEMENT WITH RELEVANT STAKEHOLDERS

UUW has consulted with relevant stakeholders in a timely and effective manner on its Wholesale Charges and Charges Schemes for Wholesale Water and Wholesale Sewerage for 2019/20.

The Company has shared with CCWater the changes proposed to the Charges Schemes and significant policy changes. We have considered all the feedback provided by CCWater as part of the review both in relation to the proposed changes and other issues raised by CCWater about our Charges Schemes.

UUW has also shared with CCWater our approach to the development of Wholesale charges, discussing with them the strategies developed for managing incidence effects on customers' bills. UUW have shared with CCWater the expected bill impacts for representative customer groups. CCWater have confirmed that they do not have any concerns with our approach to the strategies proposed to manage incidence effects.

Please refer to our separate Engagement With Stakeholders document for a summary of engagement with CCWater on charging in relation to all of our Charges Schemes, and the response taken by UUW. In addition, communications took place with all licensed retailers in July and October, advising them of charging publications and providing a link to the UU website where the information could be found.

5. SIGNIFICANT CHANGES FROM INDICATIVE WHOLESAL CHARGES

Following publication of indicative Wholesale Charges, the Board has identified the following changes resulting in significant changes to some Wholesale Charges. Furthermore, the Board has considered the reasons why those changes were not anticipated and/or mitigated.

Following the publication of RPI for the period Nov 2017 – Nov 2018, we have updated the RPI applied to Wholesale Charges to 3.19%, from 3.16% previously assumed. The RPI used

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for final charges was not published until 19 December 2018, and therefore could not have been fully anticipated for publication of our indicative charges.

6. DIRECTORS' STATEMENTS

The Board considers that in preparing and approving the Wholesale Charges and Charges Schemes 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 Wholesale Charges Schemes are reliable, accurate and complete in all material respects and meet its obligations.

SIGNED ON BEHALF OF THE BOARD



Steve Mogford

Chief Executive Officer

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APPENDIX 1 – EXPECTED WHOLESALE BILL INCREASES FOR ELIGIBLE PREMISES

Volume, Meter Size, Site Area Band	35m ³ , 20mm, Band 2 <i>eg shop</i>	200m ³ , 25mm, Band 4 <i>eg pub</i>	300m ³ , 25mm, Band 6 <i>eg retail park unit</i>	15,000m ³ , 50mm, Band 8 <i>eg large health club</i>	5300m ³ , 50mm, Band 9 <i>eg super- market</i>	100,000m ³ , 100mm, Band 12 <i>eg small industrial</i>	300,000m ³ , 150mm, Band 15 <i>eg large industrial</i>	Trade Effluent 5,000m ³ average strength	Unmetered property £RV 300	Unmetered place of worship
Water only										
£ Change	0.80	9.77	14.97	778.35	273.95	4,547.21	11,507.21	n/a	5.78	2.18
% Change	0.98%	2.64%	2.75%	2.98%	2.96%	2.93%	2.88%	n/a	2.61%	5.00%
Sewerage only										
£ Change	11.45	58.66	248.22	1,323.67	1,265.47	8,009.05	19,102.56	150.00	8.10	20.02
% Change	3.21%	3.21%	3.20%	3.26%	3.22%	3.27%	3.29%	3.35%	3.35%	15.00%
Dual service										
£ Change	12.24	68.43	263.19	2,102.02	1,539.42	12,556.26	30,609.77	n/a	13.88	22.20
% Change	2.80%	3.11%	3.17%	3.15%	3.17%	3.14%	3.12%	n/a	2.99%	12.53%

Note 1: Bill impacts on end user Household bills are contained in the Household Charges Scheme Assurance Statement.