



Statement of Assurance for 2023-24 Charging Arrangements for New Connection Services

Thames Water Utilities Limited (TWUL)

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Version 1.0

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Board endorsement of this assurance statement

The Board has authorised the Chief Financial Officer, Strategy & External Affairs Director and an Independent Non-executive Director, to approve this statement.

Requirements for this assurance statement

Our Charging Arrangements for New Connection Services ("Charging Arrangements") sets out our charges and methodologies for calculating those charges which we will apply during the period from 1 April 2023 to 31 March 2024 in relation to the following:

1. Charges that we will impose for work carried out by us in accordance with the duties imposed by section 41(1) (provision of requisitioned water mains) and section 98(1) (provision of requisitioned public sewer) of the Water Industry Act 1991 (the "Act").
2. Charges that we will impose for work carried out by us in accordance with the duties (or rights) created by the following sections of the Act: 45(1) (connection with water main), 46(1) (ancillary works for the purpose of making a domestic connection), 98(1A) (provision of lateral drains), 101B (construction of lateral drains following construction of a public sewer) and 107 (right of undertakers to make communication with public sewers).
3. Charges that we will impose for any work carried out by us in respect of any agreement under section 51A or section 104 of the Act.
4. Our methods for calculating the charges imposed by us pursuant to section 185(5) of the Act as a result of complying with our duty under section 185(1) of the Act; and
5. Our requirements for security in relation to the charges to be applied in our Charging Arrangements as well as details about the time and methods of payment that our customers can use to pay our charges.
6. Infrastructure Charges described in section 146(2) of the Act.

A copy of our Charging Arrangements will be made available on our website (www.thameswater.co.uk).

Our Assurance Statement must confirm the following:

- We comply with our legal obligations (including competition law) relating to the Charging Rules for New Connections Services (the Rules) made under sections 51CD, 105ZF, 143B and 144ZA of the Water Industry Act 1991, effective from April 2023.
- We have appropriate systems and processes in place to make sure that the information contained in the Charging Arrangements, the statement of significant changes and this assurance statement is accurate.
- How the present balance of charges between developers and other customers is broadly maintained; and
- Any significant changes to charges for new connections services.

Endorsement of this assurance statement

We confirm, on behalf of our Board, that:

- Our Board accepts ownership of, and accountability for, the development of our Charging Arrangements. Our Board has ensured that the Charging Arrangements have been produced under agreed governance and assurance arrangements, which have enabled us to confirm that, insofar as we are aware, the Charging Arrangements are robust and comply with all relevant regulatory requirements in all material respects.
- This is the Statement of Assurance of the Company to accompany the Charging Arrangements in accordance with the requirements set out in the Rules.
- The following statements of assurance are true to the best of the Board's understanding and awareness:

A. We comply with our obligations relating to the Rules.

In addition to publishing our Charging Arrangements, the following steps have been taken to comply with the requirements of the Rules and the Competition Act 1998:

Stakeholder engagement

We have engaged and consulted extensively over the last year when developing our 2023/24 charging framework. A list of key activities includes the following:

- We held a Developer Day in February 2022.
- We held a Developer Scrutiny Panel in April 2022 where Developers had the opportunity to feedback their views on changes to our Charging Arrangements and raise any issues or queries, and in a further Developer Scrutiny panel in September 2022, we discussed our environmental incentives.
- We ran a two-week consultation from 8 November 2022 to obtain customer views on impacts caused by the economic climate and to request feedback on proposals to make our environmental incentives more accessible. We advised developers of the potential price fluctuations as a result of re-tendering our new connections contracts and asked for feedback on how we should prioritise balancing the various charging principles. We also emailed some of our scrutiny panel members to obtain feedback regarding the impact of the economic climate on their business. We have not consulted with customers about the full extent of price increases as the contract prices were only finalised in January 2023.
- In December we provided a summary of our plans to the Consumer Council for Water (CCW).

Determination of charges

- In 2020-21, we elected to remove the fixed charges for Waste Connections under section 107 of the Act and will instead quote and charge for these on an actual cost basis. Over the two years where we published fixed charges for these services, we completed a very small number of jobs and found that the costs fluctuate significantly. Therefore, we believe it is fairer for all customers that they are charged based upon their specific circumstances.

- In 2021-22, we elected to exclude Non-Gravity lateral drains under section 98(1A) of the Act from our fixed prices. Whilst this is a technical deviation from the rules, the exceptional nature of this type of connection and low frequency means that it is fairer and more proportionate to exclude this work from our fixed prices. To include these types of lateral drain, it would require a significant increase in our prices.
- For all other charges, where we are required to publish fixed charges under the Rules, we have published tables of fixed charges which detail the cost of a connection and the per metre cost of pipe laying and tables of ancillary charges. The fixed charges include all miscellaneous and ancillary costs, and reasonable administrative expenses and other overheads. Our fixed charges have been derived by assessing actual cost data and our new contractual arrangements to establish a cost-reflective charge for each type of connection. We have explained the basis of our fixed charges in our Charging Arrangements.
- We are not obliged to publish fixed charges in relation to adoption agreements, diversions or requisitions that fall within the exemption under rules 47 and 48. Our methods for calculating these charges are clearly explained in our Charging Arrangements.
- For connections other than requisitions that fall within the exemption under rules 47 and 48, we are obliged to ensure that developers and other customers can confidently work out a reasonable estimate of the charges payable if they know the parameters of their development in accordance with rule 14. Where this rule applies, we have published indicative charges in our Charging Arrangements.

Ofwat publications

There have not been any further changes to the charging rules that were published in October 2021, which were effective from April 2022. On 13 December 2022, Ofwat published the methodology for the next Price Review (PR24). Appendix 3 refers to Thames Water's interpretation of Network Reinforcement being "too narrow". We will review our policy in this regard and consider any impact this will have on our historic and forecast spend. Due to the timing of this publication, any resulting forecast changes will not be reflected in Infrastructure Charge prices until 2024-25.

Ofwat's five principles

We have worked to balance these principles alongside other Rule requirements throughout our approach to our Charging Arrangements.

- **Fairness and affordability:** The structure of our Charging Arrangements includes a range of fixed charges based on the size of a connection, the length of the main and various other parameters, balancing the need for fairness and ensuring cost-reflective charges with the requirement to set fixed prices.

- **Environmental protection:** When setting our Infrastructure Charges under the Charging Arrangements, we have taken into consideration the definition of network reinforcement contained within those Rules and applied our existing interpretation, which will be updated for 2024-25. In 2022-23 we introduced environmental discounts to encourage efficient water use on new developments. We have three tiers for water discounts offering an increasing level of discount as developers incorporate higher levels of efficiency on their developments. For waste we are offering a discount where there is no surface water connection or surface water discharges via a SUDS solution which significantly reduces flows to our network. The environmental discounts replaced the income offset discount to maintain the balance of charges.

Stability and predictability: We have published fixed charges where required (except for waste connections under section 107 of the Act and lateral drain requisitions under section 98 (1A) of the Act, as we believe that these jobs are so diverse that grouping them together to create a fixed charge breaches the fairness principle), and other than for exempt requisitions, we have also published indicative charges to allow customers to work out a reasonable estimate of the charges payable if they know the parameters of their development. Traffic management is included within these fixed prices, meaning customers can better anticipate their costs.

The current economic climate is significantly impacting our prices in 2023-24, firstly in terms of lower volumes of activity which drive prices up, as not all cost is variable. Secondly, we are appointing new suppliers to carry out our new connection's activity, and prices have increased. This contract will run for a 5-year term from 1 April, and we expect that future connection prices should only be impacted by inflation, material costs, volume changes and work mix. Last year, we deferred any further price changes resulting from blending and work mix, until the impact of the new contract was known. These changes have now materialised resulting in price increases.

Infrastructure charges are likely to be further impacted in 2024-25 once we implement changes to our policy on the definition of network reinforcement in line with the feedback from Ofwat received on 13 December 2022.

- **Transparency and customer-focused service:** Our Charging Arrangements explain how our charges have been derived and enable our customers to come up with a reasonable estimate of the charges without contacting us. Also, to provide our customers with a service that best suits their needs, we have payment methods which include payment in arrears with security. Our Charging Arrangements also contain details of the transitional arrangements that will apply to customers who either have open and valid quotes or who make an application during the period between the date we publish the Charging Arrangements and the date they come into effect. To drive further improvements in service levels that enable better outcomes for our customers, we are exiting our contractual arrangement with our existing new connection delivery partners, and appointing new suppliers, effective from 1 April 2023.
- **Costs of the relevant service:** In response to this new principle added in 2022-23 we removed the blending on our pipelaying charges between mains and service connections to ensure each service is cost reflective. We also introduced an expiry date for accepted quotes, which will improve cost reflectivity by limiting the time between the customer

payment of a fixed price and the date the work is carried out. This change addressed Ofwat's concerns regarding advance payments of infrastructure charges by limiting the validity of the advance payment to only cross one charging year, which is fairer to all customer groups and is more cost reflective. We also included company on-costs overheads attributable to new connections activity in our tariff calculation to address concerns that companies were not applying overheads consistently. For 2023-24, we competitively tendered new suppliers to carry out our new connection's activity. Our prices are therefore reflective of the current market rates.

Competition Law

From a competition law perspective, we have undertaken a review with our legal team. The Charging Arrangements have been developed bearing in mind competition law considerations. Consistent principles and approaches have been applied to the calculation of charges and when they are payable for different classes of customer. Charges (including any environmental discounts), asset payments and arrangements for when they are each payable, have been set in accordance with the principle that they should promote effective competition for contestable work.

B. We have appropriate systems and processes in place to make sure that the information contained in our Charging Arrangements, and the additional information covered by the annex to the Rules is accurate.

The following steps have been undertaken to assist our Board in assuring itself as required:

- We have taken a robust approach to the governance of decisions associated with our charging approach. Where appropriate we have consulted the Thames Water Executive on key elements of our approach.
- For 2023-24, any adjustments to wording have been subject to legal review to ensure they remain compliant to the charging rules and competition law.
- Our Wholesale Services Finance Business Partner has assured our tariff model which has been updated to reflect our new contractual arrangements
- Thames Water Internal Audit have reviewed the methodology and governance to provide confidence to the Board that our charges remain in line with the Rules and that reasonable steps have been taken to ensure these are cost-reflective charges.
- Our final Charging Arrangements have been signed off by Executive directors.

C. The present balance of charges between Developers and other customers has been broadly maintained.

We have established a framework which broadly maintains the balance of charges, which meets the Defra objective of developers paying the cost of development and no more. From 2022-23 we replaced the income offset with environmental discounts but overall, the same level of discount is expected to be paid to customers.

The Rules require us to set our own level of Infrastructure Charges to cover the Network Reinforcement expenditure that we incur. Our current interpretation of the definition of Network Reinforcement in the Rules means that a proportion of the investment we make to provide capacity for development is excluded, including strategic schemes to provide future capacity.

D. Any significant changes to charges for new connections services.

All of our customer groups in our worked examples exceed the 10% threshold for price increases, reflecting the challenging economic climate. Further information on changes to prices and processes can be found in our statement of significant change.

Board approval process

In satisfying the requirements of the Rules and Assurance Statement, I confirm, on behalf of the Board, that the Company has followed rigorous procedures in developing and approving the Charging Arrangements and Assurance Statement. This has included extensive consultation of key internal stakeholders and operating robust governance arrangements including the sign off for significant elements of our Charging Arrangements approach by Executive Programme Sponsors.

For and on behalf of Thames Water Utilities Limited

Dated: 24 January 2023

Dated: 23 January 2023

Signed:



Alastair Cochran, Chief Financial Officer

Signed:



Cathryn Ross, Strategy & External Affairs Director

Dated: 24 January 2023

Signed:



Nick Land, Senior Independent Non-Executive Director

