

Thames Water Utilities Limited (TWUL)
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Statement of assurance

for 2018-19 charging
arrangements for new
connection services



Thames Water Utilities Limited

Statement of Assurance for 2018/19 Charging Arrangements for New Connection Services

1 Board endorsement of this assurance statement

The Board has authorised the Chief Financial Officer and Director of Strategy and Regulation to approve this statement.

2 Requirements for this assurance statement

Our Charging Arrangements for New Connection Services ("Charging Arrangements") sets out our charges, income offsets and asset payments and / or the methodologies for calculating those which we will apply during the period from 1 April 2018 to 31 March 2019 in relation to the following:

1. Charges that we will impose for work carried out by us and / or income offset arrangements that might apply 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 and/or asset payments to be made 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.

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

Our Assurance Statement must confirm the following:

- (a) We comply with our legal obligations (including competition law) relating to the Charging Rules for New Connection Services made under sections 51CD, 105ZF and 144ZA of the Act (the "Rules");
- (b) We have appropriate systems and processes in place to make sure that the information contained in the Charging Arrangements, and this assurance statement is accurate; and
- (c) How the present balance of charges between developers and other customers is broadly maintained.

Our Assurance Statement must make it clear how our Board assured itself of the above conditions.

3 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 held a customer consultation in August 2017. The results of this consultation influenced the way we designed our Charging Arrangements. Our consultation targeted a range of customers including homeowners, small-scale builders, large-scale developers, Self-lay Providers (SLPs) and New Appointees (NAVs) and was led by an impartial, external research agency.
- We engaged with both the Consumer Council for Water (CC Water) and our Customer Challenge Group (CCG) in face-to-face meetings about our consultation findings and our proposed approach to our Charging Arrangements.
- We engaged with our Developer Scrutiny Panel, which is made up of 10 representatives from large-scale developers, on our proposed approach to our Charging Arrangements and captured their key questions which have informed and shaped our customer briefings and communications around the Charging Arrangements.
- We held an engagement day for SLPs on 10 November 2017, and have planned one for large-scale developers and consultants on 30 January 2018. One of the main purposes of these engagement days is to talk about our Charging Arrangements.
- In late December 2017 we published a charging update for customers on progress since the consultation and included worked examples of how our Charging Arrangements will apply with worked examples based upon indicative prices.

Determination of 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 estimates where actual cost data is unavailable 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 also 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's four 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 Charge Scheme Rules, we have taken into consideration the definitions for network reinforcement contained within the Rules. In light of the level at which we have set our infrastructure charges we considered whether there would be any merit in introducing a scheme of discounts and multipliers to reflect the level of water efficiency and/or sustainable drainage measures implemented by developers. We don't believe that any such schemes would generate sufficient potential savings to incentivise these behavioural changes. We believe more engagement with customers is needed on this topic, and we will continue to review our position on this as we learn more.
- **Stability and predictability:** we have published fixed charges where required, 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. Also, traffic management is included within these fixed prices, meaning rates are more stable and customers can better anticipate their costs.
- **Transparency and customer-focused service:** our Charging Arrangement explain how our charges have been derived, and enables 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 expanded the number of methods that customers can use to pay for the charges. Payment methods now 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. Our transitional arrangements involve contacting all customers with open and valid quotes to tell them what their quote will be after 1 April 2018 and letting customers who make an application during February and March know what their quote will be after 1 April 2018. This is so that customers have enough information during this period to make a choice about which quote they want to accept.

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. In particular, 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 income offsets), 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.
- Our cost to serve methodology has been reviewed and approved internally by our finance and business teams and the Developer Services business.
- We have appointed external experts, KPMG to undertake a review of our charging methodology and to review the development of our tariffs for 18/19 against our methodology. KPMG's work provides confidence to the Board that our charges have been developed in line with the Rules and in particular that reasonable steps have been taken to ensure these are cost-reflective charges.
- We have carried out a sample comparison of open quotes against proposed 2018/19 charges, to understand the likely impact of new charges on different customer groups. This has given the Board confidence that any price changes are reflected fairly across all of these different groups.
- 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 and which meets the Defra objective of developers paying the cost of development and no more. The balance of charges has been broadly maintained as developers will continue to be charged the cost of connections, requisitions, adoptions and diversions as today and will continue to obtain an income offset on requisitions and asset payments on water adoptions based on an updated Discounted Aggregated Deficit (DAD) model as today.

As set out in our Statement of Significant Changes for 2018/19 Charges Schemes, significant changes have been made to Infrastructure Charges so as to comply with the Charges Scheme Rules issued by Ofwat in August 2017.

Under the new Charge Scheme Rules, we set our own level of Infrastructure Charges to cover the Network Reinforcement expenditure that we incur. The tighter definition of Network Reinforcement in the Charging Rules means that a proportion of the investment we make to provide capacity for development is excluded, including strategic schemes to provide future capacity.

In all other aspects the balance of charges recovered from developers and customers remain unchanged.

The Board have been made aware of the changes to Infrastructure Charges and the work undertaken to ensure our charges adhere to both the Charges Scheme Rules and the Rules.

4 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 of significant elements of our Charging Arrangements approach by Executive Programme Sponsors.

At the Board meeting on 28 September 2017, the Chief Financial Officer and Director of Strategy and Regulation were authorised to sign the statement of assurance on the Board's behalf.

Signed 

Dated 25 January 2018

Brandon Rennet, Chief Financial Officer
For and on behalf of Thames Water Utilities Limited

Signed 

Dated 25th January 2018

Nick Fincham, Director of Strategy and Regulation
For and on behalf of Thames Water Utilities Limited