

Thames Water Utilities Limited (TWUL)
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Statement of assurance

for 2019/20 charging
arrangements for new
connection services



Thames Water Utilities Limited

Statement of Assurance for 2019/20 Charging Arrangements for New Connection Services

1 Board endorsement of this assurance statement

The Board has authorised the Chief Financial Officer, Director of Strategy and Regulation, Senior Independent Non-Executive Director, Independent Chairman and a Non-Executive Director 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 2019 to 31 March 2020 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.

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 consulted extensively last year when developing our 2018/19 charging framework, and have since carried out further consultation as follows:

- Apr 2018 Developer Scrutiny Panel – the panel told us our engagement on charging 'hit the mark' and was 'best in the bunch'
- Jul 2018 Self-Lay Provider Forum - 82% of audience reported they'd found our 2018/19 charging arrangements 'better' compared to previous arrangements
- Aug-Sep 2018: Survey issued to developers, self-lay providers and Thames Water employees to request feedback on the new charging arrangements
- Oct 2018: Meeting with Ofwat – feedback was that no major changes were needed
- Oct 2018: Meeting with Consumer Council for Water - asked us to provide clear customer messaging in situations where we need to go back to customer for further payment. This has been reflected in our revised charging arrangements document.
- Oct 2018: Developer Scrutiny Panel – discussed proposed approach to charges in 2019/20, no objections
- Oct 2018: Internal review of customer complaints received YTD - we received similar level of cost-related complaints compared to the same period last year, none of which were about not understanding our tariffs
- Nov 2018 Meeting with Home Builders Federation – discussed proposed approach to charges in 2019/20, having also shared a detailed explanation of our 2018/19 methodology with the HBF in Sep 2018. HBF agreed our charging arrangements are transparent, and will continue to collaborate with us on future consultations
- This year we've also been developing a new online tool to enable homeowners and small-scale builders to get a free self-service estimate of the charges for their work, further increasing transparency. We've worked directly with customers to test the user experience and make sure the tool is clear.

- Nov 2018 we held a NAV engagement day where the relevant aspects of charging were discussed. Invites were extended to use our 'Ask the Experts' sessions to cover any specific queries in more detail.

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 explains 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 a straightforward switch over to the new prices for quotes produced from 1st April 2019 however quotes produced prior to this are still valid for a period of 180 days.

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.
- For 2019-20 our charging arrangements structure remains in line with last years, and any adjustments to wording have been subject to legal review to ensure they remain compliant to the charging rules and competition law.
- Our cost to serve methodology and development of the tariffs was reviewed by KPMG for 2018-19. We have used the same models as the base upon which to review changes in our cost base for 2019-20. Thames Water Internal Audit has reviewed this methodology to provide confidence to the Board that our charges remain in line with the Rules and in particular 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 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.

The Charge Scheme Rules require us to set our own level of Infrastructure Charges to cover the Network Reinforcement expenditure that we incur. The 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.

We are comfortable that the amount collected through Infrastructure charges remains on track to offset the necessary network reinforcement expenditure as required on a rolling five year basis.

No changes to the balance of charges have been made in 2019-20.

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 27 September 2018, the Chief Financial Officer, Director of Strategy and Regulation, and an Independent Non-Executive Director were authorised to sign the statement of assurance on the Board's behalf.

Signed 

Dated 9/1/19

Brandon Rennet, Chief Financial Officer


For and on behalf of Thames Water Utilities Limited

Signed 

Dated 10/1/19

Nick Fincham, Director of Strategy and Regulation

For and on behalf of Thames Water Utilities Limited

Signed 

Dated 5/1/19

Nick Land, Senior Independent Non-Executive Director

For and on behalf of Thames Water Utilities Limited

Signed 

Dated 8/1/19

Ian Marchant, Independent Chairman

For and on behalf of Thames Water Utilities Limited

Signed 

Dated 9 / 1 / 19

Kenton Bradbury, Non-Executive Director

For and on behalf of Thames Water Utilities Limited