

Thames Water Utilities Limited (TWUL) Wholesale
Published date: 14 October 2020



Statement of assurance 2021-22

Indicative wholesale charges for the supply of
water and wastewater services

Statement of Board Assurance for indicative non-household wholesale charges 2021-22

Introduction

1. The purpose of this document is to provide a statement of our assurance in relation to our 2021-22 indicative wholesale tariffs (the “Charges”).
2. The Charges covered by this statement have been set based on the allowed revenues as published by Ofwat in the PR19 Final Determination (“FD”) and Thames Water’s view of the Blind Year Adjustment (“BYA”) that relates to the true-up for our actual 2019-20 Outcome Delivery Incentive (“ODI”) performance.
3. Ofwat published a draft BYA for consultation on 28 September 2020, however this was issued too late in our governance process to be factored into our indicative Charges. There is a small net difference of c. £3m between Ofwat’s draft BYA and the view that we have used. The final BYA will be published by Ofwat in November 2020 and so will be reflected in our final Charges due for publication in January 2021.
4. The inclusion of the BYA for ODI performance moves our wholesale water network plus K factor from the 4.80% in the PR19 FD to a forecast of 7.33%. The wholesale wastewater network plus K factor moves from -0.72% in the PR19 FD to a forecast of -0.79%. An inflation (CPIH) forecast of 0.63% has also been included in our allowed wholesale revenues.
5. We have assumed that no ODI penalty is due based on our leakage performance in 2019-20. There is also no ODI penalty due relating to the Security of Supply Index. The leakage rebate that has been applied to our 2019-20 and 2020-21 charges will therefore no longer feature in 2021-22. This is reflected in the wholesale water network plus K factors mentioned in paragraph 4 above.
6. The effect of the points raised in paragraphs 4 and 5 is that the year-on-year increase in our wholesale water allowed revenue is higher than it has been previously. As such, our wholesale water prices will increase by more than 5% compared to the level at which 2020-21 charges were set.
7. Our wholesale wastewater prices are increasing to a sufficiently low extent that combined bill increases for licensees and customers occupying Eligible Premises will not exceed 5% when compared to 2020-21, as can be seen in table 1 in paragraph 15 below and Appendix 1 of our Statement of Significant Change for indicative wholesale charges 2021-22.

Board endorsement of this assurance statement

8. Our Board accepts ownership of, and accountability for, the development of the Charges.
9. This statement has been approved by the Board and signed by Brandon Rennet (Chief Financial Officer), Nicola Cocks (Regulation Director) and Nick Land (Non-Executive Director), on behalf of the Board of Thames Water Utilities Limited (the “Company”).
10. In approving the Charges, the Board has made the following key considerations:

Statement of Board Assurance for indicative non-household wholesale charges 2021-22

Legal Obligations and Guidance

11. Thames Waters' Charges have been prepared in accordance with its legal obligations and the Wholesale Charging Rules published on 27 March 2020 by the Water Services Regulation Authority under sections 66E and 117I of the Water Industry Act 1991.
12. The Charges also comply with information requirements as set out in Ofwat's Information Notice IN19/05 ('Expectations, assurance and information requirements for water company charges for 2020-21') published in October 2019.
13. Thames Water has also taken into account the Company's statutory obligations relating to charging.

Bill movements, impact assessments and handling strategies

14. The Board has assessed the effects of the Charges on water supply and sewerage licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as whole or in groups) for a range of customer types.
15. The Board recognises that the Charges will increase the water prices included within customer bills by more than 5%, however the effect on a combined bill will not exceed a 5% year-on-year increase for any dual service customer groups, as shown in table 1 below.

Table 1: Maximum bill increases for non-household customers 2021-22

	Customer type		
	Water-only	Wastewater-only	Dual service
Maximum wholesale bill increase 2021-22	7.1%	2.8%	4.7%

Source: Thames Water tariff model 2021-22 draft v3a

16. The Board also acknowledges that the customers who only receive a water service from us will experience an increase in primary charges for services provided by Thames Water in excess of 5%. This covers around 50,000 customers, the majority of whom are households.
17. We have assessed the likely impact on the combined water and wastewater charges for these customers. Of the c. 15,000 who are connected to mains sewers and have wastewater services provided by other water and sewerage companies, we believe the wastewater K factors in 2021-22 for these companies will lead to combined bill increases of less than 5%.
18. For the remaining c. 35,000 customers who are not connected to mains sewers and use cesspit or septic tank services, we have assessed the likely combined bill increase based on our own cess charges (which are linked to the movement in our wholesale wastewater metered unit rate). As for our dual service customers who are connected to mains sewers, the small price rise for wholesale wastewater services will lead to increases in combined bills of less than 5% for customers not connected to mains sewers.
19. Based on paragraphs 15 to 18, the Board are not aware of any customer groups who receive one or more services from Thames Water that will experience combined bill increases in

Statement of Board Assurance for indicative non-household wholesale charges 2021-22

excess of 5% for 2021-22. For this reason, we do not propose to undertake any mitigating action at this time.

20. The Board have approved a customer engagement offering that will provide clear and readily available information both on our website and on household customer bills that explains the reasons for the increases in water service prices in 2021-22 and how we can help customers through our social tariffs, payment plans and reducing their water usage. A similar communication will be sent to water supply and sewerage licensees operating in the non-household retail market.

Appropriate systems and processes

21. In assessing whether there are systems and processes in place (including up-to-date models and data) to make sure the information published about our Charges is accurate, the Board has considered:

- the rigorous system for compiling, collating and managing the data and information required to produce the Charges;
- the governance framework detailing the assurance approach adopted and the outcome of the independent review of the tariff model by Internal Audit;
- the process of internal review and formal sign off by approved appropriately qualified members of staff;
- confirmation of the degree of assurance undertaken on the source information / data used in the tariff calculations;
- the dedicated and assured charge multiplier and tariff models used to determine wholesale and retail tariffs;
- confirmation that the Charges have been calculated in a manner compliant with the individual price controls; and
- confirmation that there is no material issue outstanding arising from the assurance work undertaken.

Engagement with stakeholders

22. With regards to stakeholder engagement, the Board have considered the outcome of the discussions with the Consumer Council for Water (“CCW”) regarding the proposed approach to our Charges and evidence that any feedback has been duly taken into consideration.

23. We are in regular contact with our retailers and engage with them via various channels to gain insight on a range of topics. Along with other wholesalers, we are also aware of and involved in discussions relating to the simplification and standardisation of wholesale tariffs across the industry, where practical. Our proposal to leave our wholesale tariff structure materially unchanged for 2021-22 has received no objections.

Statement of Board Assurance for indicative non-household wholesale charges 2021-22

Board approval process

24. In satisfying Ofwat's requirements specified in the Wholesale Charging Rules (published on 27 March 2020) and Information Notice IN19/05 ('Expectations, assurance and information requirements for water company charges for 2020-21') published in October 2019, the Board confirms that the Company has followed robust and rigorous procedures in developing and approving the Charges.

25. At the Board meeting on the 24 September 2020 the Chief Financial Officer, the Regulation Director and a Non-Executive Director were authorised to sign assurance statements on the Board's behalf, and in doing so confirm that:

- the Charges are consistent with Thames Water's legal obligations in relation to wholesale charges;
- the Board has considered the impact of the Charges on customer bills for different customer groups; and
- the Board has satisfied itself that appropriate systems and processes are in place to ensure that the Charges are accurate.

Signed by, and on behalf of the Board:

Dated: 12 October 2020


Signed
Nick Land, Non-Executive Director

Dated: 12 October 2020


Signed
Nicola Cocks, Regulation Director

Dated: 13 October 2020


Signed
Brandon Rennet, Chief Financial Officer

For and on behalf of Thames Water Utilities Limited