

UNITED UTILITIES WATER LIMITED

ASSURANCE STATEMENT

Wholesale Charges 2017/18



ASSURANCE STATEMENT AS AT 19 DECEMBER 2016

This assurance statement is provided in relation to United Utilities Water Limited's (UUV) Wholesale charges and the Wholesale charges schemes for 2017/18 for Wholesale Water, Wholesale Wastewater, and New Connections and Developer Services.

The charges presented are consistent with UUV's revenue controls for 2017/18, published by Ofwat on 12 December 2014.

1. LEGAL OBLIGATIONS AND GUIDANCE

UUV's Wholesale charges and charges schemes have been prepared in accordance with its legal obligations, the Wholesale charging rules issued by the Water Services Regulation Authority under sections 66E and 117I of the Water Industry Act 1991, and the Charges scheme rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991.

UUV has also taken into account the Company's statutory obligations relating to charging.

2. CUSTOMER BILLS, IMPACT ASSESSMENTS AND HANDLING STRATEGIES

The charges presented for 2017/18 have been subject to a cost reflectivity review and the impact of this review on our 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 customers and to end 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 new charges have on customers' bills for a range of different customer types, including licensees who are retailing wholesale services to eligible customers, and approves the impact assessments and handling strategies being developed in instances where bill increases for particular customer types exceed 5%.

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

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

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of U UW 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 U UW and UUG as a whole. Everybody working for or on behalf of U UW must comply with the policies (to the extent they are applicable to their roles). Failure to do so may result in disciplinary action being taken. This could lead to dismissal and possible civil or criminal prosecution in serious cases.
- **Governance and control.** The Board delegates responsibility for specific matters to a number of committees and working groups. 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.

To oversee and take decisions affecting the execution of its obligations, the U UW Limited Board:

- Receives and reviews performance reports from the relevant employees of the Company.
- Receives and reviews presentations from the U U Corporate Audit Team, the financial and technical Auditors.
- Receives and reviews presentations from the wholesale, domestic retail, business 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 Board:

- Reviews and approves the Charges Assurance Statements.
- 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 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 middle 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 2017/18.

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- We have amended wholesale charges to mitigate the impacts on customer bills for non-household end user charges. The changes to non-household retail charges have only been developed following the publication of Ofwat's draft PR16 determinations, which only occurred shortly prior to our publication of indicative wholesale charges. As UUW currently has responsibility for the end user charges it has been necessary to mitigate this impact within the wholesale charges.

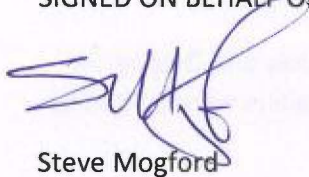
Furthermore, a number of other changes were identified, but were not considered to have resulted in a significant change to wholesale charges. These include:

- Updated forecasts for charge multipliers;
- Changes to the timing of adjustments to wastewater revenue from the Revenue Correction Mechanism; and
- A reduction in charges reflecting a change to our calculation of revenue to be rebalanced through the Wholesale Revenue Forecast Incentive Mechanism.

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 charges schemes are reliable, accurate and complete in all material respects and meets its obligations.

SIGNED ON BEHALF OF THE BOARD



Steve Mogford

Chief Executive Officer

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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
- 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 is reviewed and approved by middle 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, Wholesale Wastewater, and New Connections and Developer Services for 2017/18.

The Company has shared with CCWater the changes proposed to the schemes. 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. CCWater have confirmed that they do not have any concerns with our approach to the strategies proposed to manage incidence effects.

In addition, communications took place with all licensed retailers in July and October. A link was provided to our Charges Bulletin on the UU website and retailers were invited to attend an engagement meeting with us.

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 2015 – Nov 2016, we have updated the RPI applied to wholesale charges to 2.19%, from 1.96% previously assumed. The RPI used for final charges was not published until 13 December, and therefore could not have been fully anticipated for publication of our indicative charges.