

Assurance statement

New connections and developer services 2023/24

ASSURANCE STATEMENT AS AT 16 DECEMBER 2022

This assurance statement is provided in relation to United Utilities Water Limited's (UUW) new connections and developer services charges and charges scheme for 2023/24.

Our charges for new connections and developer services are the charges that are payable in respect of new connections, for any services we provide in the course of carrying out our regulated duties.

The charges presented here are consistent with UUW's revenue controls for 2023/24, for wholesale water and wholesale sewerage, published by Ofwat on 16 December 2019, updated for the over-recovery of 2021/22 revenues and the net outperformance payment from 2021/22 in-period ODIs¹. Our new connections and developer services charges scheme reflects the relevant revenue from our wholesale price controls and also includes our non-primary regulated charges in this area.

1. LEGAL OBLIGATIONS AND GUIDANCE

UUW's new connections and developer services charges and charges scheme have been prepared in accordance with its legal obligations, the Charging Rules for New Connection Services², and the Charges Scheme Rules³ issued by the Water Services Regulation Authority ("Ofwat").

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

UUW's legal department has provided a legal review of the charges scheme to check for and enable consistency with UUW's operating and legislative requirements under its Instrument of Appointment and principal governing legislation.

Management has undertaken a review of each charging rule to demonstrate how each charging rule has been complied with, and this document will be published on the United Utilities website.

2. 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 of UUW 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 UUW and UUG as a whole. Everybody working for or on behalf of UUW must comply with the policies (to the extent they are applicable to their roles). Failure to

¹ Outcome Delivery Incentives – Ofwat published its final determination of in-period outcome delivery incentives for 2021/22 on 15 November 2022

² Issued under sections 51CD, 105ZF, 143B and 144ZA of the Water Industry Act 1991

³ Issued under sections 143(6A) and 143B of the Water Industry Act 1991

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do so may result in disciplinary action being taken. This could lead to dismissal and possible civil or criminal prosecution in serious cases. Significant policy changes are presented to the appropriate committee for discussion to review the potential impacts to customers of proposed changes, prior to being approved for implementation.

- **Governance and control:** The Board delegates responsibility for specific matters to a number of committees and working groups, which meet on a regular basis. 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. Potential changes to charges are presented to the appropriate committee for discussion and potential impacts to customers of proposed changes are reviewed. The Charges Reform Group acts as a focal point for the Company to review all developments in charges to ensure that charging issues are given proper consideration by the directors and senior managers with accountability for approving the Company's annual charges schemes.

To oversee and take decisions affecting the execution of its obligations, the UUG Board:

- Receives and reviews performance reports from the relevant employees of the Company;
- Receives and reviews presentations from the UUG Corporate Audit Team, the financial and technical Auditors;
- Receives and reviews presentations from the directorates with responsibility for wholesale and household retail services, and functional (e.g. Finance and IT) directorates;
- Has access to executive and senior managers in the Company to verify information.

Specifically in relation to charges, the UUG Board:

- Reviews and approves the charges Assurance Statements;
- Reviews and approves the Statements of Significant Changes;
- 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 evidence of stakeholder consultation;
- Is presented with significant proposed changes to the charges schemes and any modifications to the tariff structure prior to inclusion within the charges schemes; and
- 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 operational 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 2023/24.

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 and approval by an appropriate manager.

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- 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 charges scheme is reviewed and approved by operational 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 new connections and developer services charges and the charges scheme is accurate.

3. ENGAGEMENT WITH RELEVANT STAKEHOLDERS

UW has consulted with relevant stakeholders in a timely and effective manner on its new connections and developer services charges and charges schemes for 2023/24. The Company carried out a variety of stakeholder consultation activities during 2022 - including focus group sessions in May, August and December - and technical update sessions in March and May which included a section on charges.

UW has continued to consult with stakeholders on the approach taken for the development of charges. We have continued with our compliance review of the water sustainable development incentive for reduced rate infrastructure charges to ensure that the criteria of the scheme is being met and is driving the right customer behaviour.

UW has published an Engagement With Stakeholders document which includes a summary of engagement with CCW⁴ in relation to charging matters and UW's response to the feedback received. The same document contains a summary of stakeholder events held during the year, key feedback received from stakeholders and UW's response to these.

4. BALANCE OF CHARGES

Rule 19 of the Charging Rules for New Connection Services requires undertakers to take reasonable steps to ensure that the balance between contributions to costs by Developers and other customers prior to 1 April 2018, is broadly maintained.

UW has carried out an assessment of the balance of contribution to costs between Developers and other customers for water, to ensure that the balance is broadly maintained in 2023/24. The Board has been presented with evidence to demonstrate the assessment that the balance has been broadly maintained.

Three methods were used to carry out the assessment for 2023/24 for water:

- The average net developer contribution per new connection was compared to a typical wholesale water bill;
- The annual developer net contribution was compared to capital expenditure relating to new connections; and

⁴ Consumer Council for Water

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- Review of a range of developments to understand the proportion of schemes that would be expected to experience increases or decreases in the total bill, compared to the 2022/23 charging arrangements.

In line with the prior year, the assessment for methods 1 and 2 is based on net developer contribution (i.e. net of the income offset). Changes in the assessment for method 1 and 2 are driven by changes in developer services costs and the balance of work completed by Self Lay Providers and work completed by us.

Method 3 is completed excluding the impact of the income offset to reflect that from 2025 Ofwat has stated its intention to remove the income offset and the requirement to demonstrate maintaining the balance of charges.

The table below shows the results of the assessment of maintaining the balance:

Assessment method	Target	Results (2023/24)
Method 1: Average net developer contribution compared to average wholesale water bill	In line with AMP 6 average ratio of 0.7:1	Broadly maintained at 0.7:1
Method 2: Average net developer contribution compared to capital expenditure	In line with AMP 6 average at 17%	Broadly maintained at 16%
Method 3: Scenarios based on worked example standard industry scenarios (section 17 of 2023/24 charges scheme).	Excluding the impact of the income offset bills for the majority of typical developments to vary by no more than +/- 10%, in line with the requirement to support bill stability and predictability for new connection services.	Excluding the impact of the income offset, the significant majority of schemes ⁵ (over 95%) will typically experience bill increases in the range 0% to 10%. SLPs and NAVs applying for medium sized developments (typically consisting of around 50 properties) are likely to experience a small reduction in bills of between 2-3% compared to 2022/23.

The balance of contribution to costs between developers and other customers has been broadly maintained for water through the setting of the income offset. We have maintained high levels of engagement and communication with developers to ensure that our approach to charges and charging policy is understood.

In relation to wastewater there is no income offset, charges for 2023/24 have been set to recover the costs of providing the service. This is broadly consistent with the approach taken historically when

⁵ Full details of the scenarios are included in appendix 1 in the "Statement of Significant Changes for New Connections Charges" for 2023/24 <https://www.unitedutilities.com/Business-services/wholesale-charges/>

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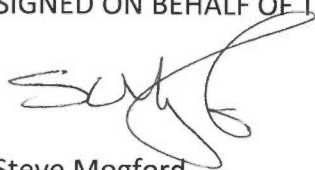
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setting charges for wastewater developer services. On this basis the maintaining the balance test above has focused on the water service.

5. DIRECTORS' STATEMENTS

The Board considers that in preparing and approving the new connection and developer services charges and charges scheme the Company has, using the best information available at the current time, 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 scheme is reliable, accurate and complete in all material respects and meets its obligations.

SIGNED ON BEHALF OF THE BOARD



Steve Mogford

Chief Executive Officer