

BOARD ASSURANCE STATEMENT FOR WHOLESALE CHARGES AND END-USER CHARGES SCHEMES

The South West Water Board of Directors (SWW Board) publishes this Board Assurance Statement confirming that SWW's wholesale charges and charges schemes are compliant with SWW's legal obligations and consistent with Ofwat's Wholesale Charging and Charges Scheme Rules.

In approving the 2017/18 SWW Charges Schemes, reflecting Ofwat's requirements, through review, challenge and scrutiny at the Pennon Plenary and Pennon Plenary Tariffs Sub-Committee, the SWW Board has considered:

- SWW's legal obligations related to wholesale charges and the charges set out in its end-user charges schemes;
- the effects of the proposed charges on customers and any relevant impact assessments and any relevant handling strategies;
- the systems and processes in place at SWW to ensure that the charges published are accurate and consistent with Ofwat's PR14 and PR16 final determinations; and
- the stakeholder engagement that has been carried out in relation to the setting of these charges.

A summary of the evidence the SWW Board has considered and additional review and scrutiny provided through the Pennon Plenary and Pennon Plenary Tariffs Sub-Committee in relation to each of these four elements is provided below, with SWW's overall conclusion provided at the end of this statement.

Legal obligations

SWW has a series of legal obligations that it must meet, of which a number relate to how wholesale and end-user charges are set. For example, SWW must comply with Ofwat's PR14 and PR16 price determinations (licence condition B) and not show undue preference or undue discrimination to classes of end-user customers (licence condition E) and in relation to retailers (licence condition R). More generally, the Competition Act 1998 applies to SWW, and in particular Chapters I and II (Agreements and Abuse of Dominant Position).

SWW engaged independent auditors and economic consultants to review its calculation of wholesale and end-user charges, with the specific objective of ensuring that the charges were consistent with the PR14 and PR16 price determinations and SWW's legal obligations more broadly. A fully independent internal assurance process was also undertaken.

The Board has reviewed the reports that the independent third parties and internal assurance team prepared to present their findings on their review.

Effect of charges on customers

The Ofwat Wholesale Charging Rules require the assurance process to include an assessment of the effect of proposed charges on licensees (as a whole or in groups) who are retailing wholesale services. The Board is also aware that SWW is required to carry out impact assessments and prepare handling strategies in instances where bill increases for licensees (as a whole or in groups) exceed 5%.

The Ofwat Wholesale Charging Rules also require the assurance process to include an assessment any significant differences between indicative and final wholesale charges for the same period and where there are significant differences (defined by Ofwat as 'significantly different' if a reasonable person would consider the changes to be material) issue a statement explaining why those changes were not anticipated and/or mitigated.

The Ofwat Charges Scheme Rules require assessment of the effects of new charges on customers' bills for a range of different customer types, and approval of impact assessments and handling strategies developed in instances where bill increases for particular customer types exceed 5%.

The Board has reviewed SWW's bill impact analyses for both wholesale and end-user charges, and any significant movements between indicative and final wholesale charges.

Systems and processes to ensure accurate charges

The SWW Board is required under the Ofwat Wholesale Charging Rules to confirm that appropriate systems and processes are in place to ensure that the information published on wholesale charges is accurate.

The Ofwat Charges Scheme Rules also require confirmation that appropriate systems and processes are in place to ensure that the information in charges schemes and any additional information is correct.

In carrying out its assurance role, the SWW Board has reviewed the internal reports prepared by those responsible for the SWW charging models. The Board has also reviewed reports written by third parties that were engaged to provide independent auditing and assurance work.

Stakeholder engagement

The SWW Board is required to confirm that the company has consulted with relevant stakeholders in a timely and effective manner on wholesale charges. For example, the Ofwat Wholesale Charging Rules require that companies engage with stakeholders on the development of wholesale charges and revise their proposed charges as appropriate to reflect stakeholder feedback.

The Ofwat Charges Scheme Rules also require that SWW has consulted the Consumer Council for Water in a timely and effective manner on its charges schemes.

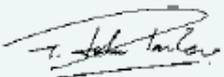
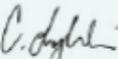
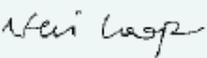
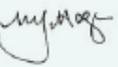
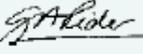
The SWW Board reviewed the stakeholder engagement that was carried out, and considered how the feedback received was reflected in the final charges. No feedback has been received following publication of the indicative 2017/18 wholesale tariffs and CCWater has confirmed it has no objections to the proposed 2017/18 charges schemes and end-user tariffs.

Overall conclusion

The SWW Board can confirm that in their opinion:

- the wholesale and end-user charges and charges schemes are consistent with SWW's legal obligations in relation to wholesale and end-user charges;
- the Board has carefully considered the impact of the new charges on customer bills for different customer groups and approves the impact assessments and handling strategies developed in instances where bill increases exceed 5%;
- the Board has satisfied itself that appropriate systems and processes are in place to ensure that the charges are accurate; and
- the Board considers that engagement was carried out with relevant stakeholders in a timely and effective manner, and is satisfied with this engagement.

The Board can therefore confirm that, in their opinion, the process that SWW has gone through in setting its wholesale charges for 2017/18 is sufficient to ensure that in all material aspects the Charges Scheme complies with the relevant legal obligations and is consistent with Ofwat's Wholesale Charging Rules and Charges Scheme Rules.

Name & Position	Signed
Sir John Parker Chairman	
Chris Loughlin Pennon Group Chief Executive	
Stephen Bird Managing Director	
Louise Rowe Finance Director	
Martin Angle Non-executive Director	
Neil Cooper Non-executive Director	
Martin Hagen Non-executive Director	
Gill Rider Non-executive Director	
Lord Taylor of Goss Moor Non-executive Director	