

## BOARD STATEMENT OF ASSURANCE FOR SOUTH WEST WATER AND BOURNEMOUTH WATER 2017/18 WHOLESALE INDICATIVE TARIFFS

The South West Water (SWW) Board of Directors publishes this Board Assurance Statement confirming that SWW's and Bournemouth Water's (BW) wholesale indicative charges are compliant with SWW's and BW's legal obligations and consistent with Ofwat's charging rules.

In approving the 2017/18 SWW and BW indicative charges, and reflecting Ofwat's requirements,<sup>1</sup> the SWW Board has considered:

- legal obligations related to wholesale charges;
- the effects of the proposed charges on customers and any relevant impact assessments;
- the systems and processes in place to ensure that the charges published are accurate and consistent with Ofwat's PR14 final determination; and
- the stakeholder engagement that has been carried out in relation to the setting of these charges.

A summary of the evidence and overall conclusion that the SWW Board has considered in relation to each of these four elements is provided below.

### *Legal obligations*

SWW and BW have a series of legal obligations that they must meet, of which a number relate to how wholesale charges are set. For example, SWW and BW must comply with Ofwat's PR14 price determination (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 BW and in particular Chapters I and II.

SWW engaged independent auditors and economic consultants to review its calculation of wholesale charges, with the specific objective of ensuring that the charges were consistent with the PR14 price determination and SWW's and BW's legal obligations more broadly. The Board has reviewed the reports that these independent third parties 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. SWW's Board is also aware that SWW and BW are 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 Board has reviewed SWW's and BW's bill impact analysis, and understands that some of the tariff increases resulting from the 2017/18 wholesale charges exceed 5%, and SWW

---

<sup>1</sup> IN 16/02 and draft requirements laid out in Ofwat's Consultation on Wholesale Charges Rules

and BW were therefore required to carry out a detailed impact assessment of those increases. The Board has reviewed the impact assessments that have been prepared to analyse the bill impacts, and the strategies for handling those impacts.

#### *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. 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 (i.e. auditors, engineering consultants, and economic consultants) 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 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. If companies are proposing significant changes to wholesale charges, companies are separately required to notify stakeholders of these changes six months before final charges are published, and issue a statement of significant change three months before the final charges are published.

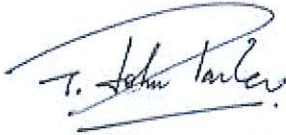
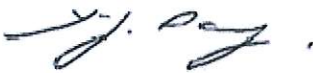
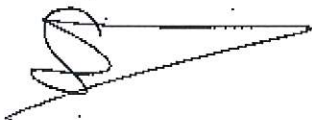
No significant changes were proposed in the 2017/18 indicative wholesale charges, and so there was no additional documentation specifically in relation to significant changes for the SWW Board to review. Engagement will continue until the publication of final wholesale tariffs.

#### *Overall conclusion*

The SWW Board can confirm that in their opinion:

- the indicative wholesale charges are consistent with legal obligations in relation to wholesale charges;
- the Board has carefully considered the impact of the new 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.

The Board can therefore confirm that, in their opinion, the process that SWW and BW has gone through in setting its indicative wholesale charges for 2017/18 is sufficient to ensure that in all material aspects they comply with the relevant legal obligations and are consistent with Ofwat's wholesale charging rules.

<b>Signed</b>	<b>Name</b>	<b>Position</b>
	Sir John Parker	Pennon Chairman (Non-Executive Director)
	Susan Davy	Pennon Group Chief Financial Officer
	Dr Stephen Bird	South West Water Managing Director