

south east water

Wholesale Non-Household  
Indicative Charges Board  
Assurance Statement

**October 2017**



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# Wholesale non-household indicative 2018-19 charges board assurance statement

October 2017

## 1. Introduction

As Directors of South East Water we recognise that it is our responsibility to provide strategic leadership and to promote good corporate governance within a framework of effective controls, enabling compliance with our obligations and the management of risks.

In this statement we describe the systems of internal control we operate to ensure that our indicative charges are accurate and provide a reliable indication of our final wholesale charges for 2018-19 to all market participants.

We have relied on comprehensive and transparent controls and assurance mechanisms which set out clear accountability for setting our charges. The data and assumptions used and our charging model have been thoroughly reviewed internally and externally.

This enables us to have a high degree of confidence in the information presented in this statement and in our wholesale non-household indicative charges for 2018-19.

## 2. Internal governance and assurance

We have established a strong governance and management framework ensuring statutory requirements are met and that the data we publish is robust and of a high quality.

A specific governance and assurance process was put in place by the Board for the preparation of our indicative charges supplementing the well-established systems of internal control already in place followed for all regulatory submissions and customer focused publications.

This process incorporated oversight by the Board, the Chair of the Audit and Risk Committee and review and approval by Senior Management and the Executive Directors.

### 3. External assurance

In addition to the internal assurance undertaken the Board has also obtained external assurance from Frontier Economics.

Specifically, Frontier Economics was asked to review the tariff model calculations and functionality, and to assess compliance against our price controls' determinations and charging rules. For wholesale non-household indicative charges, Frontier Economics has also ensured all key metrics used for modelling are appropriate and referenced.

They produced a detailed assurance statement, which concluded:

*“Frontier Economics has reviewed the calculations in the tariff models and received clarifications from the tariff team at South East Water. The review has identified no material issues with the calculations or modelling and the approach adopted by South East Water in the model is transparent and reasonable. South East Water has produced wholesale non-household indicative charges that enables tariffs to be calculated that are compliant with the wholesale revenue target set by Ofwat for 2018-19.*

*South East Water has applied a revenue deferral for the wholesale control and the rationale for this is to balance the objective of achieving the determination against the objective of a smooth profile for customer bills. We consider that it is reasonable for South East Water to seek to balance these objectives in this manner.*

*Our review of the tariffs across customer types does not identify any specific concerns in relation to the principle of no undue preference or discrimination and the proposed tariff structures do not raise any obvious concerns in relation to the economic principles that underpin competition law. Open Water costs are recovered through non-household wholesale charges, which is in line with Ofwat's requirements.”*

### 4. External engagement

- [Charges schemes and tariff documents](#)

In developing our wholesale non-household indicative charges for 2018/19 we have engaged with the Consumer Council for Water and the Chair of the Customer Challenge Group. All recommendations have been included and no outstanding issues remain.

- Bill impact assessment

In order to assess bill stability we have calculated the changes in bills between 2017-18 and 2018-19 over a wide range of bill types and confirmed all increases as a consequence of tariff increases are below 5%. To help maintain the stability of bills for customers the Board has chosen to defer £3.0m of the revenue allowance from 2018-19, whilst also continuing to defer £5.9m relating to a revenue shortfall in previous years.

In addition to existing tariffs our intention is to introduce a new methodology for the calculation of wholesale non-household assessed charges as of 1 April 2018. We also propose to progressively replace existing non-household rateable value charges with the new assessed charges from April 2018.

Our published statement of significant change relating to our revised wholesale non-household assessed charges, and published alongside this board assurance statement, provides details of the expected change, how water supply licensees and their customers are likely to be affected by it and relevant handling strategies that may be adopted in relation to this new charging methodology.

This change in the methodology relates specifically to the assessment of the consumption at relevant non-household premises. The volumetric rate that will be applied will be same as the volumetric rate for metered charges.

We have recognised that in certain cases the revised assessment of consumption applying the new methodology may result in increases in charges to retailers and their non-household customers for particular premises. Some of these increases could be in excess of 5% when compared with wholesale charges and end-user bills based on the previous method of assessing consumption. However, it will only be possible to determine which premises and end-user customers may be so affected once the initial reassessment of consumption has been completed applying the new methodology.

We have consulted with retailers, wholesalers, CCW and other stakeholders on our proposal and in particular on handling strategies and have revised our proposals to take account of their comments.

In response CCW and Southern Water have both expressed concerns that re-assessment of consumption could lead to increases in charges exceeding 5%. Following this feedback we have extended the range of our proposed handling strategies in cases where increases in charges to retailers or their non-household customers would exceed 5% for particular premises.



These strategies are set out in our separate statement of significant change document and include:

- 1) individual assessment of the consumption on the premises;
- 2) meter installation where feasible;
- 3) provision of water efficiency advice and re-assessment of the consumption to take account of savings achieved; and
- 4) offer of phasing relief where increases are greater than 5%.

We will continue our engagement with CCW and Southern Water and other stakeholders until we publish our final charges and final handling strategies in January 2018.

## 5. Board statement

For the preparation of this statement we have considered compliance with our statutory, regulatory and licence obligations relating more specifically to setting indicative wholesale charges.

Our governance and oversight processes and our review of our wholesale indicative charges and of our statement of significant changes have not identified any material deviation from or non-compliance with these obligations and to the best of the Board's knowledge after reasonable enquiries the company has complied in all material respects with these obligations and the company is taking appropriate steps to ensure compliance and manage and/or mitigate the relevant risks.

In order to assess bill stability we have calculated the changes in bills between 2017/18 and 2018/19 over a wide range of bill types and confirmed all increases are below five per cent.

Based on the scope and outcome of the process review detailed in this statement and the engagement with the Customer Council for Water and the Chair of the Customer Challenge Group, the Board is able to confirm that:

- (a) The company complies with its legal obligations relating to the indicative wholesale charges it has published;
- (b) The Board has assessed the effects of the new 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 a whole or in

groups) and approves the impact assessments and handling strategies developed in instances where bill increases for licensees (as a whole or in groups) who are retailing wholesale services to eligible customers and on customers occupying eligible premises (as a whole or in groups) exceed 5%;

- (c) The company has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published about its indicative wholesale charges is accurate; and
- (d) The company has consulted with relevant stakeholders in a timely and effective manner on its indicative wholesale charges.

Signed on behalf of the Board by:



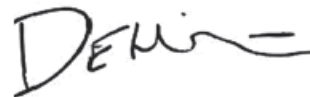
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