

south east water

Wholesale Non-Household Indicative Charges Board Assurance Statement

October 2019

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Wholesale non-household indicative 2020-21 charges board assurance statement

October 2019

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 2020-21 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 2020-21.

Indicative charges have been developed based on required revenue from our draft determination response. We will update as appropriate for our final charges using revenue requirement as outlined in the Final Determination (due in December 2019).

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 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 and charging rules. For indicative charges Frontier Economics has also ensured all key metrics used within for modelling are appropriate and referenced.

They produced a detailed assurance statement, which concluded:

“Frontier Economics has reviewed the calculations in the 2020/21 tariff model. The review did not identify any issues with the calculations or modelling, and the approach adopted by South East Water in the model remains transparent and reasonable. South East Water has produced wholesale indicative charges that enables tariffs to be calculated that are compliant with the wholesale revenue target for the year. Given that the Final Determination from Ofwat has not yet been published South East Water has set the revenue target based on its response to the Draft Determination.

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.”

4. External engagement

In developing our wholesale charges for 2020-21 we have engaged with the Consumer Council for Water and we have presented and discussed our proposed charges at our retailers' open day.

In order to assess bill stability we have calculated the changes in bills between 2019-20 and 2020-21 over a wide range of bill types and confirmed all increases as a consequence of tariff increases are below 5%.

Indicative charges have been developed based on required revenue from our draft determination response. We will update as appropriate for our final charges using revenue requirement as outlined in the Final Determination (due in December 2019).

5. Board statement

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

Our governance and oversight processes and our review of our indicative charges 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.

Based on the scope and outcome of the process review detailed in this statement and the engagement described above, 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:



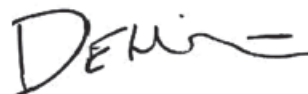
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