



Charges Scheme Charges 2019/20

Assurance Statements

Publication Date: 1 February 2019



1. Introduction

The Board and Audit Committee of Affinity Water Limited (the “Company”) have overseen the preparation of the Affinity Water Charges Scheme 2019/20 (the “Charges Scheme”). Because of the timing of publication of the Charges Scheme in relation to scheduled meetings of the Board, the Board established a committee which included executive and independent non-executive directors to act on behalf of the full Board to review the preparation of the Charges Scheme and the assurance provided by internal and external assurance providers.

The Board committee on behalf of the Board has:

- reviewed the requirements published in “Information Notice 18/18”, setting out Ofwat’s expectations for charges schemes for 2019/20;
- considered the requirements of Ofwat’s Charges Scheme Rules;
- considered the actions undertaken by management to prepare our Charges Scheme to meet these requirements;
- reviewed the processes established to provide assurance that the Company complies with its legal obligations relating to the Charges Scheme and assurance reports provided by internal and external assurance providers;
- assessed the effects the charges will have on customers’ bills for a range of different customer types and noted that there are no instances where charge increases will exceed 5%; and
- endorsed the statement of our compliance with the Charges Scheme Rules included at Appendix 2 of this publication.

2. Board Assurance Statement

The Board of Affinity Water Limited, through a duly constituted sub-committee, having made due enquiry of management and having considered reports from internal and external assurance providers confirms, to the best of its knowledge, that:

- (a) the Company complies with its legal obligations relating to the charges set out in its charges scheme;
- (b) it has assessed the effects of the new charges on customers’ bills for a range of different customer types, and approves the impact assessments and handling strategies developed in instances where bill increases for particular customer types exceed 5%;
- (c) the Company has appropriate systems and processes in place to make sure that the information contained in the charges scheme, and the additional information covered by this annex is accurate; and
- (d) the Company has consulted the Consumer Council for Water (CCWater) in a timely and effective manner on its charges scheme.

Patrick O’D Bourke

A handwritten signature in blue ink that reads "Patrick Bourke".

**Independent Non-Executive Director
On behalf of the Board**

1 February 2019

Appendix 1

Expected Water Bill Changes 2019/20 – End Customer Charges

Typical Customer	2018-19 Bill	2019-20 Bill	Variance (%)
Average Household Measured Customer (Central Region)	150.91	152.61	1.1%
Average Household Measured Customer (Southeast Region)	206.76	209.05	1.1%
Average Household Measured Customer (East Region)	168.89	170.79	1.1%
Average Household Unmeasured Customer (Rickmansworth Region)	187.43	187.31	-0.1%
Average Household Unmeasured Customer (Colne Region)	208.67	208.50	-0.1%
Average Household Unmeasured Customer (Lee Region)	226.55	226.37	-0.1%
Average Household Unmeasured Customer (North Surrey Region)	195.62	195.47	-0.1%
Average Household Unmeasured Customer (East Region)	240.46	240.27	-0.1%
Average Household Unmeasured Customer (Saffron Walden Region)	200.57	200.42	-0.1%
Social tariff Central & East Region	97.50	100.60	3.2%
Social tariff Southeast Region	97.50	100.60	3.2%
Household Measured Customer Low consumption 65m ³ /year Central Region	95.80	96.90	1.1%
Household Measured Customer Low consumption 42m ³ /year East Region	100.23	101.38	1.1%
Household Measured Customer Low consumption 65m ³ /year Southeast Region	146.92	148.56	1.1%
Household Measured Customer High consumption 300m ³ /year Central Region	341.07	344.85	1.1%
Household Measured Customer High consumption 225m ³ /year East Region	415.14	419.73	1.1%
Household Measured Customer High consumption 300m ³ /year Southeast Region	576.99	583.26	1.1%
Household Assessed 1 occupier (Central Region)	95.80	96.90	1.1%
Household Assessed 2 occupiers (Central Region)	148.00	149.70	1.1%
Household Assessed 3 occupiers (Central Region)	204.30	206.60	1.1%
Household Assessed 4 or more occupiers (Central Region)	260.70	263.60	1.1%
Household Assessed 1 occupier (East Region)	100.50	101.40	0.9%
Household Assessed 2 occupiers (East Region)	162.20	164.00	1.1%
Household Assessed 3 occupiers (East Region)	225.90	228.40	1.1%
Household Assessed 4 or more occupiers (East Region)	318.80	322.30	1.1%
Household Assessed 1 occupier (Southeast Region)	146.90	148.60	1.2%
Household Assessed 2 occupiers (Southeast Region)	238.40	241.00	1.1%
Household Assessed 3 occupiers (Southeast Region)	337.20	340.90	1.1%
Household Assessed 4 or more occupiers (Southeast Region)	436.10	440.80	1.1%
WaterSure customer (Central & Saffron Walden Region)	175.56	173.28	-1.3%
WaterSure customer (Southeast Region)	208.92	210.60	0.8%
WaterSure customer (East Region)	175.56	181.68	3.5%

Note: End customer bills calculated by assuming a constant level of consumption across years

Appendix 2
Affinity Water Limited
Statement of Compliance with Charges Scheme Rules

Rule No.	Charges Scheme Rule	Our Compliance
Rules 1 to 6	Introduction and Interpretation	Not applicable.
Consumer Council for Water		
Rule 7	Before making a charges scheme a relevant undertaker must consult the Consumer Council for Water about its proposed scheme in a timely and effective manner.	<p>Our process each year is to start with the previous year's charges scheme, upon which we would have consulted CCWater and to consult on any proposed changes from one year to the next.</p> <p>We met with CCWater in July 2018, at the time that we published indicative wholesale charges, to give early indications of the tariff changes for 2019/20 and any implications for the forthcoming charges scheme.</p> <p>During the ensuing consultation process we discussed our charging proposals and how these would affect different groups of customers. Following publication of the November 2018 RPI we confirmed to CCWater there were no changes that would result in a water bill increase of more than 5%.</p>
Bill stability		
Rule 8	Undertakers should carry out a proportionate impact assessment whenever the nominal value of bills for a given customer type (assuming a constant level of consumption) is expected to increase by more than 5% from the previous year.	We have not undertaken a proportionate impact assessment as the nominal value of bills will not increase by more than 5% from the previous year.
Publication		
Rule 9	Charges schemes must be published no later than the first working day of the February immediately preceding the Charging Year in relation to which they have effect.	Our Charges Scheme is published on our website on 1 February 2019.
Rule 10	Charges schemes must be published on a relevant undertaker's website and in such other manner as the undertaker considers appropriate for the purpose of bringing it to the attention of persons likely to be affected by it.	Our Charges Scheme is published on our website on 1 February 2019 and the final version shared with CCWater.

Rule No.	Charges Scheme Rule	Our Compliance
Rule 11	Where a relevant undertaker has published or fixed standard charges otherwise than under a charges scheme for any services provided by that undertaker, charges schemes must state how customers may obtain a copy of such charges and, if applicable, where on a relevant undertaker's website those charges may be found.	Not applicable.
Principles for determining the amounts of charges		
Rule 12	Consistent principles and approaches must be applied to the calculation of charges for different classes of customers.	<p>We promote use of consistent principles and methodologies for setting charges by following a written charges setting procedure that includes for example:</p> <ul style="list-style-type: none"> • details of relevant internal charging policies; and • how we operate charging methodologies, such as the tariff differential. <p>By adhering to the procedure, we promote consistency in our approach to charges as between different classes of customer and also consistency year on year.</p>
Rule 13	Charging structures must reflect the long run costs associated with providing the relevant service.	<p>The majority of our end user tariffs consist of two-part tariffs with a fixed annual charge and a volumetric rate. Our tariffs are differentiated geographically, reflecting the creation of Affinity Water from 3 predecessor companies. Unmeasured charges based on rateable value are further differentiated geographically within our Central Region reflecting the creation of Three Valleys Water from 4 predecessor companies.</p> <p>We set the fixed annual charge to reflect the annualised costs of the use of assets that are local to and used only by the specific customer. The remaining supply costs are recovered through the volumetric rate.</p>
Rule 14	Charges for services provided to domestic premises must be fixed so that the average difference between metered charges and unmetered charges only reflects any differences in the costs of, and the additional benefits of, the provision of one service relative to the other.	<p>We set the fixed annual charge to reflect the annualised costs of provision and maintenance of the meter asset and meter space over its asset life, so that measured customers' fixed charges reflect the use of assets that are local to and used only by them.</p> <p>A significant number of household customers remain on unmeasured charging. We take measures to ensure that unmeasured tariffs on average are reflective of the volumes of water used by unmeasured customers in aggregate, principally through our application of the</p>

Rule No.	Charges Scheme Rule	Our Compliance
		tariff differential rule. In this way, we achieve cost reflective balance between measured and unmeasured charges.
Rule 15	Differences between charges for services provided to larger users of water and charges for services provided to smaller users of water must only be based on cost differences associated with differential use of network assets, differential peaking characteristics, different service levels and/or different service measurement accuracy.	We confirm that we have based our mid-user and large-user wholesale tariffs that are available to water supply licensees, based on our assessments of the cost differences associated with the avoided use of network assets by these retailers' customers. By doing so, our tariffs for household customers reflect the cost differences of supplies to such customers.
Rule 16	Where cost differences associated with differential peaking characteristics are used as a basis for differences between charges for services provided to larger users of water and charges for services provided to smaller users of water, the charges fixed on that basis must be structured on an appropriate peak demand basis.	We do not have different tariffs for services provided at times of peak demand for water.
Rule 17	Rule not applicable to Affinity Water Limited	Not applicable
Assessed charges		
Rule 18	<p>Charges schemes must allow a customer to choose to pay an assessed charge determined in accordance with this rule in the specified circumstances:</p> <p>(a) The type and amount(s) of an assessed charge must be determined in accordance with the following principles:</p> <ul style="list-style-type: none"> (i) assessed charges should, as closely as practicable, reflect the metered charges that would apply in relation to the volume of water that is likely to be supplied; and (ii) the amount of an assessed charge payable by an individual who is the sole occupier of domestic premises (a single occupier assessed charge) should reflect the volume of water that is likely to be supplied to domestic premises occupied by one individual in the relevant area. <p>(b) The specified circumstances for the purposes of this rule are where a water undertaker has received a measured charges notice in accordance with section 144A of the Water Industry Act 1991 but was not obliged to give effect to it because:</p> <ul style="list-style-type: none"> (i) it is not reasonably practicable to fix charges in respect of the premises by reference to the volume of water supplied; or 	<p>Our Charges Scheme provides that a customer may choose to pay an assessed charge where we are unable to install a meter in these specified circumstances.</p> <p>The assessed charge is determined by the number of people living in the premises to reflect the metered charges that would apply in relation to the volume of water that is likely to be supplied.</p> <p>See Section 6.3 of our Charges Scheme.</p>

Rule No.	Charges Scheme Rule	Our Compliance
	(ii) to do so would involve the incurring by the undertaker of unreasonable expense.	
Unmetered charges		
Rule 19	<p>Charges schemes that include any unmetered charges must clearly state the basis on which those charges are fixed or determined and, in the case of rateable value charges, state:</p> <p>(a) which rating valuation list charges are fixed or determined by reference to; and</p> <p>(b) if the undertaker uses a different value or other amount to that specified in such a list, the methodology or other basis on which that different value or other amount is calculated.</p>	<p>Our Charges Scheme sets out the basis on which we charge a customer using a rateable value charge.</p> <p>The rateable value of the premises is determined by reference to the value shown in the rating valuation list 31 March 1990 or a notional value assigned by us. We assign notional rateable values having regard to the rateable values of similar premises appearing in the rating list, taking account of customer representations.</p> <p>See Section 7.2 of our Charges Scheme.</p>
Wastewater charges, Trade effluent		
Rules 20 to 22	Rules not applicable to Affinity Water Limited	Not applicable
Social tariffs, concessionary drainage		
Rule 23	<p>Charges schemes must state:</p> <p>(a) whether or not undertakers have decided to include in the charges scheme:</p> <p>(i) [Rule not applicable to Affinity Water Limited]</p> <p>(ii) provision designed to reduce charges for individuals who would have difficulty paying in full (having had regard to any guidance issued by the Minister under section 44 of the Flood and Water Management Act 2010); and</p> <p>(b) if any such provision is included, how eligible customers can apply for such reduced charges.</p>	<p>Our Charges Scheme includes a concessionary tariff pursuant to this provision and sets out how eligibility and how eligible customers can apply.</p> <p>See Section 8 of our Charges Scheme.</p>
Times and methods of payment		
Rule 24	Charges schemes must include provisions giving customers a reasonable choice as to the times and methods of payment of the charges fixed by the scheme.	<p>Our Charges Scheme sets out the methods and payment terms and times of payment.</p> <p>See Section 9 of our Charges Scheme.</p>
New appointees		

Rule No.	Charges Scheme Rule	Our Compliance
Rule 25	Rule not applicable to Affinity Water Limited	Not applicable
Infrastructure charges (English undertakers)		
Rule 26	Each relevant undertaker whose area is wholly or mainly in England must fix Infrastructure Charges in a charges scheme.	<p>Our Charges Scheme fixes the infrastructure charges payable when new premises are connected to our water supply system.</p> <p>See Section 11 of our Charges Scheme.</p>
Rule 27	<p>Infrastructure Charges must be determined in accordance with the principle that the charges should reflect:</p> <ul style="list-style-type: none"> (a) fairness and affordability; (b) environmental protection; (c) stability and predictability; and (d) transparency and customer-focused service. 	<p>Infrastructure Charges for 2019/20 will be levied in the same way as Infrastructure Charges were levied in 2017/18 and 2018/19.</p> <p>Although Licence Condition C ceased to have effect on 1 April 2018 (and there is therefore no longer a cap on such charges), for 2018/19 we applied the RPI increase that would otherwise have applied. For 2019/20 we are keeping the water infrastructure charge at £375 per connection, maintaining stability and predictably. Taking account of the overall costs of developing a new property, we consider the charge to be affordable.</p> <p>For 2018/19, we considered setting a lower infrastructure charge for new dwellings for which a water efficiency target of 110 litres per person per day applies under Building Regulations to incentivise developers in this regard but determined there was insufficient evidence to confirm that where dwellings are constructed to this standard, such reduced levels of consumption are met and sustained. We have not changed our approach for 2019/20 but continue to keep this under review.</p>
Rule 28	Infrastructure Charges must be determined in accordance with the principle that the amount of such charges will over each period of five consecutive Charging Years ending on 31 March 2023 and, thereafter, on 31 March in each subsequent year cover the costs of Network Reinforcement that the relevant undertaker reasonably incurs, less any other amounts that the relevant undertaker receives for Network Reinforcement.	It was our practice for a number of years up to and including 2017/18 when calculating contributions payable by developers under Section 42 of the Water Industry Act 1991 to net off anticipated infrastructure charges from the development against network reinforcement costs otherwise recoverable under Section 42. Contributions to Network Reinforcement costs were therefore only made by developers where

Rule No.	Charges Scheme Rule	Our Compliance
		<p>the anticipated infrastructure charges did not exceed the costs of Network Reinforcement.</p> <p>We therefore consider it appropriate to continue to set infrastructure charges at the level that would have applied had Licence Condition C not been disapplied from 1 April 2018. The number of new connections each year can vary considerably but our forecasts indicate it is not unreasonable to expect that maintaining the infrastructure charge at £375 for 2019/20 will facilitate the recovery of the costs of Network Reinforcement for the five-year period ending 31 March 2024.</p> <p>We will keep our forecasts of the number of new connections and the amount of the water infrastructure charge under review to ensure the water infrastructure charge remains consistent with this principle.</p>
Rule 29	Charges schemes must include a clear methodology explaining how Infrastructure Charges have been calculated.	The Charges Scheme adopts the same methodology for calculating infrastructure charges as is specified by Licence Condition C.
Rule 30	<p>For the avoidance of doubt, Infrastructure Charges must not relate to the costs of reinforcing, upgrading or otherwise modifying existing network infrastructure in order to address pre-existing deficiencies in capacity or in capability unrelated:</p> <p>(a) to the provision of a new water main or public sewer pursuant to an agreement with, or a duty owed under the Water Industry Act 1991 to, a person other than a relevant undertaker (including, but not limited to, the provision of a new water main or public sewer pursuant to a requisition under sections 41(1) or 98(1), a section 66D agreement or a section 117E agreement);</p> <p>(b) to the adoption of infrastructure under a section 51A or 104 agreement; or</p> <p>(c) to connections described in section 146(2) of the Water Industry Act 1991.</p>	This is reflected in Section 11.1 of our Charges Scheme.
Rule 31	Infrastructure Charges may be set as a fixed charge per connection or calculated in accordance with a formula. As long as the difference between amounts is cost-reflective, the amounts of Infrastructure Charges may vary to reflect different circumstances and, in particular, may be different for different geographical areas.	The Charges Scheme adopts the same methodology for calculating infrastructure charges as is currently specified by Licence Condition C.

Rule No.	Charges Scheme Rule	Our Compliance
		The amount of Infrastructure Charges payable does not vary in different geographical areas.
Rule 32	<p>In making charges schemes, each relevant undertaker must ensure that:</p> <ul style="list-style-type: none"> (a) Charges schemes clearly set out how Infrastructure Charges have been calculated; (b) The amount of Infrastructure Charges applied in respect of the modification or redevelopment of existing buildings or premises is determined in accordance with the principle that the amount must take due account of any previous usage in the 5 years before the modification or redevelopment began (including supplies of water that were not for domestic purposes and drainage that was not for domestic sewerage purposes) associated with the buildings and/or premises to which the charges are to be applied and be discounted accordingly; and (c) Charges schemes clearly explain the methodology to be applied for determining a discount to reflect previous usage. 	<p>We have continued to use the same methodology for the calculation of infrastructure charges as is currently set out in Licence Condition C. This includes provisions to take account of previous usage in the five years before the redevelopment occurred and a methodology for determining how such previous usage is reflected.</p> <p>See Sections 11.4 to 11.6 of our Charges Scheme.</p>
Rule 33	<p>Rules 26 to 32 above do not apply to:</p> <ul style="list-style-type: none"> (a) new appointees; or (b) any charges scheme that has effect in relation to a period ending before 1 April 2018. 	Noted.

Annex: Information requirements		
A1	Each undertaker should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statement no later than the time of publication of the charges schemes confirming that:	Our Board has provided this statement of assurance on page 1 of this publication.
	(a) the company complies with its legal obligations relating to the charges set out in its charges schemes;	<p>Our end user charges 2019/20 have been calculated in compliance with the wholesale and retail price controls set at PR14.</p> <p>In so doing, we have taken into account the requirements of Condition E of our instrument of appointment (Prohibition on Undue Discrimination and Undue Preference and Information on charges).</p> <p>These statements are supported by the systems and processes and associated assurance described against component (c) of our assurance statement below.</p> <p>It should be noted however it is not possible to provide absolute assurance that all end user charges are cost-reflective given the historical geographical cross-subsidisation of tariffs for unmetered water supplies.</p> <p>This statement itself sets out how we comply with Ofwat's Charges Scheme Rules dated 20 December 2018.</p> <p>Our Legal Team has reviewed the Charges Scheme against legal and regulatory requirements for charges schemes.</p>
	(b) the Board has assessed the effects of the new charges on customers' bills for a range of different customer types, and approves the impact assessments and handling strategies developed in instances where bill increases for particular customer types exceed 5%;	<p>The Board has assessed the effects of the new charges on customers' bills for more than 30 types of typical customer, differentiated according to factors including the following:</p> <ul style="list-style-type: none"> • Geographical location • Charging method - measured / unmeasured / assessed • Consumption band - average, low and high consumption • WaterSure and Social Tariff customers

Annex: Information requirements		
		<p>A summary of the expected bill changes is set out in Appendix 1.</p> <p>Based on this analysis, we confirm that we do not expect there to be any water bill increases of more than 5% from the previous year for any given customer type, assuming a constant level of consumption.</p> <p>We published separately on 11 January 2019 a Statement of Significant Changes to Charges Scheme Charges.</p>
	<p>(c) the company has appropriate systems and processes in place to make sure that the information contained in the charges scheme, and the additional information covered by this annex is accurate; and</p>	<p>We have an established, robust system for managing all data required to provide end customer charges. Our financial models have been developed by our Senior Regulatory Economist and assessed, reviewed and challenged to ensure that they meet requirements and are compliant with revenue controls which form the basis of these charges.</p> <p>Atkins Limited has reported on the processes that have been used to derive the base customer information and charge multipliers that have been used to compute charges.</p> <p>Our Auditor (PricewaterhouseCoopers LLP) has reported on our revenue calculations, our computations of the final determination and our performance against the wholesale and retail revenue limits.</p> <p>Our Internal Audit Team has reported on the policies, procedures and processes used for the production of our end user tariffs and charges for 2019/2020</p> <p>Our Senior Regulatory Economist, Director of Legal and Director of Regulation & Corporate Affairs have reported on the compliance of the Company's End Customer charges with each of Ofwat's charging principles and guidelines and the engagement undertaken with the Consumer Council for Water.</p>
	<p>(d) the company has consulted the Consumer Council for Water (CCWater) in a timely and effective manner on its charges schemes.</p>	<p>Our process each year is to start with the previous year's charges scheme, upon which we would have</p>

Annex: Information requirements		
		<p>consulted CCWater and to consult on any proposed changes from one year to the next.</p> <p>We met with CCWater in July 2018, at the time that we published indicative wholesale charges, to give early indications of the tariff changes for 2019/20 and any implications for the forthcoming charges scheme.</p> <p>During the ensuing consultation process we discussed our charging proposals and how these would affect different groups of customers. Following publication of the November 2018 RPI we confirmed to CCWater there were no changes that would result in a water bill increase of more than 5%.</p>
A2	<p>With the exception of new appointees, each undertaker should provide to the Water Services Regulation Authority a statement setting out any significant changes anticipated by the undertaker, and publish the statement, at least three weeks before the publication of the charges schemes. The statement should include the following.</p> <p>(a) Confirmation of whether the undertaker is expecting there to be any bill increases of more than 5% from the previous year (for a given customer type assuming a constant level of consumption) and, if such increases are expected:</p> <p>(i) what size increase is expected;</p> <p>(ii) which customer types are likely to be affected; and</p> <p>(iii) the handling strategies adopted by the company or why the company considered that no handling strategies are required.</p> <p>(b) Details of any significant changes in charging policy by the company from the previous year.</p>	<p>A statement of significant changes to charges scheme charges 2019/20 was published on 11 January 2018. Our Charges Scheme does not include any significant changes to charging policy from the previous year.</p>
A3	Requirement not applicable to Affinity Water Limited	Not applicable