

BOARD ASSURANCE STATEMENT

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

In approving the 2018/19 SWW and BW indicative charges, and reflecting Ofwat's requirements, the SWW Board has considered:

- SWW's 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 at SWW 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 that the SWW Board has considered in relation to each of these four elements is provided below, and SWW's overall conclusion is 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 charges are set. For example, SWW 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 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 legal obligations more broadly. The Board has reviewed the reports that these independent third parties prepared to present their findings on their review.

Effects of charges on customers

The Ofwat wholesale charging rules require the assurance process to include and 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 the company 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 Board has reviewed SWW's bill impact analysis, and understands that none of the bill increases resulting from the 2018/19 indicative wholesale charges exceed 5%. As a result, there was no requirement for SWW to carry out detailed impact assessments of the proposed 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. 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 an 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 review 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 2018/19 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.

WHOLESALE INDICATIVE TARIFFS

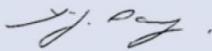
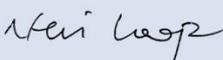
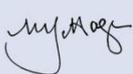


Overall conclusion

The SWW Board can confirm that in their opinion:

- The indicative wholesale charges are consistent with SWW's 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 has gone through in setting its indicative wholesale charges for 2018/19 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.

Name & Position	Signed
Sir John Parker Chairman	
Chris Loughlin Pennon Group Chief Executive	
Susan Davy Pennon Group Chief Financial Officer	
Stephen Bird Managing Director	
Louise Rowe Finance Director	
Martin Angle Non-executive Director	
Jon Butterworth 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	