

Indicative charges statement of assurance

Introduction

In February 2017, Dee Valley Water became part of the Severn Trent group. Earlier this year, Ofwat approval was received to align the boundaries of Severn Trent and Dee Valley Water to the national boundaries of Wales and England. In line with this approval, we launched our new name, Hafren Dyfrdwy on 1 July 2018. Hafren Dyfrdwy is Welsh for 'Severn Dee' and represents the two major rivers in the Welsh region that we proudly serve. We want to make our services as amazing as the water itself so we've come together to create something which will ensure all our customers in Wales can enjoy wonderful water for generations to come.

The purpose of this statement is to describe how we complied with relevant statutory, licence and regulatory obligations in the development of our indicative wholesale charges.

Ensuring trust, confidence and assurance

This statement has therefore been reviewed and completed with the recently established new independent Hafren Dyfrdwy Board on the basis of 1) the new controls that were introduced in, and evolved since, February 2017 as part of the Severn Trent Plc governance arrangements, and 2) the outcome of assurance activities undertaken during the development of the 2019/20 indicative charges.

Assurance

Over the last year, our governance structure has continued to evolve and we have recruited three independent non-executive directors for Hafren Dyfrdwy. We have also implemented the recognised standards of risk management, internal control and regulatory compliance monitoring used across the Severn Trent group.

In line with these processes, which include our risk-based three lines of defence assurance, we have engaged Jacobs Consulting to undertake external assurance. The outcome of assurance has been transparently reported to, and reviewed by, the relevant Executive Directors and Audit Committee prior to review and approval by the Hafren Dyfrdwy Board.

Given that this is a transitional year, and in light of the immaturity of some reporting procedures underpinning the submission, careful consideration has been given to the confidence that we have in the data underlying our charge calculations. Where possible we have used or adapted existing Severn Trent systems and processes. The Severn Trent approach to assurance is being implemented across a broader number of areas as we establish Hafren Dyfrdwy. This will be covered in our assurance plans for this year to be published in November 2018.

Following our own internal first and second lines of assurance, Jacobs followed its established three stage approach to assurance covering a desktop review of documentation, face to face meetings to review the documentation and a review of the forecast data. In summary Jacobs consider:

- *the company complies with its legal obligations relating to the wholesale charges it has published; and*
- *the company has appropriate systems and processes in place to make sure that the information published about its indicative wholesale charges is reasonable.*

Board considerations

In approving the 2019-20 Hafren Dyfrdwy Charges Schemes, the Board has considered:

- The information requirements as set out in Ofwat's Information Notice 17/09 (Information requirements on publication of indicative wholesale access charges) and Charges scheme rules July 2018.
- The 'statement of significant changes in our wholesale charges - 2019-20' as published on our website in July 2018.
- Papers outlining the Company's procedures for the production and assurance of the tariffs and associated Charges Schemes.
- The improvements being made to Hafren Dyfrdwy systems and processes, and the stage in the journey towards the full implementation of Severn Trent Group standards.
- The governance framework detailing the assurance approach adopted and the outcome of the independent review of the framework undertaken by Internal Audit.
- The clearly defined accountabilities and responsibilities including formal sign off by approved data owners.
- The scope of the assurance work undertaken by our independent Technical assurance partners, and their findings as detailed in the final audit reports.
- Confirmation of the degree of assurance undertaken on the source information / data used in the tariff calculations.
- The dedicated and assured Charges model designed to deliver wholesale and retail tariffs.
- Confirmation that the tariffs have been calculated in a manner compliant with the individual price controls.
- The outcome of the discussions with CCWater regarding the indicative tariffs and evidence that any feedback has been duly taken into consideration.
- The content and tone of the Board Statement.

Board statement

Having considered the above the Board confirms that in their opinion:

- The tariffs and associated Charges Schemes have been compiled in a planned and professional manner with appropriate accountabilities and responsibilities and are consistent with the overriding system of governance and control of the company.
- A committee comprising of Executive and non-Executive Board members have been fully engaged in the process and have approved the final submission.
- The charges and tariffs for 2019-20 comply with the price controls in all material respects.

This endorsement can only apply to data supplied from our own systems. Where we use data from the Central Market Operator System, we do so on the basis that the market operator applies similar measures to ensure that their data meets Ofwat requirements.

Furthermore, the Board have considered the impact of charges on customer bills for different customer groups with appropriate tariff strategies and impact assessments where necessary. The assessments are informed by the level of RPI the indicative policy threshold of 5% and specific factors of the customer groups being considered. And the Board specifically confirms that:

- The Company has sufficient processes and internal systems of control to ensure that the data and information contained in the Charges Schemes and tariff model is sufficiently accurate to meet its obligations.
- For the sample reviewed there are no tariff rises above the 5% threshold that would require a further impact assessment.
- The wholesale charges have been presented in a suitable format consistent with the requirements of Ofwat's standard wholesale schedule template.
- Stakeholders (including CCWater) were consulted in a timely and effective manner.
- Where recommendations have been identified appropriate actions are in place to make improvements.

Accordingly, we believe that the 2019-20 Charges Schemes comply with our statutory and regulatory obligations in all material respects and are consistent with Ofwat's published guidance on charging principles.

Signed by, and on behalf of the Board:

Three handwritten signatures in black ink, arranged horizontally. The first signature is on the left, the second in the middle, and the third on the right.

Liv Garfield
Chief Executive
Hafren Dyfrdwy
2 October 2018

John Coghlan
Chairman
Hafren Dyfrdwy
2 October 2018

Ann Beynon
Non-Executive Director
Hafren Dyfrdwy
2 October 2018