

HOUSEHOLD CHARGES SCHEME 2019/20

Board Statement of Assurance

NORTHUMBRIAN WATER LIMITED

BOARD STATEMENT OF ASSURANCE FOR CHARGES SCHEME RULES 2019/20

The Northumbrian Water Limited (NWL) Board has overseen the development of the customer charges for 2019/20.

The latest charges scheme rules, issued under sections 143(6A) and 143B of the Water Industry Act 1991, were published by Ofwat in December 2018 and came into effect on 20 December 2018.

The charging scheme rules state that each undertaker should provide the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statements no later than the time of publication of the charges schemes confirming that:

- a) the company complies with its legal obligations relating to the charges set out in its charges schemes;
- 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%;
- 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 in the annex is accurate; and
- d) the company has consulted the Consumer Council for Water (CCWater) in a timely and effective manner on its charges schemes.

The purpose of this statement is to clearly state that NWL has satisfied these requirements.

Governance and Assurance

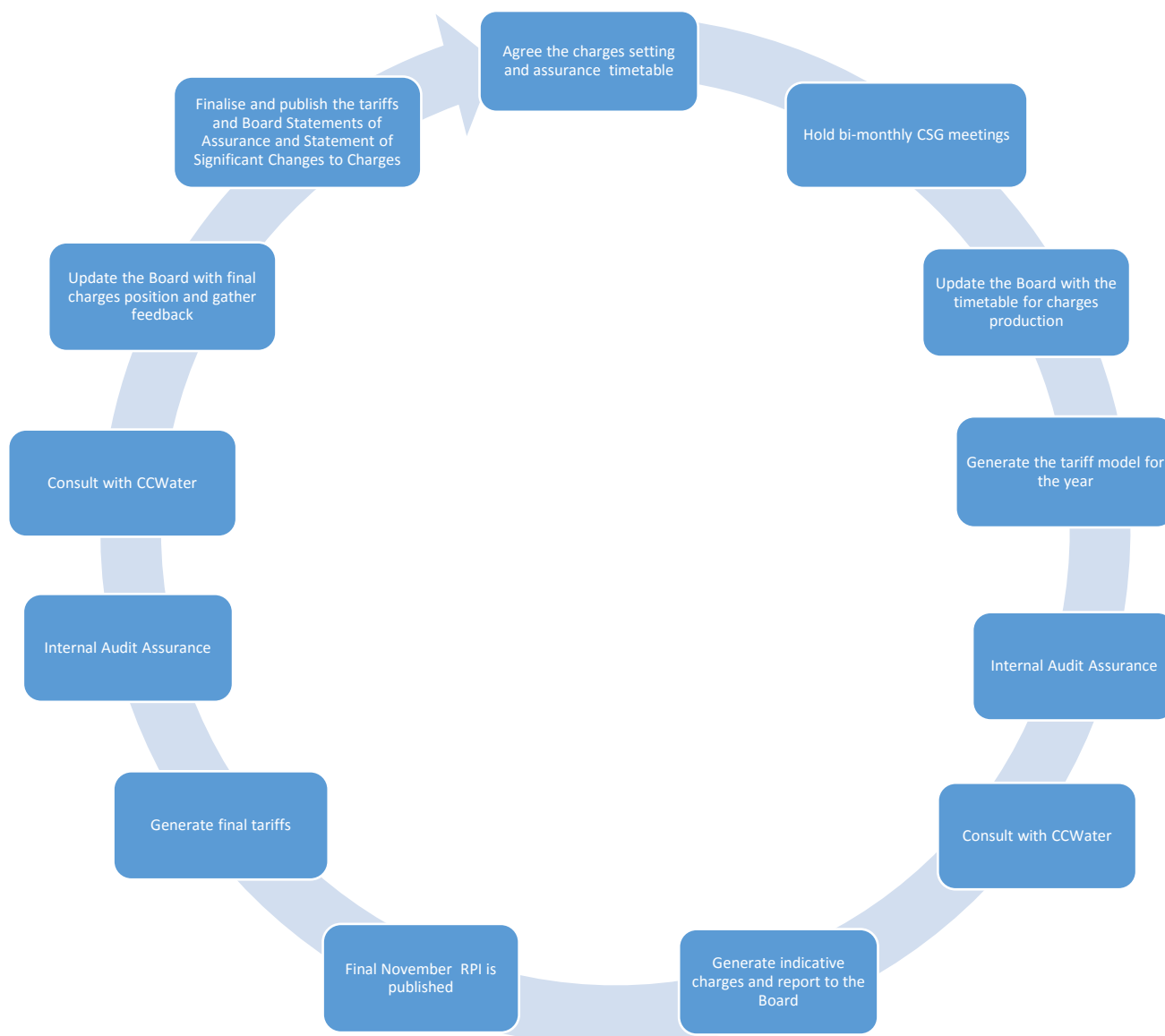
We closely monitor the rules published by Ofwat and ensure that all changes are incorporated into our charges schemes. In order to do this we have strong governance arrangements and assurance processes which have been applied to the development of these charges throughout the year, and are summarised below.

- A specific quality assurance procedure sets out the process to be followed in setting charges each year, and is reviewed annually to ensure that any necessary changes to the approval process are incorporated. This assurance builds on the work and recommendations previously carried out on our charges model by our external advisors.
- The NWL Internal Audit department has reviewed our assessment of compliance and confirmed that input data from Company systems and the calculation of allowed revenues are robust.
- NWL engaged an independent firm of accountants to test certain elements of the logical operation of the financial model used to generate proposed charges for 2019/20. There were no significant areas identified or changes to the model required.
- The Charges Steering Group (CSG) chaired by the Finance Director, comprising a sub-group of the Executive Leadership Team (ELT), including the Customer Director, the Assets and Assurance Director and the Corporate Affairs Director along with senior managers from various disciplines within the business, met several times in the year to discuss charging policy, strategy and governance. Any significant decisions and matters arising have been reported to the ELT and as required to the Board.
- We have consulted with CCWater on a number of occasions throughout the year regarding the charges setting process and the proposed charges themselves. We discussed plans for an additional social tariff and the research approach we were taking to this and we have shared our detailed charges to highlight the indicative and final charges position prior to final publication. CCWater did not highlight any areas of concern that would require us to change our processes or our assumptions for the charges for 2019/20.

More information on our overall Assurance Plan can be found at <https://www.nwl.co.uk/your-home/Assurance.aspx> and <https://www.eswater.co.uk/your-home/Assurance.aspx>.

Development of charges

We have a well-established timetable for the production and approval of our tariffs and charges schemes. The charges have been developed through the following process:



We have summarised below the areas we have covered through our CSG meetings and other significant meetings where charges are on the agenda:

February 2018

The CSG agreed the 2019/20 agenda items for consideration throughout the year and the assurance approach to be followed. Progress of the Developer Services charging review was discussed following the publication of the new Charging Arrangements. New Appointments and Variations (NAV) charging was also discussed and it was decided to publish a separate 'Bulk Charges for NAVs' document for transparency. A detailed update was given regarding the development of the non-household market and the operational effectiveness of our Wholesale Services.

A presentation was given to the CSG at a special meeting held solely to discuss our PR19 commitment relating to the eradication of water poverty including our roadmap as to how we would achieve this aspiration.

April 2018

The CSG discussed the non-household market and the number of meter reads that we are seeing in the market, this included Trade Effluent reads. This can impact on the correct assumptions within the

tariff model relating to billed volumes for example, so it was agreed that greater emphasis would be placed on trying to ensure the anticipated level of meter reads are being input to the Central Market Operating System (CMOS).

There was also a debate about the potential to bill retailers for consumption measured at vacant properties. This would give us greater control over leakage and is seen as a real positive step towards managing non-household leakage. The proposal was agreed and was highlighted in our statement of significant changes to charges in July.

June 2018

A Focus Tariff workshop was held with a sub-group of the CSG. It was agreed to review the current position relating to discounts for these tariffs and this was also highlighted in our statement of significant changes to charges in July, and subsequently this has been incorporated in our tariff model for the calculation of 2019/20 charges.

The final guidance for Bulk Charges to NAVs was issued by Ofwat, the CSG discussed the impact of this and a proposed way forward was agreed.

The CSG was presented with the Wholesale Revenue Forecasting Incentive Mechanism (WRFIM) position for the year ended 31 March 2018 and discussed how this impacts on the charges setting for 2019/20.

July 2018

The CSG approved the Statement of Significant Changes to Charges for publication.

August 2018

The CSG discussed the wholesale non-household charges structure. The inclusivity strategy was also discussed. A project was agreed to undertake a review of the vacancy status for non-household premises in the market.

The NWL Audit Committee, a sub-committee of the NWL Board Chaired by the Senior Non-executive Director, was given an indicative overview of potential charges for 2019/20. The Committee noted the governance and assurance processes for the setting of the 2019/20 charges will follow a similar approach to last year with the additional external assurance of the model. Additionally the Committee noted the draft indicative primary wholesale charges and household customer charges for 2019/20.

September 2018

An initial meeting was held with our CCWater reps to discuss the indicative charges for 2019/20. The discussions held included our position on WRFIM and if we were anticipating any increases greater than 5%. We also discussed the research regarding a proposed Pensioner Tariff following our PR19 customer engagement research.

The NWL Board was given an update as to the indicative charges for 2019/20. Delegated authority was given to the Finance Director to sign the Board Statement of Assurance and the final non-household primary charges to then be approved by an Executive Committee prior to publication.

The NWL Board approved the process to assure and publish the indicative primary wholesale charges for 2019/20 for non-household customers; noted the draft charges for 2019/20; and delegated authority to approve the final charges to the Executive Committee of the NWL Board, supported by the CSG.

October 2018

Further to discussions regarding NAV charging, a meeting was held with a NAV organisation to understand their position. This was helpful to both parties and we have taken on board the feedback from this session to build our final NAV charges.

The NWL Internal Audit team carried out a review of our allowed revenue and tariff model inputs for the 2019/20 charges, prior to publication of the indicative non-household charges. The report produced concluded that 'Overall, we found the main tariff model inputs along with the associated

source data was found to be materially correct. NWL's approach to the setting of tariffs remains consistent with the charges guidance prescribed by Ofwat'. This report was refreshed in January prior to the publication of our final charges.

December 2018

At the CSG the 'Water without the worry' campaign was discussed which incorporates our target to eradicate water poverty. We also discussed the initial research into an additional cross-subsidised Pensioner Tariff. This idea came from our customer engagement through the PR19 research so we are following this up with acceptability research with a view to including this in the 2019/20 charges. An update was also given following a meeting with CCWater where indicative charges were discussed.

January 2019

We discussed the final position on 2019/20 charges, including the increases for a range of customer types, with CCWater including the proposal for the new Pensioner Tariff cross-subsidy. The detailed research results were shared separately by our Research team. The full details of the Pensioner Tariff will be included in the Charges Schemes for 2019/20.

An Executive Committee of the NWL Board approved the final charges for 2019/20, the Statement of Significant Changes to Charges and the Board Statements of Assurance.

Summary

The strong governance and assurance arrangements that have been applied in the development of the charges provide the Board with a sound basis to confirm that:

- a) NWL's charges for 2019/20, as set out in its charges schemes, comply with our legal obligations;
- b) We have assessed the effects the new charges have on customers' bills for a range of different customer types and confirm that there are no instances where bill increases exceed 5%;
- c) NWL has appropriate systems and processes in place to make sure that the information contained in the charges schemes, and additional information, is accurate; and
- d) NWL has consulted CCWater on its charging schemes 2019/20 charges in a timely and effective manner.

Signed on behalf of the NORTHUMBRIAN WATER LIMITED Board














CHRIS JOHNS
Finance Director





















Appendix 1







SUMMARY OF HOUSEHOLD BILL INCREASES FOR 2019/20











The table below summarises the indicative household bill increases for 2019/20 for a typical range of household customer types (assuming a constant level of consumption). This includes measured customers and highlights indicative examples of low, average and high consumption customers. Our unmeasured examples use indicative low, average and high rateable values. We have also included the indicative bill increases for our assessed charges.

HOUSEHOLD EXAMPLE BILL INCREASES

NORTHUMBRIAN WATER - MEASURED CUSTOMERS			
 Low volume	 £1.31	 Low volume	 £2.05
 Average volume	 £3.08	 Average volume	 £4.12
 High volume	 £10.19	 High volume	 £12.39
WATER		SEWERAGE	
INCREASE		INCREASE	

NORTHUMBRIAN WATER - UNMEASURED CUSTOMERS			
 Low rateable value	 £3.61	 Low rateable value	 £8.60
 Average rateable value	 £4.83	 Average rateable value	 £11.04
 High rateable value	 £9.68	 High rateable value	 £20.82
 Assessed charge	 £2.95	 Assessed charge	 £4.13
 Assessed charge (single occupier)	 £1.85	 Assessed charge (single occupier)	 £3.53
WATER		SEWERAGE	
INCREASE		INCREASE	

ESSEX & SUFFOLK WATER - MEASURED CUSTOMERS	
 Low volume	 £2.35
 Average volume	 £4.92
 High volume	 £15.19
WATER	
INCREASE	

ESSEX & SUFFOLK WATER - UNMEASURED CUSTOMERS	
 Low rateable value	 £4.53
 Average rateable value	 £6.89
 High rateable value	 £16.35
 Assessed charge	 £4.30
 Assessed charge (single occupier)	 £2.70
WATER	
INCREASE	

KEY

 Water  Sewerage  Increase