

WHOLESALE CHARGES SCHEDULE 2023/24

Board Statement of Assurance

NORTHUMBRIAN WATER LIMITED
BOARD STATEMENT OF ASSURANCE FOR WHOLESALE CHARGES 2023/24

The Northumbrian Water Limited (NWL) Board has overseen the development of the wholesale charges for 2023/24.

The latest wholesale charging rules, issued under sections 66E and 117I of the Water Industry Act 1991, were last published by Ofwat in October 2021.

The wholesale charging rules state that each undertaker should publish an assurance statement no later than the time of publication of its wholesale charges confirming that, using the best available information available at this time:

- a) the company complies with its legal obligations relating to the 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 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 wholesale charges is accurate;
- d) the company has consulted with relevant stakeholders in a timely and effective manner on its wholesale charges; and
- e) where final wholesale charges are significantly different from the indicative wholesale charges published for the same period, the Board has considered the reasons why those changes occurred and has issued a statement explaining why those changes were not anticipated and/or mitigated. For these purposes 'indicative Wholesale Charges' means the information referred to in Annex A3 of the Wholesale Charging rules and charges are 'significantly different' if a reasonable person would consider the changes to be material.

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 publications. 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 confirmed that input data from Company systems and the calculation of allowed revenues are robust.
- NWL have previously engaged Ernst & Young LLP (EY) to perform testing of the logical operation of certain financial models prepared by, or on behalf of, NWL to generate its tariffs. The scope of EY's work was determined by NWL and EY is only responsible to NWL for their work. This model has been used to generate tariffs published for 2023/24.
- The Charging and Markets Leadership Group (CMLG) is a sub-group of the Executive Leadership Team (ELT) and has traditionally been convened to discuss charging issues and the annual charge setting process for NWL, this now takes a more explicit role in promoting and monitoring market arrangements across NWL. The CMLG is chaired by the Chief Financial Officer and includes the Customer Director, the Regulation & Assurance Director, the Corporate Affairs Director along with senior managers from various disciplines within the business. The group met several times in the year to discuss charging policy, external markets, strategy and governance. Any significant decisions and matters arising have been reported to the ELT and as required to the Board.
- NWL representatives attended the Ofwat workshop on charging trials and affordability in November 2022. Tariff innovation and the change in the Charging Rules to allow the introduction of tariff trials was covered.

NWL intends to introduce innovative tariff trials during the coming year in accordance with the revised Charging Rules.

- The Consumer Council for Water (CCW) has been consulted to highlight the charges and the impact on bills.

We operate a well-established approach to corporate governance and assurance, which is summarised in our Assurance Framework, more information on our overall Assurance Plan can be found at <https://www.nwg.co.uk/about-us/nwl/governance2/assurance/>.

Development of charges

We have a well-established timetable for the production and approval of our tariffs and charges schemes and schedules and this is incorporated into our Assurance Plan for the year. The charges have been developed through the following process:

DEVELOPMENT OF CHARGES

2022											2023
Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan
Agree charges setting and Assurance timetable	CMLG meeting	Developer Services Charges planning	CMLG meeting	RWG Consultation on tariff simplification	CMLG meeting		CMLG meeting	Consult with CCW re indicative primary wholesale charges	Communications planning for potential bill increases	CMLG meeting	Internal audit assurance
							Update NWL Audit Committee noting governance and Assurance processes for 23/24 charges	Internal audit assurance	Response to Ofwat non-statutory consultation on Charging Rules and Innovation to support affordability	Final November indexation published	Update Board with final charges
							Update NWL Board with draft charges for 2023/24	Ofwat publish draft determination of in-period ODIs and consult	Ofwat issue final determination of in-period ODIs	Communications planning for potential bill increases	Consult with CCW regarding final charges and handling strategies
							Ofwat non-statutory consultation on Charging Rules and Innovation to support affordability	Publish indicative primary wholesale charges		Notify Ofwat of early indication of bill increases	Notify Ofwat of average and typical bill increases
							Communications planning for potential bill increases	Communications planning for potential bill increases		Developer Services consultation sessions	Finalise and publish tariffs and associated documents in accordance with Ofwat timetable

Forecasts

Since the start of the Covid-19 pandemic we have experienced changing patterns in consumption in both our household and non-household customer base. We have therefore based our model assumptions and consumption forecasts on the best information we have available at this point however the situation continues to evolve.

Indexation

Our charges incorporate the November 2022 CPIH rate which was 9.4%.

The indicative charges published on 13 October 2022 reflected the draft determination of in-period outcome delivery incentives (ODIs) for 2021/22, issued by Ofwat on 3 October 2022. The final determination (FD) of ODIs for 2021/22 was issued by Ofwat on 15 November 2022. There was a significant change in the application of a penalty for interruptions to supply and some other smaller movements to the draft determination. These changes were not anticipated at the time of setting the indicative charges. The FD has been incorporated into the final wholesale charges and has given rise to some significant changes to our indicative charges in particular water charges.

Impact assessments and handling strategies

The high indexation rate means our charges are increasing by greater than 5% from 2022/23 charges, assuming a similar level of consumption.

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 2023/24, as set out in its published wholesale charges schedule, comply with our legal obligations;
- b) we have assessed the effects the new charges have 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 can confirm that there are instances where bill increases to licensees (as a whole or in groups) who are retailing wholesale services exceed 5% and we approve the impact assessments and handling strategies developed;
- c) NWL has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published in the wholesale charges schedule is accurate;
- d) NWL has consulted with relevant stakeholders in a timely and effective manner on its wholesale charges; and
- e) where final wholesale charges are significantly different from the indicative wholesale charges published for the same period, the Board has considered the reasons why those changes occurred and has issued a statement explaining why those changes were not anticipated and/or mitigated. For these purposes 'indicative Wholesale Charges' means the information referred to in Annex A3 of the Wholesale Charging rules and charges are 'significantly different' if a reasonable person would consider the changes to be material.

Signed on behalf of the NORTHUMBRIAN WATER LIMITED Board



MICHAEL PORTER
Chief Financial Officer