

INDICATIVE PRIMARY WHOLESALE CHARGES 2027/28

Board Statement
of Assurance

The Northumbrian Water Limited (NWL) Board has overseen the development of the indicative wholesale charges for 2027/28.

The latest wholesale charging rules, issued under sections 66E and 117I of the Water Industry Act 1991, were last published by Ofwat in October 2025.

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

- a) the company complies with its legal obligations relating to the indicative 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 to eligible customers 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 indicative wholesale charges is accurate; and
- d) the company has consulted with relevant stakeholders in a timely and effective manner on its indicative wholesale charges.

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. These 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.
- NWL 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 proposed 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 2027/28.
- The NWL Internal Audit department confirmed that input data from Company systems and the calculation of allowed revenues are robust.
- The Charging and Markets Leadership Group (CMLG) is a sub-group of the Executive Leadership Team (ELT) and discusses charging issues and the annual charge setting process for NWL, in addition to promoting and monitoring market arrangements across NWL. The CMLG is chaired by the Chief Financial Officer and includes the Director of Customer and Corporate Services and the Regulation & Assurance 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 are reported to the ELT and as required to the Board.
- Charges movements and supporting assumptions were reviewed by the CMLG.

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 [here](#).

Forecasts

Household consumption has continued to increase in recent years. We have based our 2027/28 model assumptions and consumption forecasts on the best information we have available at this point. We will refresh our assumptions prior to publishing the final charges next year.

We regularly review the latest published forecasts by various institutions to help us forecast inflation and have assumed a November CPIH rate of 3.5%. We will highlight any significant variances in our forecasts in the final Board statement of Assurance for 2027/28 charges.

For PR24, Ofwat created the Outturn Adjustment Mechanism (OAM). This mechanism is designed to adjust all company ODIs should the median performing company ODIs become larger than the threshold of $\pm 0.5\%$ of Return on Regulatory Equity (RORE) on an industry basis. Once the threshold is breached, there are standardised RORE adjustments applied to all company ODIs to be applied alongside the ODIs in the year plus 2 revenues.

The industry ODI performance for 2025/26 exceeds the OAM threshold for the water service ($>1\%$ of RORE), but not for wastewater. Unless there are post APR corrections made to company data, there will be an OAM uplift in water ODIs recoverable in 2027/28 allowed revenue. However, the calculation is complicated by amendments the CMA made to appellant company ODI rates. Ofwat is keen to ensure that non-appellants do not face lower OAM payments due to CMA changes. Ofwat is therefore consulting on a proposed approach to enable this. Due to the uncertainty, we have not included any amount for OAM at this point. Ofwat will notify us of the final position in October so this will be incorporated into the final tariff setting process.

The indicative charges reflect the CMA final determination and in-period outcome delivery incentives for 2025/26.

Impact assessments and handling strategies

The combined impact of the higher K factors, indexation and regulatory adjustments results in indicative wholesale charges increasing by greater than 5% from 2026/27 charges, assuming a similar level of consumption.

Our Wholesale Services team will contact retailers regarding our charges. We also intend to target large users impacted by the bill increases in conjunction with the relevant retailers to open discussions about our water efficiency grants, offering site visits to encourage reduced consumption.

Summary

The Audit Committee and an Executive Committee of the NWL Board have reviewed on behalf of the NWL Board the 2027/28 Indicative Wholesale Charges. That review included discussing and challenging supporting processes and assumptions, and the assurance approach adopted. 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 2027/28, as set out in its published indicative wholesale charges schedules, 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;
- c) NWL has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published regarding wholesale charges is accurate; and
- d) NWL has consulted with relevant stakeholders in a timely and effective manner on its wholesale charges.

Signed on behalf of the NORTHUMBRIAN WATER LIMITED Board



MATT WILLIAMS
Chief Financial Officer