

INDICATIVE PRIMARY WHOLESALE CHARGES 2022/23

Board Statement
of Assurance

NORTHUMBRIAN WATER LIMITED

BOARD STATEMENT OF ASSURANCE FOR INDICATIVE WHOLESAL CHARGES 2022/23

The Northumbrian Water Limited (NWL) Board has overseen the development of the indicative wholesale charges for 2022/23.

The latest wholesale charging rules, issued under sections 66E and 117I of the Water Industry Act 1991, were last published by Ofwat in March 2020.

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, 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.
- During 2019 NWL 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 the indicative tariffs published for 2022/23.
- The Charges Steering Group (a sub-group of the Executive Leadership Team) which has traditionally been convened to discuss charging issues and the annual charge setting process for NWL, has been changed to the 'Charging and Markets Leadership Group' (CMLG) to give it 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.
- We have consulted with CCWater on our indicative wholesale charges. CCWater understand the pressure on charges due to the CMA redetermination and indexation.

More information on our overall Assurance Plan can be found at <https://www.nwg.co.uk/about-us/nwl/governance2/assurance/>.

2019 Price Review

As we have previously highlighted, on 14 February 2020, NWL formally rejected the Final Determination (FD19) published by Ofwat in December 2019 and requested Ofwat to refer it to the Competition and Markets Authority (CMA) for redetermination. Ofwat referred our FD19 to the CMA on 19 March 2020 and we submitted our Statement of Case on 2 April 2020. We received a draft redetermination from the CMA on 29 September 2020.

The final outcomes from the CMA's redetermination of the FD19 price review were published in March 2021. The timing of this did not allow us to incorporate these changes into our 2021/22 charges, we will implement the decision in our charges from 2022/23 through to 2024/25, this means we will effectively see the impact across three years of charges rather than five so we anticipate charges will rise, the extent of this increase is included in our indicative charges published in October 2021. We have consulted with various stakeholders regarding this situation including Ofwat, CCWater, retailers and NAVs.

Forecasts

The Board would like to draw your attention to the greater level of uncertainty the Covid-19 pandemic has continued the cause in the tariff setting process for example 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 is constantly evolving.

We have used the latest published forecasts by the Bank of England (Monetary Policy Report – August 2021) to forecast the November CPIH rate at 4%. The economy is experiencing exceptional volatility at this time and we will highlight any significant variances in our forecasts in the final Board statement of Assurance for 2022/23 charges.

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 2022/23, 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



MICHAEL PORTER
Chief Financial Officer