

WHOLESALE CHARGES SCHEDULE 2022/23

Board Statement of Assurance

NORTHUMBRIAN WATER LIMITED

BOARD STATEMENT OF ASSURANCE FOR WHOLESALE CHARGES 2022/23

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

The latest wholesale charging rules, issued under sections 66E and 117I of the Water Industry Act 1991, were issued by Ofwat in October 2021 and come into effect on 1 April 2022.

The wholesale charging rules state that each undertaker should publish an assurance statement no later than the time of publication of its final wholesale charges confirming that:

- 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 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 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.

- The Consumer Council for Water ("CCW") has been consulted to discuss the proposed charges and the impact on bills, including our communication strategy for customers. CCW has confirmed that they do not have concerns with our approach to the Charges. Given the general level of increases, they have asked us in our communication strategy for household customers to focus on increasing awareness of the financial and budgeting assistance that is available to customers in managing their bills.

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

2021											2022
Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan
CMLG meeting		CMLG meeting		CMLG meeting	Ofwat consultation on Charging Rules	SIA and Partners update of regulatory changes for Developer Services charging	CMLG meeting	Consult with CCW re indicative primary wholesale charges	Communications planning for potential bill increases	CMLG meeting	Internal audit assurance
Agree charges setting and Assurance timetable		Developer Services Charges planning			Publish statement of proposed significant changes to primary wholesale charges		Update NWL Audit Committee noting governance and Assurance processes for 22/23 charges	Publish indicative primary wholesale charges	Water Forum presentation on handling strategies	Final November indexation published	Update Board with final charges
							Update NWL Board with draft charges for 22/23	Communications planning for potential bill increases		Communications planning for potential bill increases	Consult with CCW regarding final charges and handling strategies
							Ofwat formal consultation on Charging Rules			Notify Ofwat of average bill increases	Finalise and publish tariffs and associated documents in accordance with Ofwat timetable
							Communications planning for potential bill increases			Developer Services consultation sessions	

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 are therefore implementing 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.

We have consulted with various stakeholders regarding this situation including Ofwat, CCW, our Water Forum, retailers and NAVs.

Indexation

Our charges incorporate the November 2021 CPIH rate which was 4.6% (our indicative charges published in October 2021 were based on an estimate of 4.0%).

Indicative wholesale charges published October 2020

We do not consider there to be a material changes in our final wholesale charges from the indicative charges published in October 2021.

Covid-19

The Board would like to draw your attention to the greater level of uncertainty the Covid-19 pandemic has continued to 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.

Impact assessments and handling strategies

The combined impact of the CMA redetermination and the relatively high inflation rate means our charges are increasing by greater than 5% from 2021/22 charges, assuming a similar level of consumption.

Our Wholesale Services team will continue discussions with retailers around our charges. We have a detailed plan of handling strategies to communicate with our customers which has been presented to our Water Forum which includes representatives from CCW.

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 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

A handwritten signature in black ink that reads "Michael Porter". The signature is written in a cursive, flowing style.

MICHAEL PORTER
Chief Financial Officer