

WHOLESALE CHARGES SCHEDULE 2020/21

Board Statement
of Assurance

NORTHUMBRIAN WATER LIMITED

BOARD STATEMENT OF ASSURANCE FOR WHOLESALE CHARGES 2020/21

The Northumbrian Water Limited (NWL) Board has overseen the development of the wholesale charges for 2020/21.

The latest wholesale charging rules, issued under sections 66E and 117I of the Water Industry Act 1991, were published by Ofwat in December 2018.

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 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;
- d) the company has consulted with relevant stakeholders in a timely and effective manner on its indicative 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.

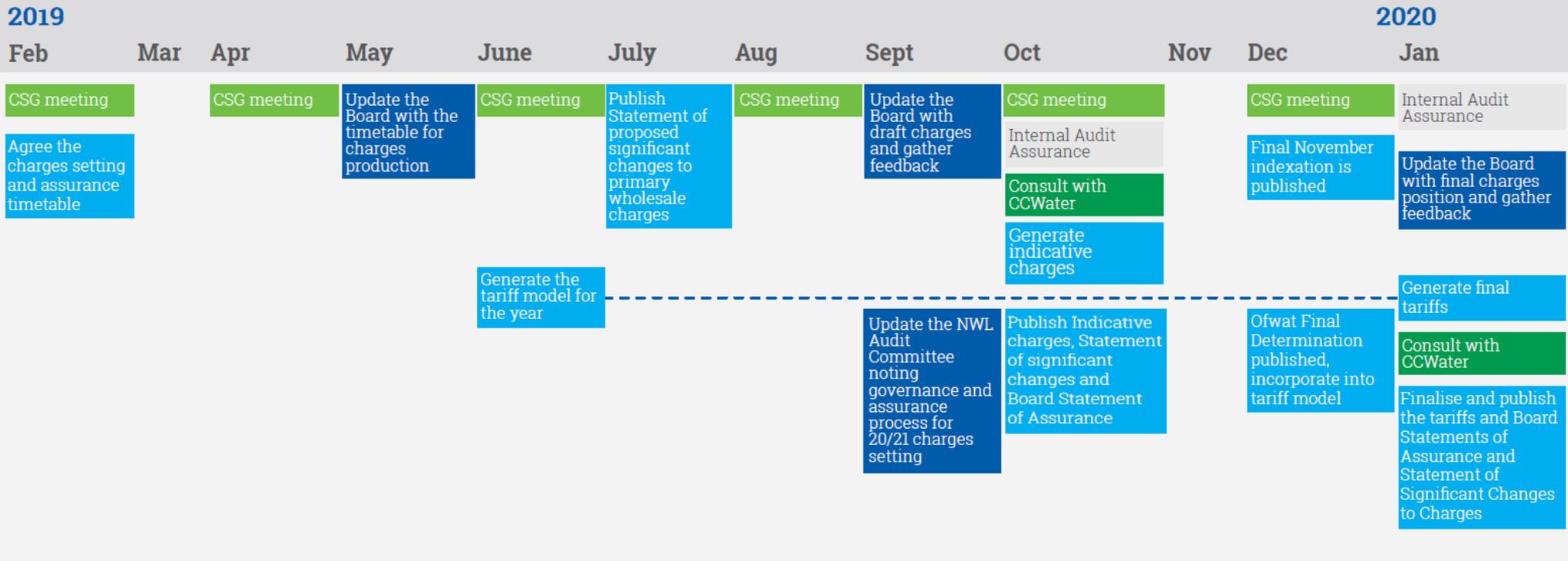
- A specific quality assurance procedure sets out the process to be followed in setting charges each year, and is reviewed annually to ensure that any necessary changes to the approval process are incorporated. This assurance builds on the work and recommendations previously carried out on our charges model by our external advisors.
- The NWL Internal Audit department has reviewed our assessment of compliance and confirmed that input data from Company systems and the calculation of allowed revenues are robust.
- 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.
- 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.
- Charges movements were reviewed by the CSG after the Final Determination was published.
- We have consulted with CCWater on our wholesale charges. CCWater did not highlight any areas of concern that would require us to change our processes or our assumptions for the charges for 2020/21.

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



2019 Price Review

The Board would like to draw your attention to the fact that the indicative primary wholesale charges published in October 2019 were subject to a greater level of uncertainty than usual due to the timing of the 2019 Price Review. The Final Determination, which confirmed our final wholesale allowed revenue, was not published until 16 December 2019. We therefore set our indicative primary wholesale charges using a reasonable expectation of the allowed revenues that we will receive drawing on the Draft Determination, published in July 2019, and incorporating subsequent representations that we had made to Ofwat. We have now incorporated the Final Determination allowed revenue into our tariff calculations. As we anticipated in October, the final wholesale charges do differ by more than an indexation variance to the indicative primary wholesale charges as a result of decisions made by Ofwat in the Final Determination e.g. a reduction in the wholesale weighted average cost of capital. Additionally we note that updated forecast information has been incorporated in the tariff calculations. We can however confirm that no class of customer will see an increase in their charges assuming a constant 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 2020/21, as set out in its published indicative 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 no instances where bill increases to licensees (as a whole or in groups) who are retailing wholesale services exceed 5%;
- 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



CHRIS JOHNS
Finance Director