

HOUSEHOLD CHARGES SCHEME 2021/22

Board Statement of Assurance

NORTHUMBRIAN WATER LIMITED

BOARD STATEMENT OF ASSURANCE FOR CHARGES SCHEMES CHARGES 2021/22

The Northumbrian Water Limited (NWL) Board has overseen the development of customer charges for 2021/22.

The latest charges scheme rules, issued under sections 143(6A) and 143B of the Water Industry Act 1991, were issued by Ofwat in March 2020 and came into effect on 1 April 2020.

The charging scheme rules state that each undertaker should provide the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statements no later than the time of publication of the charges schemes confirming that:

- a) the company complies with its legal obligations relating to the charges set out in its charges schemes;
- b) the Board has assessed the effects of the new charges on customers' bills for a range of different customer types, and approves the impact assessments and handling strategies developed in instances where bill increases for particular customer types exceed 5%;
- c) the company has appropriate systems and processes in place to make sure that the information contained in the charges scheme, and the additional information covered in the annex is accurate; and
- d) the company has consulted the Consumer Council for Water (CCWater) in a timely and effective manner on its charges schemes.

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.

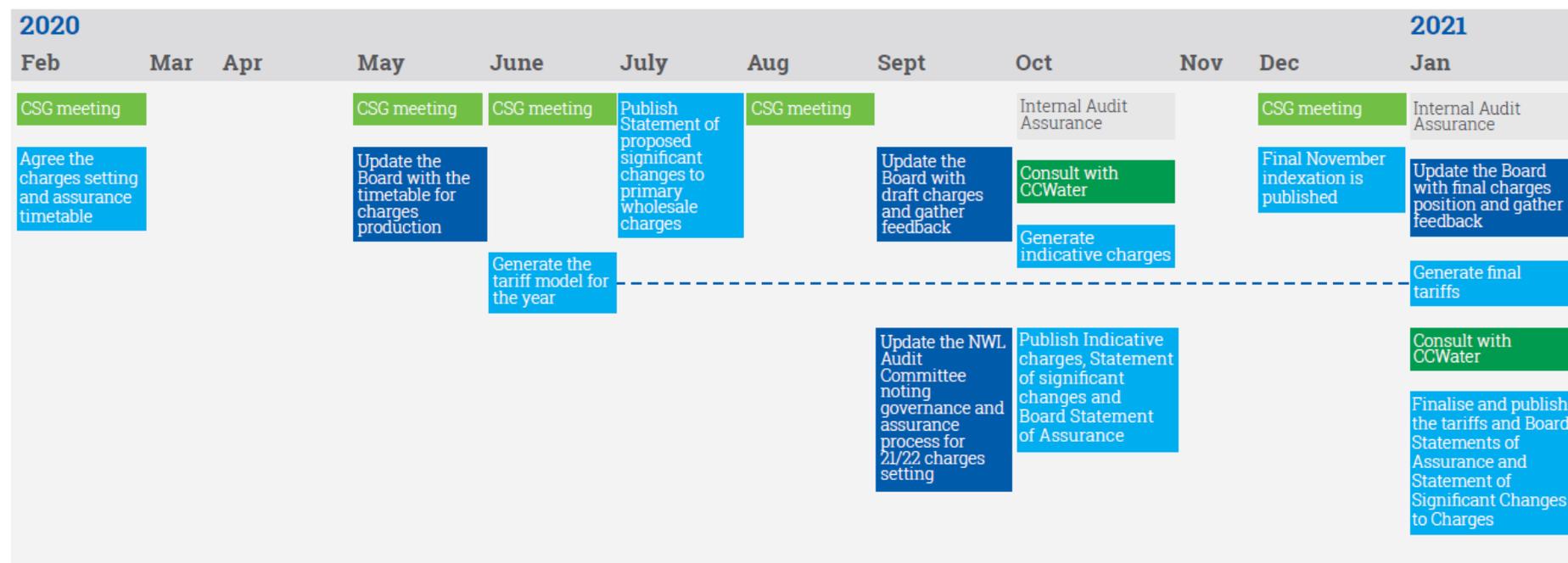
- A specific quality assurance procedure sets out the process to be followed in setting charges each year, and is reviewed annually to ensure that any necessary changes to the approval process are incorporated. This assurance builds on the work and recommendations previously carried out on our charges 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.
- 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 tariffs published for 2021/22.
- The Charges Steering Group (CSG) chaired by the Chief Financial Officer, comprising a sub-group of the Executive Leadership Team (ELT), including the Customer Director, the Regulation 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 see appendix 1 for a summary of changes to household bills.
- We have consulted with CCWater on our charges. CCWater did not highlight any areas of concern that would require us to change our processes or our assumptions for the charges for 2021/22.

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

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 in accordance with the procedures under the Water Industry Act 1991 (WIA) and our Licence. 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 are not due for publication until mid-February 2021 at the earliest. Whilst implementation of the CMA's decision into 2021/22 charges would have been our preferred option, following clarification from the CMA of the final steps in the process, we now believe that this is not logistically possible for NWL and we are committed to implementing the CMA findings in 2022/23 charges. We have consulted with various stakeholders regarding this situation including Ofwat, CCWater, retailers and NAVs.

Covid -19

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

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 2021/22, as set out in its charges schemes, comply with our legal obligations;
- b) We have assessed the effects the new charges have on customers' bills for a range of different customer types and confirm that there are no instances where bill increases exceed 5%;
- c) NWL has appropriate systems and processes in place to make sure that the information contained in the charges schemes, and additional information, is accurate; and
- d) NWL has consulted CCWater on its charging schemes for 2021/22 charges in a timely and effective manner.

Signed on behalf of the NORTHUMBRIAN WATER LIMITED Board



MICHAEL PORTER
Chief Financial Officer

Appendix 1

SUMMARY OF HOUSEHOLD BILL CHANGES 2021/22

The table below summarises the household bill changes for 2021/22 for a typical range of household customer types (assuming a constant level of consumption). This includes measured customers and highlights examples of low, average and high consumption customers. Our unmeasured examples use low, average and high rateable values. We have also included the bill changes for our assessed charges.

NORTHUMBRIAN WATER - MEASURED CUSTOMERS			
 Low volume	 £1.38	 Low volume	 -£0.02
 Average volume	 £1.78	 Average volume	 £0.83
 High volume	 £3.37	 High volume	 £4.25
WATER		SEWERAGE	
INCREASE		INCREASE	

NORTHUMBRIAN WATER - UNMEASURED CUSTOMERS			
 Low rateable value	 £0.93	 Low rateable value	 £1.39
 Average rateable value	 £1.34	 Average rateable value	 £1.69
 High rateable value	 £2.98	 High rateable value	 £2.89
 Assessed charge	 £1.51	 Assessed charge	 £1.96
 Assessed charge (single occupier)	 £0.91	 Assessed charge (single occupier)	 £2.26
WATER		SEWERAGE	
INCREASE		INCREASE	

ESSEX & SUFFOLK WATER - MEASURED CUSTOMERS	
 Low volume	 £2.09
 Average volume	 £2.69
 High volume	 £5.10
WATER	
INCREASE	

ESSEX & SUFFOLK WATER - UNMEASURED CUSTOMERS	
 Low rateable value	 £2.16
 Average rateable value	 £2.64
 High rateable value	 £4.57
 Assessed charge	 £2.05
 Assessed charge (single occupier)	 £1.45
WATER	
INCREASE	

KEY

 Water  Sewerage  Increase