

WHOLESALE CHARGES SCHEDULE 2021/22

Board Statement
of Assurance

NORTHUMBRIAN WATER LIMITED

BOARD STATEMENT OF ASSURANCE FOR INDICATIVE WHOLESAL CHARGES 2021/22

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

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.

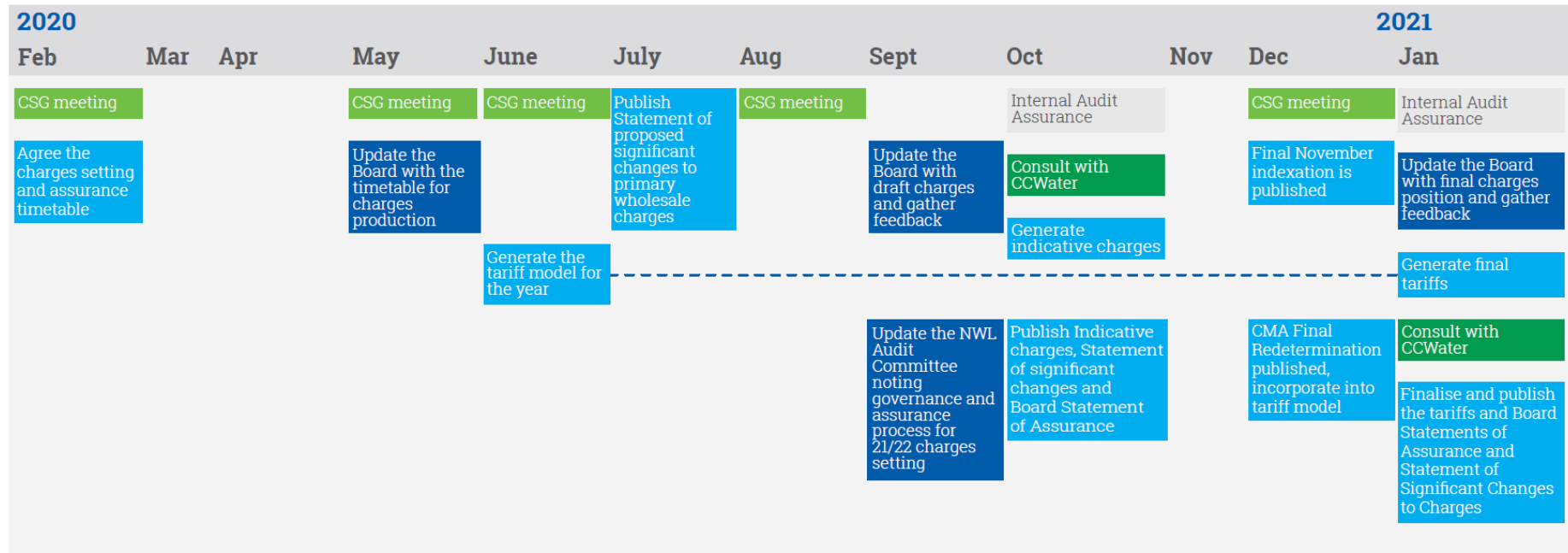
- A specific quality assurance procedure sets out the process to be followed in setting charges each year, and is reviewed annually to ensure that any necessary changes to the approval process are incorporated. This assurance builds on the work and recommendations previously carried out on our charges 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.
- Last year 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 both set of indicative 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 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.
- We have consulted with CCWater on our indicative 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 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. We have therefore taken the opportunity to publish two sets of indicative charges. The first set is based on the FD19 and the second set is based on the draft CMA redetermination. At this stage in the proceedings we believe this is the most appropriate way to deal with our current position. We have based this statement on the reasonable expectations of the wholesale charges that will be set for the 2021/22 charging year via the two sources.

As the final outcomes from the CMA redetermination of the FD19 price review are not due for publication until December 2020, we must continue to draw your attention to the greater level of uncertainty around the scope of any such changes to our 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 2021/22, 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 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; 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