

INDICATIVE PRIMARY WHOLESALE CHARGES 2023/24

Board Statement
of Assurance

NORTHUMBRIAN WATER LIMITED

BOARD STATEMENT OF ASSURANCE FOR INDICATIVE WHOLESALE CHARGES 2023/24

The Northumbrian Water Limited (NWL) Board has overseen the development of the indicative wholesale charges for 2023/24.

The latest wholesale charging rules, issued under sections 66E and 117I of the Water Industry Act 1991, were last published by Ofwat in October 2021.

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.
- 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 2023/24.
- The NWL Internal Audit department confirmed that input data from Company systems and the calculation of allowed revenues are robust.
- The Charging and Markets Leadership Group (CMLG) is a sub-group of the Executive Leadership Team and has traditionally been convened to discuss charging issues and the annual charge setting process for NWL, this now takes 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 operate a well-established approach to corporate governance and assurance, which is summarised in our Assurance Framework, more information on our overall Assurance Plan can be found at <https://www.nwg.co.uk/about-us/nwl/governance2/assurance/>.

Forecasts

Since the start of the Covid-19 pandemic 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 continues to evolve. We will refresh our assumptions prior to publishing the final charges next year.

We have reviewed latest published forecasts by various institutions to help us forecast the November CPIH rate at 9.5%. 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 2023/24 charges.

The indicative charges reflect the consultation on the draft determination of in-period outcome delivery incentives for 2021/22, issued by Ofwat on 3 October 2022. We will respond to this consultation in due course.

Impact assessments and handling strategies

The impact of the high inflation rate means our indicative charges are increasing by greater than 5% from 2022/23 charges, assuming a similar level of consumption.

Our Wholesale Services team will contact retailers regarding 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 2023/24, 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