

DEVELOPER SERVICES CHARGING ARRANGEMENTS 2020/21

Board Statement
of Assurance

NORTHUMBRIAN WATER LIMITED

BOARD STATEMENT OF ASSURANCE FOR DEVELOPER SERVICES CHARGING ARRANGEMENTS CHARGES 2020/21

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

The latest charging rules, issued under sections 51CD, 105ZF and 144ZA of the Water Industry Act 1991, were published by the Water Services Regulation Authority (Ofwat) in July 2019 and have effect in relation to charges imposed on or after 1 April 2020.

The charging rules state that each undertaker should provide Ofwat with an assurance statement from its Board of Directors and publish its statements no later than the time of publication of the charging arrangements:

- i. confirming that the company complies with its obligations relating to the charging rules;
- ii. confirming that 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
- iii. explaining how the present balance of charges between developers and other customers is broadly maintained.

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.

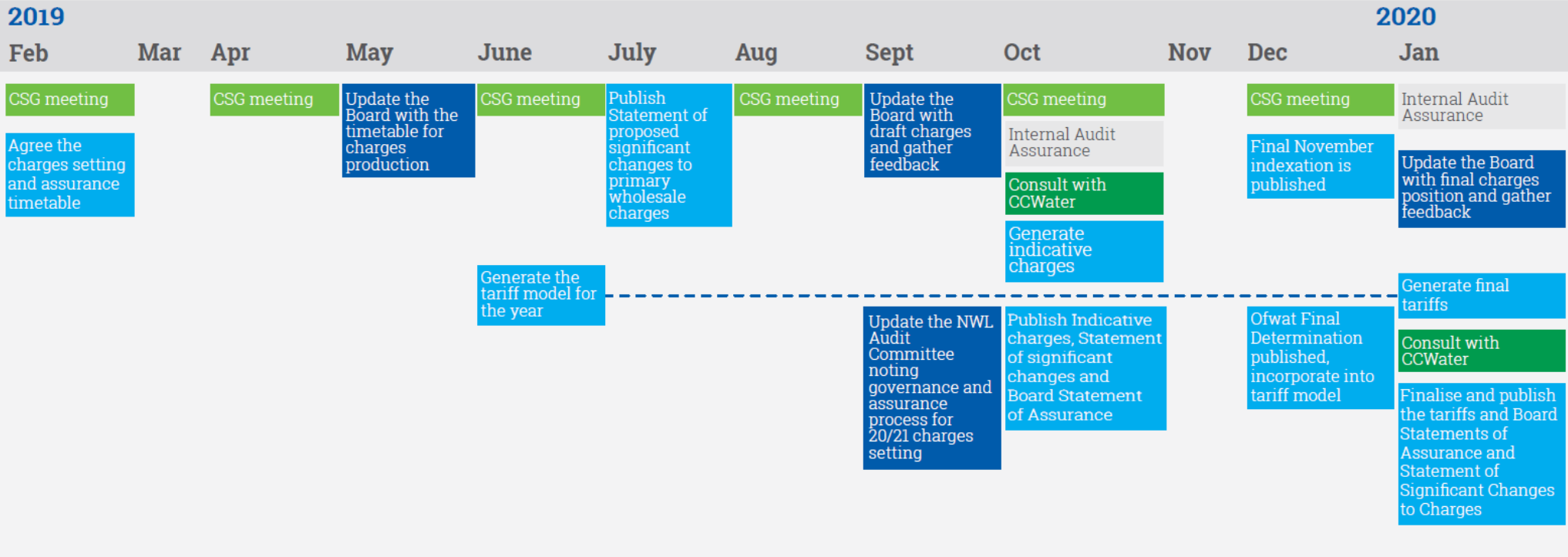
- A specific quality assurance procedure sets out the process to be followed in setting charges each year, and is reviewed annually to ensure that any necessary changes to the approval process are incorporated. This assurance builds on the work and recommendations previously carried out on our charges 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.
- 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 standard 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



Consultation

In April 2019, Ofwat issued a consultation on charging rules for new developments, after which new charging rules were published in July 2019. As a consequence of the new charging rules, all water companies will be changing the way they charge customers that require new connections to their networks.

In October 2019 we consulted with our developer services customers i.e. developers, self-lay providers (SLP) and new appointments and variations (NAV), about the changes to charges introduced by Ofwat. We responded to and considered the feedback we gathered.

We have included more details about our consultation in our Statement of Significant Changes in Charges for New Connections and New Developments, which can be found on our websites at:

<https://www.nwl.co.uk/services/developers/our-charges/>, and

<https://www.eswater.co.uk/services/developers/our-charges/>.

Transitional arrangements

Moving to new ways of charging presents uncertainty for customers, particularly where they may have committed to a development based on previous Charging Arrangements charges. We consulted on draft transitional arrangements in October 2019 however, on review of feedback we have further developed our transitional arrangements which can also be found at the links above. Our Transitional Arrangements can be found in Appendix 1.

Statement of significant changes in charges for new connections and new developments

In accordance with Information Note IN 19/05 we have published a Statement of Significant Changes in Charges for New Connections and New Developments which can be found via the links above. This statement comprehensively highlights the effects of the new 2020/21 charges on typical developments. It incorporates impact assessments to allow us to consider any handling strategies that are required where the charges for a typical development would increase by greater than 10% from 2019/20 charges. As a result of the revised charging rules, all developments where water mains and/or sewers are requisitioned are expected to experience an increase in charges of greater than 10%, with the effect being greatest in the Essex and Suffolk areas.

We believe that through our early consultation, and our generous transitional arrangements, we have mitigated the increase in charges. We will continue to consult with our developer services customers with regards to cash flow implications for requisitions, and we will publish our approach before the charges apply.

Maintaining the balance of charges

In setting our prices for 2020/21 we have reviewed the overall balance of charges compared to those from before 1 April 2018 and have confirmed that the balance is broadly maintained.

We have maintained our approach to the setting of infrastructure charges to recover network reinforcement costs over a five year period. As we have incurred lower network reinforcement costs than over the past two years than previously anticipated, we have reduced our infrastructure charges for both services for 2020/21.

Under the new charging rules, income offsets for requisitions are no longer allowed, so we will be charging developers in full for requisitioned mains from 1 April 2020. We have demonstrated that, once the reduction of infrastructure charges is taken into account, the overall balance of charges for developers is the same or less than those pre 1 April 2018. We have not applied an income offset to infrastructure charges, as the balance of charges can be maintained without such an adjustment.

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:

- i. NWL's charges for 2020/21, as set out in its charging arrangements, comply with our obligations relating to the charging rules;
- ii. 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
- iii. NWL has explained how the present balance of charges between developers and other customers is broadly maintained.

Signed on behalf of the NORTHUMBRIAN WATER LIMITED Board



CHRIS JOHNS
Finance Director

CHARGING ARRANGEMENTS FOR NEW CONNECTION SERVICES

Transitional arrangements relating to our 2020/21 Charging Arrangements

This document sets out our transitional arrangements that apply to some of our charges for new developments as a consequence of the introduction of Ofwat's "Charging rules for new connection services (English undertakers)", published on 22 July 2019 (the "new rules"). These transitional arrangements take effect from 1 February 2020 and apply to our 2020/21 Charging Arrangements document for "new connection services".

The transitional arrangements to which this document refers are limited to:

- Income offsets where water mains and/or sewers are requisitioned;
- Income offsets where water mains are offered to us for adoption;
- Income offsets associated with development sites where a NAV has provided water mains and/or sewers; and
- Water and wastewater infrastructure charges.

Moving to new charging arrangements presents uncertainty for customers, particularly where they may have already committed to a development based on previous charging arrangements.

Income Offsets

Up until 31 March 2020, where new water mains are provided for a development, we take into account the future revenue of new properties connected to the new mains. This future revenue is used to fund some or all of the cost of providing the new water mains and is known as an income offset.

We make an income offset payment which is an equivalent amount whether the new mains are constructed by us, an SLP or a NAV. Where customers requisitioned sewers from by us, we also provide for an income offset.

As a consequence of Ofwat's new charging rules of July 2019, all water companies are required to remove income offsets from the costs of new water mains and requisitioned sewers. They may however, apply income offsets to infrastructure charges but are not required to do so.

Our transitional arrangements are as follows:

1. Where a quotation has been provided for a water mains requisition and/or a sewer requisition under current arrangements (the "old rules") before 1 February 2020, it can be accepted¹ by customers before 1 April 2020.
2. Where a self-lay offer has been made under current arrangements before 1 February 2020 it can be accepted² by customers before 1 April 2020.
3. Where a quotation was provided for a bulk supply of water for a NAV (delivered as a water mains requisition) and/or a bulk discharge of wastewater (delivered as a sewer requisition) under current arrangements before 1 February 2020, it can be accepted³ by customers before 1 April 2020.

¹ By returning a completed proposal acceptance and the relevant payment

² By entering into a signed adoption agreement

³ By entering into a signed bulk supply/discharge agreement

4. Customers that submit applications⁴ for water main requisitions, sewer requisitions, self-lay water mains and NAV bulk supplies/discharges that are received by us in the period of 1 February 2020 and 31 March 2020 inclusive, will be quoted under the old rules. Such quotations will be subject to a validity period for acceptance of six months from the date of our quotation or offer. When accepted within the validity period, the old rules are to continue to apply to the charges that are subject to these transitional arrangements. Customers can opt to be quoted under the new rules, if they prefer, during this period. Quotations and offers not accepted within the validity period will lapse. Customers will need to re-apply for a quotation or offer under the new rules.
5. Where a legal agreement is already in place in relation to water mains as part of an adoption, then the charges defined within that agreement remain valid for the life of the agreement unless we agree to vary those charges in consultation with the customer.
6. Where a legal agreement is already in place with a NAV, the income offset amounts defined within that agreement remain valid for the life of the agreement unless we agree to vary those amounts in consultation with the customer.
7. Developers, SLPs and NAVs that have received a quotation or draft agreement under the old rules, but have not formally accepted can re-apply after 1 February 2020 for a quotation in accordance with the new rules.

Infrastructure Charges

Water and wastewater infrastructure charges are reducing from 1 April 2020.

From 1 April 2020, the new water infrastructure charges will be charged when a property is connected, either directly or indirectly:

- a) to an existing water main, a water main subject to an adoption agreement or a requisitioned water main, or
- b) via a NAV's infrastructure where there is a legal agreement with us for a bulk supply.

From 1 April 2020, the new wastewater infrastructure charges will be charged when a property is connected, either directly or indirectly:

- a) to an existing sewer, a sewer subject to an adoption agreement or a requisitioned sewer, or
- b) via a NAV's infrastructure where there is legal agreement with us for a bulk discharge.

Other charges

Where a quotation or legal agreement includes an appropriate provision for adjusting charges, they will be adjusted by inflation, with the exception of infrastructure charges.

⁴ That contain all of the required information and are accompanied by any relevant fees