



Statement of Board Assurance provided to the Water Services Regulation Authority 2024-25 Final Wholesale Charges

13 January 2024

Contents

Statement of Board Assurance provided to the Water Services Regulation Authority: 2024-25 Final Wholesale Charges.....	3
Statement regarding the Board's assessment of bill increases.....	4
Annex to the wholesale charges assurance statement – compliance with Ofwat's wholesale charging rules.....	5
Statement regarding changes to the indicative charges published in October 2023.....	20

Statement of Board Assurance provided to the Water Services Regulation Authority: 2024-25 Final Wholesale Charges

The Company, under the direction of the Board, has undertaken a thorough process of internal and external assurance with regard to the setting of wholesale charges for the 2024-25 charging year.

As a result of the assurances it has received, the Board has satisfied itself to the best of its ability that:

- a. the Company complies with its legal obligations relating to the final wholesale charges it has published;
- b. the Board has assessed the effects of the new charges on potential licensees (as a whole or in groups) who are retailing wholesale services to eligible customers, and to business end-users (as a whole or in groups), and approves the impact assessments and handling strategies developed in instances where bill increases for potential licensees (as a whole or in groups) who are retailing wholesale services to eligible customers and eligible business end-users (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 final wholesale charges is accurate; and
- d. The Company has consulted with relevant stakeholders in a timely and effective manner on its wholesale charges;
- 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 charges were not anticipated and/or mitigated.

We provide information on our compliance with Ofwat's wholesale charging rules in the Annex to this assurance statement.



Lawrence Gosden
Chief Executive Officer



Keith Lough
Chairman

Statement regarding the Board's assessment of bill increases

In accordance with Ofwat's wholesale charging rules, the scope of this statement is restricted to the wholesale charges made to retailers participating in the business customer retail market.

Under Ofwat's wholesale charging rules (rules A1 and A5), our Board are required to provide assurance to Ofwat that they have assessed the effects of the new charges on water supply and sewerage licensees, and that they approve the impact assessments and handling strategies developed in instances where bill increases for licensees exceed 5%.

Wholesale charges

Due to high inflation at 4.2%, continued investment and the impact of prior year performances, all charges are projected to increase by more than inflation in 2024-25 and by more than 5%.

Having considered our customers' preference for a smooth bill profile and for us to invest in improvements now rather than delay them, we requested of Ofwat that we defer 50% of our ODI penalties to 2025-26; this request was accepted. While considering the impact on bill increases this year as well as the pattern of future bills in the next regulatory period, the Board has taken the decision to recover this increased level of revenue to allow us to invest in, and deliver, our turnaround programme.

At this level of allowed revenue, our wholesale water charges are projected to increase by 14.6% and the wholesale wastewater charges are projected to increase by 13.2%. As the increase in both cases exceeds Ofwat's threshold of 5%, the Board has considered the impact on customers (both in the current and future years) and the need for handling strategies to mitigate the level of increase.

The Board has determined that we should proceed with the level of allowed revenue as approved by Ofwat. This reflects a number of considerations:

- To adhere more closely to our customers' preference for smooth bills and bill stability; in our PR24 customer acceptance testing, customers said they want to see investment for improvements now and that a delay to the company's turnaround programme is not in their interests.
- To invest in advance of AMP 8 to support our turnaround programme.
- To maintain financial resilience and relieve pressure on financial covenant ratios.

Impact on household bills

We are putting in place a number of steps to mitigate the bill increase for household customers, in addition to our existing provisions, which include payment schemes, debt matching, a capped WaterSure tariff and a Hardship Fund. We also allow customers to take payment breaks and agree flexible payment plans to suit their circumstances.

- **Social tariff:** in 2022-23, we increased the funding via customer cross-subsidy to support households most in need, so that the minimum discount for eligible households raised from 20% to 45%. In 2024-25, we have set our charges based on a cross-subsidy of £13.00 on an average dual service bill (an increase of 1.0% to an average metered customer bill). This increased cross-subsidy will allow us to support a further 30k customers.

- **Customer support and partnerships:** We are also continuing to work across our community with key partners to engage with customers most in need and publicise the support and payment schemes available.
 - Out and about in our communities, providing direct support at locations such as Food Banks and Job Centres as well as attending community events
 - Data Sharing Agreements with Housing Associations and Age UK to provide direct support to the financially vulnerable
 - New partnership with Kidney Care UK to ensure those customers with kidney disease are getting the best possible support
 - Working with local councils to promote the help on offer to those most likely to be in need

Wholesale trade effluent charges

Trade effluent charges are expected to increase on average by 13.2%.

We are continuing to phase in the increased charges for the use of ammonia in the charges. This was first introduced in 2021-22. The Board believe that the charge is set at a level that appropriately balances the competing demands of cost-reflectivity and bill stability. In order to move to a more cost-reflective basis it is expected that the ammonia charge will increase each year.

Annex to wholesale charges assurance statement - compliance with Ofwat's wholesale charging rules

Rule no.	Wholesale charging rule	Compliance statement
1-6	<i>Introduction and Interpretation</i>	N/A
7-12	<i>Publication</i>	
7	Each water undertaker must publish the Wholesale Charges payable by a water supply licensee for the supply of water to Eligible Premises that are connected to the undertaker's supply system. This includes the Eligible Premises to which a Special Agreement would otherwise apply (although nothing in these rules requires the publication of a customer's name or address).	Compliant. We have published our wholesale charges, including those subject to a special agreement, on our website by the prescribed deadline of 13 January 2024. We have published the charges in our "Wholesale Statement of Principles and Charges" document, which includes wholesale charges for residential customers, non-primary wholesale charges for retailers and special agreements in accordance with Ofwat's wholesale charging rules.
8	Each sewerage undertaker whose area is wholly or mainly in England must publish the Wholesale Charges payable by a sewerage licensee in respect of the provision of sewerage services to Eligible Premises that are connected to the undertaker's sewerage system. This includes the Eligible Premises to which a Special Agreement would otherwise apply (although nothing in these rules requires the publication of a customer's name or address).	Compliant. As rule 7.

Rule no.	Wholesale charging rule	Compliance statement
9	<p>Each relevant undertaker must also, as a minimum, publish the Wholesale Charges (or the methodology for calculating such charges where the charges cannot be determined in advance) that would, where relevant, be payable by a water supply or sewerage licensee for:</p> <ul style="list-style-type: none"> (a) the replacement of lead service pipes; (b) the provision and maintenance of fire hydrants; (c) damage to apparatus; (d) the carrying out of inspections to ascertain whether any provision contained in or made or having effect under the Water Industry Act 1991 with respect to any water fittings or with respect to the waste or misuse of water is being or has been contravened; (e) site inspections; (f) the provision and use of standpipes; (g) the testing of meters; and (h) the disconnection of a service pipe (or for otherwise cutting off a supply of water) to any premises and the reconnection of such premises to a water main. 	<p>Compliant.</p> <p>Our “Wholesale Charges” document includes all Non-Primary charges that we will make to retailers in the business retail market.</p> <p>This includes all the charge types listed in rule 9 ((a) to (h)).</p>
10	<p>Wholesale Charges must be published at least eleven weeks before the start of the period for which the charges will be imposed.</p>	<p>Compliant.</p> <p>We have published our wholesale charges by the prescribed deadline of 13 January 2024.</p>
11	<p>Wholesale Charges must be published on a relevant undertaker’s website and in such other manner as the undertaker considers appropriate for the purpose of bringing it to the attention of persons likely to be affected by it.</p>	<p>Compliant.</p> <p>As rule 7, we have published our “Wholesale Charges” document on our website.</p>
12	<p>Wholesale Charges must be published with such additional information or explanation as is necessary to make clear what services are covered by each charge.</p>	<p>Compliant.</p> <p>In addition to setting out the financial value of our wholesale charges for 2024-25, our “Wholesale Charges” document provides explanatory narrative for each area of charging.</p>

Rule no.	Wholesale charging rule	Compliance statement
13	<i>General charging principles</i>	
13	<p>Relevant undertakers whose areas are wholly or mainly in England must determine what types of charges may or may not be imposed and the amount of any charges that may be imposed in accordance with the principle that Wholesale Charges should reflect:</p> <ul style="list-style-type: none"> (a) fairness and affordability; (b) environmental protection; (c) stability and predictability; and (d) transparency and customer-focused service. 	<p>Compliant.</p> <p>Our charges for the surface water drainage service use meter size as a proxy for surface area.</p> <p>We recognise that using actual surface area to set surface water drainage charges is more cost-reflective and has the potential to provide a stronger environmental price signal.</p> <p>We are currently undertaking a project to move to this basis of charge in AMP 8, possibly by 2026-27, when the relevant analysis has been completed and we can engage with customers to mitigate bill shock. In recognition of this, we continue to adjust the balance of revenue recovered via surface water drainage charges versus foul water treated for 2024-25.</p>
14-18	<i>Principles for determining the amount of charges</i>	
14	<p>Consistent principles and methodologies must be applied to the calculation of charges for different classes of Eligible Premises, regardless of the services provided.</p>	<p>Compliant.</p> <p>We apply consistent principles and methodologies to the calculation of charges for different classes of Eligible Premises, regardless of the services provided.</p>

Rule no.	Wholesale charging rule	Compliance statement
15	Charging structures must reflect the long-run costs associated with providing the relevant service.	<p>Compliant.</p> <p>We have already removed our fixed non-household wastewater charges to be more cost reflective thus now all our wholesale wastewater supply revenue from customers not on our large user tariff is recovered by variable charges. We have now commenced phasing out the two fixed charges for our standard non-household water users. The purpose is to bring all volumetric charges in line so that no customer is getting a discount at various thresholds. The phasing will be spread over three years so as to mitigate bill shock for users. The costs of providing surface water drainage and highway drainage are recovered by fixed annual charges. Our water and sewerage large user tariffs comprise a lower volume charge and a fixed annual charge. The fixed annual charge is volume-related and is set to ensure parity of the unit charge at the band threshold volumes. This is also being phased out, with the intention there will be no longer be a discount by 2026-27.</p> <p>In the case of wholesale trade effluent revenue, the majority is recovered by variable charges based on the Mogden formula, with the costs of monitoring consents recovered by a fixed annual charge structure, which better reflects the risk presented by the discharge and the associated monitoring requirements.</p> <p>A new trade effluent charge for ammonia was introduced in 2021-22. This was initially set at a level below the associated costs to mitigate the impact of bill increases on some customers. We continue to phase in an increased charge to a level that better reflects the underlying treatment costs in future years.</p>
16.	Differences between charges for services provided to Eligible Premises that are larger users of water and sewerage services and charges for services provided to Eligible Premises that are smaller users of water and sewerage services must only be based on cost differences associated with differential use of	<p>Compliant.</p> <p>The historical difference in charges between our standard charges and large user charges are based on cost differences associated with differential use of network assets. The differences were supported by our cost model and were</p>

network assets, differential peaking characteristics, different service levels and/or different service measurement accuracy.

broadly in line with the rest of the sector. As we continue to refine our cost model, we note the cost of water resources are causing increasing financial pressure, and we have commenced phasing out these discounts gradually over several years starting in 2023-24. We expect the discount associated with Large User Tariffs to be fully phased out by 2026-27 and we have consulted with retailers on this amendment.

Rule no.	Wholesale charging rule	Compliance statement
17	Where cost differences associated with differential peaking characteristics are used as a basis for differences between charges for services provided to Eligible Premises that are larger users of water and charges for services provided to Eligible Premises that are smaller users of water, the charges fixed on that basis must be structured on an appropriate peak demand basis.	N/A. We do not have charges associated with differential peaking characteristics.
18	Charges for sewerage services must take into account the different pollutant loads associated with foul water, trade effluent, surface water draining from Eligible Premises and surface water draining from highways.	Compliant. We have separate charges for foul drainage, surface water drainage, highway drainage, and trade effluent.
19	<i>Unmetered charges</i>	
19	No unmetered Wholesale Charges may be imposed unless the basis on which those charges are fixed or determined is clear and, in the case of Rateable Value Charges, it is clear: (a) which Rating Valuation List charges are fixed or determined by reference to; and (b) if the undertaker uses a different value or other amount to that specified in such a list, the methodology or other basis on which that different value or other amount is calculated.	Compliant. Our “Wholesale Charges” document specifies the Rating Valuation List that unmetered charges are fixed or determined by reference to. Additionally, the document sets out how we may apply a notional Rateable Value in certain circumstances.

Rule no.	Wholesale charging rule	Compliance statement
20-21	<i>Wastewater charges</i>	
20	Sewerage undertakers whose area is wholly or mainly in England must, in relation to each period beginning on or after 1 April 2020, separate Wholesale Charges for sewerage services provided to Eligible Premises into separate charges for the reception, treatment and disposal of: (a) foul water; (b) trade effluent; (c) surface water draining from Eligible Premises; and (d) surface water draining from highways.	Compliant. As rule 18. We have separated sewerage charges in this way since April 2000.
21	Sewerage undertakers must provide for an appropriate reduction in the Wholesale Charges payable for the provision of sewerage services to any Eligible Premises where the sewerage undertaker knows, or should reasonably have known, that surface water does not drain to a public sewer from those premises.	Compliant. We have provided customers with a rebate of the surface water drainage charge, upon successful application, since April 2000. Where we make a rebate, we proactively apply the rebate to other properties in the immediate vicinity. Prior to 2015-16, we only backdated the rebate to the start of the charging year in which the claim was made. With effect from 2015-16, we make the rebate effective from 1 April 2015 or the customer's occupation date if this is later.
22	<i>Trade effluent</i>	
22	Charges to be paid in connection with the carrying out of a sewerage undertaker's trade effluent functions must be based on the Mogden Formula, a reasonable variant of the Mogden Formula or on a demonstrably more cost-reflective basis.	Compliant. Our trade effluent charges are based principally on the Mogden formula, supplemented by our fixed annual consent monitoring charge structure, which better reflects the risk presented by the discharge and the associated monitoring requirements. In 2021-22 we introduced a further modification

in relation to ammonia, to better reflect the costs of ammonia treatment, which are not reflected in the Mogden formula. We continue to phase in this charge in our 2024-25 charges to ensure it will achieve cost-reflectivity over a number of years while avoiding large bill increases to customers.

Rule no.	Wholesale charging rule	Compliance statement
23-24	<i>Concessionary drainage charges</i>	
23	The Wholesale Charges published by each sewerage undertaker must set out: (a) the classes of community group (if any) in relation to which the undertaker allows reductions in the Wholesale Charges payable by a sewerage licensee in respect of surface water drainage from Eligible Premises; and (b) the reductions allowed.	N/A We do not offer concessionary drainage charges, and this is explicitly stated in our “Wholesale Charges” document. We note that these concessionary charges are principally offered by those water and sewerage companies that have implemented area-based charges for surface water drainage to mitigate the impacts of those charges on groups such as schools, churches, and community organisations. We will seek to introduce these concessions in line with Defra guidance as part of our project to move to a different basis of charge in AMP 8.
24	Where a sewerage undertaker’s charges scheme under section 143 of the Water Industry Act 1991 includes a provision designed to reduce charges to community groups in respect of surface water drainage from their Eligible Premises, the amount of Wholesale Charges payable by a sewerage licensee in respect of the provision of sewerage services to Eligible Premises occupied by community groups must be determined in accordance with the principles that: (a) Wholesale Charges must be reduced in relation to the same classes of community group; and	N/A. As rule 23.

	(b) the reductions in Wholesale Charges must be the same and apply for the same period.	
25	<i>Special agreements</i>	
25	Where a Special Agreement would apply to the provision of services to Eligible Premises if the undertaker continued to provide the services, a relevant undertaker must impose on a water supply licensee or, as the case may be, a sewerage licensee only such charges as would enable the licensee to charge for those services at the same rate or rates as would have applied if the Special Agreement had applied.	Compliant. For each of our special agreements, the special agreement only relates to the wholesale element of the total charges. Since the opening of the non-household retail market in April 2017, there has been no change to the way we set the wholesale charges that we pass on to retailers in respect of special agreements. This allows the retailer to charge for those services at the same rate.

Rule no.	Wholesale charging rule	Compliance statement
26	<i>Small companies</i>	<i>N/A</i>
27	Subject to paragraphs 28, 29 and 30, relevant undertakers whose areas are wholly or mainly in England must set and publish their Wholesale Connection Charges as if: (a) those charges related to services in respect of household premises rather than non-household premises, and (b) the Charging Rules for New Connection Services (English Undertakers) applied to them.	Compliant. The charges set out in our Charging Arrangements document also apply where a developer or a customer requests new connection services through a retailer of water supply and/or sewerage services, rather than directly.
28	The obligation in paragraph 27 excludes the rules in paragraphs 44 to 46 of the Charging Rules for New Connection Services (English Undertakers).	Compliant. As per Rule 27 Compliance statement.
29	Relevant undertakers must publish their initial Wholesale Connection Charges in their Charging Arrangements by 1 June 2019.	Compliant. We updated our Charging Arrangements document to the effect that the charges set out in the document also apply where a developer or a customer requests new connection services through a retailer of water supply and/or sewerage services, rather than directly.

Statement of Board Assurance provided to the Water Services Regulation Authority
2024-25 Final Wholesale Charges

30	Thereafter, relevant undertakers must consult on their Wholesale Connection Charges at the same time as their charges under the Charging Rules for New Connection Services (English Undertakers), and must publish them in their Charging Arrangements.	Compliant. The charges set out in our Charging Arrangements document also apply where a developer or a customer requests new connection services through a retailer of water supply and/or sewerage services, rather than directly.
31	The provisions for Small Companies in paragraph 17 of the Charging Rules for New Connections Services (English Undertakers) apply in relation to Wholesale Connection Charges as they apply in relation to the charges covered by those rules.	N/A

Rule no.	Wholesale charging rule	Compliance statement
<i>Annex</i>	<i>Information requirements</i>	
<i>A1</i>	<i>Assurance statements</i>	
A1	Each undertaker should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statement no later than the time of publication of its final Wholesale Charges confirming that:	Compliant. We have submitted our assurance statement to Ofwat and published it at the same time we published our wholesale charges.
(a)	the company complies with its legal obligations relating to the Wholesale Charges it has published;	Compliant. Licence Condition B (compliance with price controls): KPMG LLP has provided assurance that our wholesale charges are compliant with the wholesale price controls. Licence Condition E (undue discrimination and undue preference): In some areas our cost allocation is necessarily based on assumption as opposed to actual data. Where assumptions have been used these have been verified by subject matter experts within the Company. Compliance in this area is subjective, and therefore cannot be stated absolutely.

(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 and on customers occupying Eligible Premises (as a whole or in groups) exceed 5%;	<p>Compliant.</p> <p>We requested of Ofwat to defer 50% of our ODI penalties to 2025-26, to enable investment to deliver our turnaround programme and to maintain financial resilience. That request as accepted. On the basis of our impact assessment on this year and likely bill increases through to AMP 8, the Board took the decision to recover the increased level of revenue. This decision serves to smooth the profile of customer bill increases, as is their stated preference on our customer acceptance testing. It has also decided to commence the phase out of standard fixed water non-household charges and the discount for Large User Tariffs. The Board also supported further mitigating actions such as re-balancing more revenue recovered via surface water than foul water. As a result of all of these steps, charges will increase between 9 - 10% greater than inflation.</p>
(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 Wholesale Charges is accurate;	<p>Compliant.</p> <p>Deloitte audited our 2022-23 statutory and regulatory accounts. While they were unable to adopt a control reliance strategy for their audit, due to IT issues, they undertook substantive testing and made the following comment in their report to our Audit Committee: "Our procedures have not identified any evidence of management override of controls and we have nothing else to report on this significant risk."</p> <p>In addition, there were no material issues raised in Deloitte's report, and they issued an unmodified audit statement on our financial statements.</p> <p>KPMG LLP have assured our 2024-25 indicative and final charges. As part of their work, KPMG performed checks on the base data used for forecasting the number of billed properties and volumes of water and wastewater. For the most material charges in terms of revenue yield, KPMG checked the base data used for forecasting purposes back to source systems.</p>

(d)	the company has consulted with relevant stakeholders in a timely and effective manner on its Wholesale Charges; and	Compliant. We commenced engagement with Ofwat and CCWater on 2024-25 charges in August 2023. The engagement to date has comprised an on-going exchange of emails and virtual meetings, including the provision of information to CCWater both proactively and in response to their queries. We sent a paper to both Ofwat and CCW entitled “Outlook for 2024-25 water and wastewater charges” in August 2023 and we had a virtual meeting with them to discuss our indicative charges and the possibility of a portion of our ODI penalties being deferred. Our Wholesale Services Team proactively arranged a virtual meeting with retailers to make them aware of increases to charges and phasing out of Large User tariffs and to offer them the opportunity to provide feedback and seek clarification.
(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 A3 below and charges are “significantly different” if a reasonable person would consider the changes to be material.	Compliant. The Board has considered why the final wholesale charges are significantly different to the indicative charges and the reasons are explained in the ‘Statement regarding changes to indicative charges published in October 2023’ attached to this Annex.
Rule no.	Wholesale charging rule	Compliance statement
A2-A5	<i>Indicative charging information</i>	
A2	No later than six months before publishing its final Wholesale Charges, each undertaker (other than a small company), should if considering making any significant changes to its primary Wholesale Charges publish information that, at a minimum, informs stakeholders of the scope of its proposed changes. For these purposes, changes will be “significant” if a reasonable person would consider them to be material. The information provided does need not be as detailed as that referred to in A3 and A4 below.	N/A

A3	No later than three months before publishing its final Wholesale Charges, each undertaker (other than a small company) should provide to the Water Services Regulation Authority and publish indicative Wholesale Charges. For these purposes, “indicative Wholesale Charges” are the primary Wholesale Charges that the undertaker reasonably expects to fix for the following period (based on the information available to it at that time).	Compliant. We published indicative wholesale charges for 2024-25 on our website in October 2023 and notified Ofwat and CCW accordingly.
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Rule no.	Wholesale charging rule	Compliance statement
A4	No later than three months before publishing its final Wholesale Charges, each undertaker (other than a small company) should, if it intends to make any significant changes to its primary Wholesale Charges, provide to the Water Services Regulation Authority and publish a statement of significant changes. For these purposes:	Compliant. We published an updated Statement of Significant Changes on our website in October 2023 and notified Ofwat and CCW accordingly.
(a)	changes to the level of primary Wholesale Charges, or to the methodology for calculating them, will be significant if a reasonable person would consider them to be material; and	
(b)	a statement of significant changes should include:	

Statement of Board Assurance provided to the Water Services Regulation Authority
2024-25 Final Wholesale Charges

- (i) what changes are expected;
- (ii) how water supply and sewerage licensees (as a whole or in groups) and customers occupying Eligible Premises (as a whole or in groups) are likely to be affected; and
- (iii) the handling strategies that may be adopted by the undertaker or why the undertaker considers that no handling strategies are required.

Rule no.	Wholesale charging rule	Compliance statement
A5	Each undertaker (other than a small company) should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statement no later than the time of publication of its indicative Wholesale Charges confirming, using the best available information available at that time, that:	Compliant. We submitted our assurance statement to Ofwat and published it at the same time we published our indicative wholesale charges.
(a)	the company complies with its legal obligations relating to the indicative Wholesale Charges it has published;	Compliant. Licence Condition B (compliance with price controls): KPMG LLP has provided assurance that our wholesale charges are compliant with the wholesale price controls.

		Licence Condition E (undue discrimination and undue preference): In some areas our cost allocation is necessarily based on assumption as opposed to actual data. Where assumptions have been used these have been verified by subject matter experts within the Company. Compliance in this area is subjective, and therefore cannot be stated absolutely.
(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%;	Compliant. We include below, as part of this assurance statement submission, a statement explaining the Board's assessment of bill increases.

Rule no.	Wholesale charging rule	Compliance statement
(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 Wholesale Charges is accurate; and	KPMG LLP have assured our 2024-25 indicative charges. As part of their work, KPMG performed checks on the base data used for forecasting the number of billed properties and volumes of water and wastewater. For the ten most material charges in terms of revenue yield, KPMG checked the base data used for forecasting purposes back to source systems. Deloitte audited our 2022-23 statutory and regulatory accounts. While they were unable to adopt a control reliance strategy for their audit, due to IT issues, they undertook substantive testing and made the following comment in their report to our Board

that no significant deficiencies were noted in their testing of management override of controls. “Our procedures have not identified any evidence of management override of controls and we have nothing else to report on this significant risk”.

The revenue analysis and wholesale control reconciliation published for March 2023 in table 2M of the APR showed a variance of 6.0% between allowed wholesale revenues and actual revenues for 2022-23. The data in this table was assured by Deloitte and the details for the variance to our allowed revenues were disclosed.

In addition, there were no material issues raised in KPMG’s audit report, and they issued an unmodified audit statement on our financial statements.

Rule no.	Wholesale charging rule	Compliance statement
(d)	the company has consulted with relevant stakeholders in a timely and effective manner on its Wholesale Charges.	Compliant. We commenced engagement with CCWater on 2024-25 charges in August 2023. We sent a paper to both Ofwat and CCW entitled “Outlook for 2024-25 water and wastewater charges” in August 2023, and also had a virtual meeting with CCW to discuss our Indicative charges in detail. Our Wholesale Services Team proactively arranged a virtual meeting with retailers to make them aware of increases to charges and to offer them the opportunity to provide feedback and seek

clarification. We sent details to Ofwat and CCW of our indicative charges once they were approved by the Board in Oct 2023. We then sent Ofwat and CCW an early view of likely final charges on 13 December 2023

Statement regarding changes to the indicative charges published in October 2023

The statement describes the reasons for any changes to our wholesale charges compared with our indicative charges were published in October.

Use of November CPIH figure

Our indicative charges were based on a forecast of November CPIH of 4.5%. The actual figure, as published by the Office for National Statistics on 20 December 2023, is 4.2%

Changes to the final determination as a result of the ODI penalties

Our indicative charges were based on the forecast ODI penalties for the financial year 2022-23 totalling £56m. We requested of Ofwat that we defer 50% of our ODI penalties to 2025-26; this request was accepted. While considering the impact on bill increases this year as well as the pattern of future bills in the next regulatory period, the Board has taken the decision to recover this increased level of revenue to allow us to invest in, and deliver, our turnaround programme.

This decision reflects a number of considerations:

- To adhere more closely to our customers' preference for smooth bills and bill stability; in our PR24 customer acceptance testing, they said they want to see investment for improvements now and that a delay to the company's turnaround programme is not in customers' interests.
- To invest in advance of AMP 8 to support our turnaround programme.
- To maintain financial resilience and relieve pressure on financial covenant ratios.

Mitigating activities

We have set our charges based on a cross-subsidy of £13.00 on an average dual service bill (an increase of 1.0% to an average metered customer bill). This increased cross-subsidy will allow us to support a further 30k customers.