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# Retail
# PR24 data tables commentary

October 2023

# Retail PR24 Data Table Commentary

# RET1 Cost analysis - retail (post frontier shift and real price effects)

## Retail Summary

We have developed this narrative and commentary for the Retail tables in our PR24 business plan submission to outline our assumptions supporting the data and to expand on our principles and decisions we have made as we work towards AMP8.

We have been mindful of the guidance in the final methodology, as well as the individual table guidance.

Our submission considers our existing price base as broadly stable for operating expenditure, with the service to our expanding customer base being improved by additional investment in technology to deliver the efficiencies needed to keep day to day costs stable.

We expect the cost of bad debt to track changes in bills and the overall performance of the economy as wider economic pressures have a direct impact on the collectability of charges.

Depreciation on retail assets will increase across AMP8 by virtue of the increased investment being made in improving the customer experience, the technology required to deliver it, and the process efficiencies required to keep overall costs below inflation. This investment will continue to deliver benefits beyond AMP8.

Excluding bad debt, Total Retail Costs will reduce, in real terms, on a per customer basis across AMP8.

## Headlines

Additional investment is being made in retail assets to deliver cost efficiencies and improved customer experience

Bad debt cost tracking movements in customer bills

Total cost per customer (excluding bad debt) is reducing in real terms across AMP8

Throughout the entirety of table RET1, there is no expenditure of any kind on Business Retail as we exited the NHH retail market upon market opening and transferred this responsibility to Anglian Water Business (National) Ltd (who are currently known as the retailer Wave).

## Operating expenditure Lines 1.1 - 1.8

### AMP7 Expenditure

Operating expenditure analysis from 2020/21 to 2022/23 is taken directly from our Annual Performance Report (APR) and includes business rates taken from an internal analysis of costs to derive other operating expenditure in the same reports.

Expenditure in 2023/24 and 2024/25 reflects agreed internal business plans.

### AMP8 Expenditure

Costs in AMP8 take our planned 2024/25 outturn as a starting point, adjusted for known cost changes, and productivity and efficiency challenges.

We are forecasting underlying (pre-efficiency) cost increases to follow forecast CPIH over the AMP as we expect continued pressure to be exerted on input prices by our suppliers following the trend seen so far in AMP7.

We expect to experience continued upward pressure on wages as real wage growth increases due to the wider economic climate.

## Line 2: Debt Management

Our cost per customer of debt collection is forecast to be £3.25 at the end of AMP7 and reducing to £3.19 by the end of AMP8, in 2022/23 prices. We expect absolute costs to grow each year as more properties are built and our customer numbers grow.

## Line 3: Doubtful debts

For 2020/21 to 2022/23, we have taken the doubtful debts charge for household reported in the regulatory accounts. Doubtful debts for 2023/24 and 2024/25 are based on internal business plan assumptions. The notable difference between these last two years of AMP7 is the result of the forward economic view of unemployment rates. This is expected to be significantly better in 2023/24 than it was in 2022/23 meaning a provision release. This forecast then deteriorates between 2023/24 and 2024/25 resulting in an additional provision being booked in the last year of AMP7.

The AMP8 forecast doubtful debt charge is calculated using the end of AMP7 base position, notionally increased to reflect changes to the level of customer bills with further adjustments to reflect operating efficiencies, and the wider economic outlook.

### Line 4: Doubtful debts (smoothed)

During years 2019/20 to 2021/22 there were exceptional items included in the value of Doubtful Debts. Initially these related to additional provisions related to Covid and the expected future collectability of charges due to customers' ability to pay as a result of the pandemic.

£12m was provided in 2020/21 and a further £1.5m in 2021/22, which represented an additional charge to Opex in those years.

£6.6m was released during 2021/22 as the impact of the pandemic on our collection rates was not as significant as initially expected. This provision is now being used (and adjusted each year) to reflect the ultimate collectability of charges. It is calculated using externally published metrics such as forecasts of movements in future unemployment rates as we have found a strong correlation between the movement in those metrics and the bad debt charge.

There was also a further release in 2021/22 as we extended our provisioning rates to only fully provide for debt after six years rather than our previous methodology of four years, as agreed with our external auditors.

## Depreciation Lines 1.9 - 1.12

### Lines 10 and 12: Depreciation/Amortisation on legacy assets existing at 31 March 2015

The reported values are as per depreciation forecasts from our ERP for assets held principally in retail commissioned prior to 1 April 2015.

Most assets used in the retail business are relatively short life assets and so the depreciation on assets existing at 31 March 2015 tails off quickly as assets become fully depreciated.

### Lines 11 and 13: Depreciation/Amortisation on assets acquired after 1 April 2015

For assets commissioned between 1 April 2015 and 31 March 2023, we have used actual depreciation/amortisation for assets held principally in retail.

For assets to be commissioned in the future, we have used forecast capex for the remainder of AMP7 and all of AMP8 together with anticipated commissioning profiles.

## Recharges Lines 1.14 - 1.18

### Lines 14 and 16: Recharge from wholesale for assets principally used by wholesale

Recharge of depreciation on assets held by wholesale but used by retail. This primarily relates to IT systems which are shared between wholesale and retail.

Forecast numbers based on forecast capex, expected commissioning profiles and expected average asset lives.

## Total retail costs Lines 1.19 - 1.22

### Line 21: Pension deficit repair costs

We have allocated deficit recovery payments to price controls in line with those reported in our Annual Report and Accounts 2023.

Deficit recovery payments have been agreed with pension trustees until 2026. The retail share of the agreed deficit payments are reflected in the table.

## Debt written off Line 1.22

The value of debt written off in each year is broadly consistent in each year of AMP7 and AMP8 as older debt meets the criteria for being written off. The exception is 2022/23 where an exercise is being undertaken to write off large amounts of old debt to assist customers during the cost of living crisis.

## Capital expenditure Line 1.24

This line is based on actual expenditure for the period up to 31 March 2023 and forecast retail capex expenditure post 1 April 2023. This is forecast to increase in real terms across the remainder of AMP7 and AMP8 where additional investment is being made to further improve the customer experience.

# RET1a Cost analysis - retail

Throughout the entirety of table RET1A, there is no expenditure of any kind on Business Retail as we exited the NHH retail market upon market opening and transferred this responsibility to Anglian Water Business (National) Ltd (who are currently known as the retailer Wave).

## Operating expenditure Lines 1a.1 - 1a.9

### Line 2: Debt Management

Our cost per customer of debt collection is forecast to be £3.25 at the end of AMP7 and reducing to £3.19 by the end of AMP8, in 2022/23 prices. We expect absolute costs to grow each year as more properties are built and our customer numbers grow.

### Line 7: Other operating expenditure

The forecast for the cost per customer for AMP8 is to reduce from £7.69 in 2025/26 to £7.48 in 2029/30, in 2022/23 prices. This represents an increasing efficiency as the servicing of new customers is absorbed into the current cost structure.

## Depreciation Lines 1a.10 - 1a.13

## Recharges Lines 1a.14 - 1a.18

The costs reported from 2020/21 to 2022/23 are taken directly from table 2C in our annual report, with our reported 2022/23 costs kept consistent in real terms to derive the final two years of AMP7 and continuing into AMP8.

# RET2 Residential retail

## Residential revenue Lines 2.1 - 2.3

### Line 2.1 Wholesale revenue

For 2022-23 the figure is taken from line 1 of table 2F of the APR.

For 2023-24 the figure reflects the revenue budget by customer class used in setting charges for the charging year based on the allowed revenue consistent with line 1 of table PD5 and customer numbers set out in line 4 of table SUP1A.

For 2024-25 the figure reflects the projected allocation by customer class for revenue recovery based on the allowed revenue consistent with line 1 of table PD5 and the customer numbers set out in line 4 of table SUP1A.

### Line 2.2 Retail Revenue

For 2022-23 the figure is taken from line 2 of table 2F of the APR.

For 2023-24 the figure is the forecast equivalent of line 2 of the table 2F and reflects the average cost to serve/modification factor set out in the Competition and Markets Authority Price Determination, the forecast customer numbers set out in line 4 of table SUP1A, and the in-period retail performance adjustment for 2021-22 confirmed in the In-period determination published by Ofwat on 15 November 2022, with the cross-subsidy for the LITE social tariff calibrated when setting charges at a level to orchestrate an under-recovery in retail revenue, given forecast take-up on LITE - see comment below for line RET2:10 regarding prior over-recovery of retail revenue.

For 2024-25 the figure reflects the average cost to serve/modification factor set out in the Competition and Markets Authority Price Determination, the forecast customer numbers set out in line 4 of table SUP1A, and the in-period retail performance adjustment for 2022-23 set out in the In-period adjustments model submitted on 14 July 2023, with the cross-subsidy for the LITE social tariff to be calibrated at a level to orchestrate an under-recovery in retail revenue - see comment below for line RET2:10.

## Retail revenue Lines 2.4 - 2.6

### Line 2.4 Retail revenue

See line 2.

### Line 2.5 Revenue sacrifice

No revenue sacrifice has been made or is forecast to be made, during the AMP.

## Customer information Lines 2.7 - 2.8

### Line 2.7 Actual customers "AC"

Number of customers for 2022-23 are as per those reported in table 2F of the Annual Performance Report. The forecast customer numbers for 2023-24 to 2024-25 is consistent with the forecast made for table SUP1A.

### Line 2.8 Reforecast customers

As part of the annual charge setting process a revised forecast of customer numbers is made. For year 2022-23 the reforecast is as set out in line 8, table 2F of the APR. For the year 2023-24, for which charges have been finalised, the reforecast of customer numbers is that used to set the year's charges and is consistent with the forecast set out in table SUP1A.

For 2024-25 a provisional reforecast has been made. This is consistent with the forecast set out in table SUP1A.

## Adjustment Lines 2.9 - 2.10

### Line RET 2.9 Allowed revenue "R"

The Allowed Revenue is calculated with reference to the average cost to serve set out in the Competition and Market Authority Price Determination and the Final Determination of Anglian Water's In-period Outcome Delivery Incentives.

For 2022-23 the revenue reflects the Final Determination of Anglian Water's In-period Outcome Delivery Incentives for 2020-21 published on 11 November 2021.

For 2023-24 the revenue reflects the Final Determination of Anglian Water's In-period Outcome Delivery Incentives for 2021-22 published on 15 November 2022.

For 2024-25 the revenue reflects the In-period Outcome Delivery Incentive submission relating to 2022-23  made on 14 July 2023.

## Line 2.10 Net adjustment

Between 2020-21 to 2022-23 there was a net over recovery of revenue against the control. This is primarily due to lower take-up on our social tariff LITE over the period, compared to the forecasts when setting charges. These forecasts assumed that take-up would increase as a consequence of the economic impact of the pandemic. We understand this impact was moderated as a consequence of the continuation of furlough arrangements beyond that expected resulting in an over recovery.

Take-up of the social tariff LITE has increased in 2022-23 and we expect this to continue through to 2024-25. As a result, we expect to balance retail revenue recovery back to a neutral position across AMP7.

# RET4 Cost adjustment claims - residential retail

We are not submitting any retail cost adjustment claims.

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**Anglian Water Services Limited**
Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
Cambridgeshire
PE29 6XU

**anglianwater.co.uk**