

Data Table Commentaries

7 Retail

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RET4 has intentionally been left blank as we are not submitting any cost adjustment claims. However, the Additional information inputs in excel Column E have been completed with NA to prevent a Proteus error.

1. Introduction

These tables collect data related to companies' forecast costs, associated drivers and revenues over the period 2022-30 for residential retail and business retail for Welsh companies.

There are 4 data tables related to the cost assessment for residential retail and business retail.

Table RET1, RET3 and RET4 collect data for cost assessment for retail. To establish an independent baseline estimate of retail expenditure accurate historic and forecast costs and volumes for a range of expenditure drivers will be needed to develop the cost assessment approach.

Table RET 2 collects forecast 2023-24 and 2024-25 data needed for the residential retail revenue reconciliation model.

Where Confidence Grades are not detailed against line commentary, all forecasts have been produced from historical data with a confidence grade of B3 or better.

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

Operating expenditure

RET1.1 Customer services Confidence grade A1

See commentary in RET1.8 below

RET1.2 Debt management Confidence grade A1

See commentary in RET1.8 below

RET1.3 Doubtful debts Confidence grade A1

See commentary in RET1.8 below

RET1.4 Doubtful debts (smoothed) Confidence grade A1

In 2019-20 and 2020-21 the charge was £22.700m and £28.780m respectively. There are no expected adjustments in the Doubtful debts charge forecast therefore the Doubtful Debts charge (smoothed) forecast is the same as the Doubtful Debts charge forecast.

RET1.5 Meter reading Confidence grade A1

See commentary in RET1.8 below

RET1.6 Other operating expenditure Confidence grade A1

See commentary in RET1.8 below

RET1.7 Local authority and Cumulo rates Confidence grade A2

The rates charges in line RET1a.7 have been calculated on a site-by-site basis for the offices etc. used by the Retail business.

The effect of the revaluation on 1 April 2023 was to increase the rates charge by £5,000.

Further business rates revaluations will be undertaken by the Valuation Office Agency in April 2026 and 2029.

It is difficult to predict RVs at future revaluation dates, but we would ordinarily expect the rates cost of the Retail business to increase with inflation over time. This is in line with the PR24 methodology which provides a cost allowance for business rates which increases in line with CPIH. Therefore, no adjustment has been made to the underlying rateable values at these dates.

RET1.8 *Total operating expenditure excluding third party services Confidence grade A1*

Commentary for Lines 1 – 7:

In 2022/23 there were several one-off costs incurred; these related to pension recovery costs of £5.4m and £1.1m of payments to employees in response to the cost-of-living crisis. These costs are therefore not assumed to continue throughout the forecast. We also incurred additional operational costs due to the move to more cloud-based services rather than the traditional capital expenditure. These Software as a Service (SaaS) costs are expected to continue throughout the plan.

The remainder of the year-on-year variations are in relation to the Retail efficiency plans and can be broken down into:

- Digital expansion– we will continue to build upon and enhance our digital offerings giving customers more online functionality to be able to self-serve for a large range of transactions. We will continue to promote our My Account online portal targeting 80% take up by 2028 (from 33% in 2022/23). This will reduce the volume of paper output as customers opt for e-bills and other electronic correspondence. We also anticipate a reduction in incoming calls as customers choose to self-serve when most convenient for them.
- Meter Reading – the introduction of smart metering technology will allow us to reduce our cost of meter reading over the course of the AMP. Additionally, as we increase our promotion of water efficiency and provide customers with the tools to understand their usage, this is likely to support the growth in use of our other digital services. We anticipate initial additional customer services costs arising from the increase in the meter base as it will drive bills and contacts.
- Doubtful debt – our doubtful debt charge is one of the highest in the industry and whilst this is impacted by operating in an area with the highest levels of income poverty in the UK, we believe we can continue to reduce our doubtful debt charge through such initiatives as; educating customers on water consumption, offering more frequent billing through our progressive metering strategy, improving data shares and analytics to facilitate proactive enrolment onto social tariffs and utilising data to drive more targeted collection approaches to support our customers diverse needs. We have also identified a potential prudency in our doubtful debt charge and will review an alternative model over the remainder of AMP 7 that accurately reflects collections performance and the risk of the portfolio.
- Income commission – In 2022/23 we successfully repatriated some 40,000 customers who were previously billed via their social landlord, who in turn collected payments. There will be an increase in contacts, bills and collection activity, however we still anticipate a net benefit of £1.2m per annum. We have allowed 12-18 months for an elevated level of activity associated with these customers and the full benefits will be realised at the start of AMP8.

Also factored into the plan are the following cost pressures:

- Given the current challenging economic environment, we are expecting increased debt management costs, particularly over the next few years as inflation remains high and unemployment forecasts look unfavourable.
- Bill increases expected over AMP 8 have a direct impact on our doubtful debt charge and therefore need to be factored into the forecast. The table below identifies the offsetting impact on the doubtful debt efficiency plans.

Overview of cost efficiencies:

Retail Operating Expenditure	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Net Cost Efficiencies	-£1.62m	-£0.81m	-£1.03m	-£0.51m	-£0.62m	-£4.57m
Doubtful Debt Efficiencies	-£5.40m	-£0.50m	-£0.50m	-£0.50m	-£0.50m	-£7.40m
Bill Increase Impact on Doubtful Debt	£2.72m	£0.44m	£0.56m	£0.52m	£0.58m	£4.82m
Year on Year Movement	-£4.30m	-£0.87m	-£0.96m	-£0.49m	-£0.54m	-£7.15m

To be able to achieve our ambitious efficiency plans we will look to bring forward some of the efficiencies into the remaining years of PR19 to enable the run rate in PR24.

Depreciation

RET1.9 Depreciation (tangible fixed assets) on assets existing at 31 March 2015

RET1.10 Depreciation (tangible fixed assets) on assets acquired after 1 April 2015

RET1.11 Amortisation (intangible fixed assets) on assets existing at 31 March 2015

RET1.12 Amortisation (intangible fixed assets) on assets acquired after 1 April 2015

Confidence grade A1

Lines 9-12

Legacy assets existing at 31 March 2015:

The depreciation is in relation to the purchase of our office building followed by various fit outs. The total original capex value allocated to Retail was £9m with a weighted average life of 50 years. As at 2022/23 there was a weighted average life of 44 years remaining with a net book value of £4.8m by the end of AMP 8.

The amortisation is in relation to “Rapid Xtra” our billing system. This had an original capex value of £34m with an asset life of 20 years. As at 2022/23 there was a remaining life of 12 years with a net book value of £8.5m by the end of AMP 8.

All assets are depreciated on a straight-line basis.

Assets acquired during the 2015 to 2020 period:

Of the assets acquired during 2015-2020, there are assets with an original value of £37.5m still depreciating which had an original weighted average asset life of 8 years. As at 2022/23 there was a weighted average asset life of 4 years remaining with a net book value of £1.6m by the end of AMP 8. The remaining assets which had a longer original asset life predominately relate to our “My Account” online portal depreciated over 10 years and an upgrade to our “Rapid Xtra” billing system depreciated over 20 years. The impact of these assets beginning to fully depreciate can be seen by the reduction in the depreciation forecast between 2026-2027.

All assets are depreciated on a straight-line basis.

Assets planned after 1 April 2020:

There is £20m of capex planned from 2020-2025 predominately within improving our digital offerings through our “My Account” online portal, upgrading our systems and exploring a Welsh Water app. Assuming that the majority of the assets will have a life of 7 years depreciated on a straight-line basis, we forecast the net book value to be £1.4m by the end of AMP 8.

There is £30m of capex planned from 2025-2030 which includes continuing with our digital expansion, improvements to billing and payment services, system upgrades and enabling the benefits from our progressive metering strategy. In the final year of AMP 8 we also plan to explore a new customer system. Assuming that the majority of the assets will have a life of 7 years depreciated on a straight-line basis, we forecast the net book value to be £14.4m by the end of AMP 8 with the cost of any new customer system being capitalised in AMP 9.

Recharges

- RET1.13 Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)*
- RET1.14 Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)*
- RET1.15 Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale*
- RET1.16 Income from wholesale assets acquired after 1 April 2015 principally used by retail*
- RET1.17 Net recharges costs*

Lines 13 to 17

Recharges relate to principal use where we recharge for the use of shared assets on an annual basis. Forecasted values for assets shared by retail and wholesale for assets existing after 1 April 2015 are based on the principal use of IT assets. Our forecast excludes operational assets and facilities costs. For a full explanation as to our forecasting of principle use see data table commentaries supporting Wholesale Wastewater CWW1 section on Principal use- an explanation of the nature and extent of 'principal use' recharges between business units.

- RET1.18 Total retail costs excluding third party and pension deficit repair costs*

Calculated Cells

RET1.18 calculation includes net recharges in RET 1.17 for residential columns but not business columns. We therefore raised a query with Ofwat in order to seek approval to amend the formula to include net recharges in RET 1.17 for both residential and business to ensure no disparity between the APR 2022-23 submission and PR24.

Ofwat responded with the following:

Upon reviewing we have found that the APR and BPST's calculate 2C.18 and RET1.18 (a) in the same way. Under the current formula, net recharges costs are included only in the calculation of household retail total costs. This appears consistent between the tables. However, if the non-household part of the business is also incurring net recharges costs, we confirm that you may overwrite the formula for the non-household calculation to include these costs. We do not consider there to be an issue with the household calculation, and therefore do not expect any formula overrides for this data.

We have therefore made the decision to override the formula in the table to include net recharges costs in RET1.17 in the calculation of total retail costs excluding third party and pension deficit repair costs (RET 1.18) for business as well as residential.

- RET1.19 Third party services operating expenditure*

We have no third-party service costs in Retail.

- RET1.20 Pension deficit repair costs Confidence grade A1*

The values for 2022/23 are copied from the 2022/23 Annual Performance Report.

As at 31 March 2023 the IAS 19 accounting valuation of the DCWW Pension Scheme, Welsh Water's defined benefit scheme, was an asset of £12.010m, having taken into account a £30.800m exceptional charge for awards of pension increases above a 5% cap (see 2022/23 Annual Performance report).

The scheme is closed to new members and future accruals, all staff instead having the opportunity to be members of the defined contribution scheme, the DCWW Group Personal Pension Plan.

It is not possible to predict the future impact of market movements on the defined benefit valuation, however it has been considered prudent to assume that the IAS 19 valuation will not be an asset for the period of the forecast. No deficit recovery payments are anticipated, therefore these rows therefore report a zero value.

RET1.21 *Total retail costs including third party and pension deficit repair costs*

Calculated cells

Debt written off

RET1.22 *Debt written off Confidence grade B3*

The debt written off forecast is based on the doubtful debt provision where the write off is assumed to happen 4 years after it is provided for. The trend therefore reflects higher levels of provisioning during the end of AMP 7 being written off at the beginning of AMP 8 before falling to reflect the lower bad debt provision forecast.

Capital expenditure

RET1.23 *Capital expenditure Confidence grade A1*

See commentary for RET1.9-12.

Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale

RET1.24 *Demand-side water efficiency - gross expenditure Confidence grade B2*

The gross expenditure of demand-side water efficiency relates to expenditure funded by wholesale and retail.

Within wholesale, the costs relate to the education and communications teams who produce customer literature and create customer awareness campaigns. These costs are expected to remain consistent into AMP 8. Our Cartref project, which helps customers understand how much water they use, where they can make savings and part of the service involves fixing leaking loos free of charge, is fully capex funded and therefore not captured here.

Within retail, the costs predominately relate to our billing operations team whose role it is to carry out investigations into usage and our customer liaison team who manage jobs raised around high consumption or leakage and also deal with complaints over consumption. Other costs include an element of our vulnerable customer team where a proportion of their time is spent having conversations on water efficiency on the phone or when out in the community.

The net retail expenditure has increased from 2022/23 due to having more data available to be able to identify these costs to better reflect our activity in this area. The forecast shows the costs reducing slightly due to the general cost of retail falling as efficiencies are made.

RET1.25 *Demand-side water efficiency - expenditure funded by wholesale Confidence grade B2*

See commentary for line 24

RET1.26 *Demand-side water efficiency - net retail expenditure Confidence grade B2*

See commentary for line 24

RET1.27 *Customer-side leak repairs - gross expenditure Confidence grade B2*

Customer-side leak repairs are expected to continue in line with costs incurred over the past 3 years. All costs are fully funding by wholesale and therefore there are no costs within retail.

RET1.28 *Customer-side leak repairs - expenditure funded by wholesale Confidence grade B2*

See commentary for line 27

RET1.29 *Customer-side leak repairs - net retail expenditure Confidence grade B2*

See commentary for line 27

3. RET1a – Cost analysis – residential retail

Table RET1 reports our retail costs post frontier shift and RPEs. RET1a is a copy of RET1 but represents the costs pre frontier shift and RPEs. Table RET1a is calculated by applying the RPE and frontier assumptions in SUP11 to RET1. SUP11 reports the frontier shift and RPEs for the main cost categories including energy, labour etc.

An illustration of the calculation is provided in the table below.

	RET1.1 Reported Value (2023-24) £m	Retail Net Price Effects (SUP11.78) %	RET1a.1 Reported Value- Calculated (2023-24) £m
Customer Service Calculation	17.068	(0.05%)	17.077 (RET1/(1+SUP11.78))

All costs have been uplifted using the retail net price changes in *SUP11.78 Cumulative net price change – Retail* with the exception Debt Written off in RET1a.22. An adjustment for debt written off hasn't been applied as the figure included is a consequence of accounting treatment and there is not scope for frontier shift and RPEs.

4. RET 2 Residential retail

All lines – 22/23 data is in line with that reported in APR table 2F.

Residential revenue

RET2.1 *Wholesale revenue*

Wholesale revenue is as shown in table RR27 lines (4 (water) and 12 (wastewater)).

22/23 data is as reported in the APR table 2i.

23/24 data is taken from the charge setting model for the year. Wholesale revenue increased in 23/24 mainly due to collection of under-recovered revenue in relation to 20/21 which was due in 22/23 but we chose to defer collection of some of it until 23/24.

24/25 data is calculated on the assumption that charges will be set for 24/25 to recover the allowed revenues. The decrease in 24/25 is mainly due to the ODI penalties incurred in 22/23.

RET2.2 *Retail revenue*

Retail revenue is as shown in table RR27 line 25.

22/23 data is as reported in the APR table 2i.

23/24 data is taken from the charge setting model for the year. In 23/24 we set charges to recover retail revenue £10m lower than the allowance. This was to provide an early return of the over-recovery of revenue in 21/22 attributable to take up of social tariffs being lower than assumed when we set charges. This over-recovery was due to be returned to customers through the PR24 reconciliation adjustment but we chose to return it early in customers' interests.

The revenue forecast for 23/24 is as per the charging model assumptions which assumes take up of the maximum social tariff capacity, outturn retail revenue will be higher if the full social tariff take-up does not occur. This will be corrected for through the PR24 reconciliation adjustment.

24/25 data is calculated on the assumption that charges will be set for 24/25 to recover the allowed revenues.

RET2.3 *Total residential revenue*

This line is calculated as the sum of lines RET2.1 and RET2.2

Retail revenue

RET2.4 *Revenue Recovered ("RR")*

This data is as per line RET2.2, as required in the guidance.

RET2.5 *Revenue sacrifice*

Welsh Water makes an annual contribution to social tariff funding drawn from company reserves, in addition to the amounts funded by customers through bill cross subsidies.

The initial value set at the start of AMP7 has been subject to annual inflation for use in annual charge setting. This is reported annually within the APR table 2F line 5.

The forecast contribution in 23/24 and 24/25 is rebased to 22/23 prices for the purposes of this table.

RET2.6 *Actual revenue (net)*

This line is calculated as the sum of lines RET2.4 and RET2.5

Customer Information

RET2.7 *Actual customers ("AC")*

This line shows the actual customer numbers for 22/23, and the latest forecasts for 23/24 and 24/25.

RET2.8 *Reforecast customers*

This line shows the customer number forecasts used for charge setting for 22/23 and 23/24. For 24/25 this reflects the latest forecast, as shown in line RET2.7.

Adjustment

RET2.9 *Allowed revenue ("R")*

Allowed revenue is as calculated through the PR19 Retail Revenue Reconciliation Model

RET2.10 *Net adjustment*

This line is calculated as RET2.9 minus RET2.6.

The forecast variance of £9.7m for 23/24 reflects the decision to set charges lower than the revenue allowance, as explained in the commentary for RET2.2 above.

Other residential information**RET2.11** *Average household retail revenue per customer*

This is a calculated field from line 6 divided by line 7. The reduction in revenue per customer in 23/24 is due to the early return of residential retail revenue over-recovery, as explained in the commentary for line RET2.2 above.

5. RET3 Business retail tariffs (Welsh companies only)

Confidence Grade - B2

Table RET3 requires 10 separate tariff bands. We have forecast data for movements in overall numbers of measured and unmeasured water and waste customers. We assume that all movement in the measured categories occurs within the 0-0.5Ml/a customer bands.

Costs per customer are calculated on the basis of these forecasts.

We assume that net margins and debtor days are the same for each non-contestable customer type.

We assume a net margin of 1% for non-contestable customers, in line with Ofwat's early view and the PR19 allowance. For contestable (>50Ml/a water) customers we assume a net margin of 3.19%, which is consistent with a gross margin of 3.30% as allowed at PR19.

The guidance for the column 2025-30 does not specify whether this should be a total or average, we have interpreted it as the average for years 2025-26 to 2029-30.

Non-contestable customers:

The cost to serve is reducing year on year in line with the efficiency plans identified in our overall retail business plan (see line RET1.8) and allocated between residential and business retail customers through drivers identified in our annual APR process. The main areas of efficiency for our business customers are:

Customer services – a cost to serve reduction of 18% over AMP 8 driven particularly within our digital expansion initiatives. Such initiatives as expanding our “My Account” online portal to support complex multi-site account management and team access to online accounts will drive efficiencies through switching from paper to e-billing and increasing the ability to self-serve when most convenient for them, reducing the need to call us.

Meter reading – a cost to serve reduction of 21% over AMP 8 enabled by the introduction of smart metering technology through our progressive metering strategy.

Doubtful debt: a cost to serve reduction of 14% over AMP 8 through initiatives such as; offering more frequent billing through our progressive metering strategy, educating customers on water usage and improving the use of data and analytics to drive a more targeted collection approach. We have also identified a potential prudency in our doubtful debt charge and will review an alternative model over the remainder of AMP 7 that accurately reflects collections performance and the risk of the portfolio.

Overall, the plan sees the non-contestable customers cost to serve reduce by £5.61 (16%) over AMP 8 (2024/25 – 2029/30) which we believe is an ambitious and stretching to ensure we are operating at an efficient level.

Contestable customers:

The 50+ ML water (in the market) customers have a physically separate team (the Competitive Retail Team - CRT) to operate Welsh Water's activities with the 112 competitive retail sites to ensure that non-household retail functions receive no advantage as a result of being associated with an incumbent monopoly supplier. To ensure these customers receive a smooth customer experience, the CRT are also responsible for all the eligible customers' associated sites.

This team is based in a separate office under separate management and uses separate systems from colleagues serving non-eligible customers or those involved in wholesale activities. The CRT reports into the Commercial Division which is organisationally separate from our incumbent business activities. The activities undertaken by the CRT include all those needed to provide retail services to their customers, including account management, billing, debt collection, contact centre, query resolution, and all interaction with the competitive market operator (MOSL) and their CMOS market systems.

Due to the fixed costs associated with operating a separate team and the small number of customers eligible in Wales, the cost per customer is significantly higher than that of the non-household retail functions.

Band 1; water unmeasured**RET3.1** *Number of customers ~ Band 1; water unmeasured*

Unmeasured non-household customer numbers are consistent with forecasts shown in table SUP1A, which are drawn from the forecasts used for the draft Water Resources Management Plan.

RET3.2 *Debtor days ~ Band 1; water unmeasured*

As per the agreement with Ofwat, bands 1-4 (0-50ML water customers) are all reported with the same debtor days. Similarly to line 3.4, we do not have the data available to distinguish between our non-contestable and wastewater customers, therefore all customers in bands 1-4 and 6-10 have the same debtor days.

Debtor days is a calculation used to evaluate the total number days in which debtors pay their bill, factors include the value of debt, non-household revenue and total number of days in the year.

Debtor days is forecast to remain static at 12 days over the AMP.

RET3.3 *Net margin percentage ~ Band 1; water unmeasured*

This is set as 1% to align with Ofwat's "early view" as set out in the PR24 Final Methodology.

RET3.4 *Retail cost per customer ~ Band 1; water unmeasured*

As per agreement with Ofwat (see email: PR24 Query – Approach to Table RET3 and Financial Model for Business Retail Customers), bands 1-4 (0-50ML water customers) all have the same unit cost. The cost per customer for these customers is derived from the total business retail costs as shown in RET 1, less pre-AMP 6 depreciation due to the way the financial model treats this legacy depreciation.

£m	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30
Business Retail Costs (RET1)	6.54	6.39	6.33	6.10	5.81	5.68	5.54	5.48
Pre-AMP 6 Depreciation	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)

Business Retail Costs (RET3)	6.41	6.26	6.20	5.97	5.68	5.55	5.41	5.35
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As we have a separate team dealing with our contestable water customers (see line 27) we are able to isolate these costs and remove them from the total business retail costs to identify the total business retail costs for dealing with non-contestable and wastewater customers.

We do not distinguish costs between our non-contestable and wastewater customers, therefore, the remaining costs are split between the number of customers in these bands (band 1-4, 6-10).

RET3.5 *Forecast allocated wholesale charge (nominal price base) ~ Band 1; water unmeasured*

Forecast wholesale revenue is taken from the business wholesale revenue as shown in table RR27, excluding third party revenue. This is then indexed to nominal prices using the inflation assumptions as shown in table PD1.

The allocation of revenue between each band is in line with the outturn 22/23 proportions:

Proportion of Wholesale Revenue	22/23
water unmeasured	1.2%
water measured	
water 0-0.5	11.7%
water 0.5-5	22.2%
water 5-50	10.2%
water 50+	4.8%
waste unmeasured	1.7%
waste measured	
waste 0-0.5	15.0%
waste 0.5-5	22.5%
waste 5-50	8.7%
waste 50+	2.0%

Band 2; water 0-0.5 MI/a

RET3.6 *Number of customers ~ Band 2; water 0-0.5 MI/a*

Measured non-household customer numbers are consistent with forecasts shown in table SUP1A, which are drawn from the forecasts used for the draft Water Resources Management Plan. For the purposes of table RET3, we assume that the numbers in bands 3-5 remain constant at the 22/23 level, with movements in the overall number of non-household customers assumed to impact band 2 only.

RET3.7 *Debtor days ~ Band 2; water 0-0.5 MI/a*

See line 3.2

RET3.8 *Net margin percentage ~ Band 2; water 0-0.5 MI/a*

This is set as 1% to align with Ofwat's "early view" as set out in the PR24 Final Methodology.

RET3.9 *Retail cost per customer ~ Band 2; water 0-0.5 MI/a*

See line 3.4

RET3.10 *Forecast allocated wholesale charge (nominal price base) ~ Band 2; water 0-0.5 MI/a*

The allocation of revenue between each band is in line with the outturn 22/23 proportions, as shown in the commentary for RET3.5.

Band 3; water 0.5-5MI/a

RET3.11 *Number of customers ~ Band 3; water 0.5-5MI/a*

This is assumed to remain constant at the 22/23 level.

RET3.12 *Debtor days ~ Band 3; water 0.5-5MI/a*

See line 3.2

RET3.13 *Net margin percentage ~ Band 3; water 0.5-5MI/a*

This is set as 1% to align with Ofwat's "early view" as set out in the PR24 Final Methodology.

RET3.14 *Retail cost per customer ~ Band 3; water 0.5-5MI/a*

See line 3.4

RET3.15 *Forecast allocated wholesale charge (nominal price base) ~ Band 3; water 0.5-5MI/a*

The allocation of revenue between each band is in line with the outturn 22/23 proportions, as shown in the commentary for RET3.5.

Band 4; water 5-50MI/a

RET3.16 *Number of customers ~ Band 4; water 5-50MI/a*

This is assumed to remain constant at the 22/23 level.

RET3.17 *Debtor days ~ Band 4; water 5-50MI/a*

See line 3.2

RET3.18 *Net margin percentage ~ Band 4; water 5-50MI/a*

This is set as 1% to align with Ofwat's "early view" as set out in the PR24 Final Methodology.

RET3.19 *Retail cost per customer ~ Band 4; water 5-50MI/a*

See line 3.4

RET3.20 *Forecast allocated wholesale charge (nominal price base) ~ Band 4; water 5-50MI/a*

The allocation of revenue between each band is in line with the outturn 22/23 proportions, as shown in the commentary for RET3.5.

Band 5; water 50+MI/a

RET3.21 *Margin type ~ Band 5; water 50+ML/a*

A Net Margin approach is applied to band 5 customers, Water Customers>50ML/a, this is line with guidance for line RR8.17- "Business Retail; Net Margin Percentage- Tariff Band (2)"

RET3.22 *Tariff categorisation ~ Band 5; water 50+ML/a*

This has been left blank intentionally as there was no guidance.

RET3.23 *Number of customers ~ Band 5; water 50+ML/a*

This is assumed to remain constant at the 22/23 level.

RET3.24 *Debtor days ~ Band 5; water 50+ML/a*

Debtor days is a calculation used to evaluate the total number of days in which debtors pay their bill, factors include the value of debt, non-household revenue and total number of days in the year. The contestable customers have a higher debtor day than the non-contestable customers as they wouldn't typically pay by direct debit and would pay on receipt of the bill.

Debtor days is forecast to remain static at 36 days over the AMP.

RET3.25 *Net margin percentage ~ Band 5; water 50+ML/a*

At PR19 a gross margin of 3.3% was allowed for customers in tariff band 2. We propose that the same gross margin is applied at PR24. For the purpose of the submission we have calculated the equivalent net margin to reflect a gross margin of 3.3%, which produces a net margin of 3.19%.

RET3.26 *Gross margin percentage ~ Band 5; water 50+ML/a*

This line has been intentionally left blank. As explained in the commentary for RET3.25 above

RET3.27 *Retail cost per customer ~ Band 5; water 50+ML/a*

The 50+ ML water (in the market) customers have a physically separate team (the Competitive Retail Team - CRT) to operate Welsh Water's activities with the 112 competitive (+ 50 ML customer) retail sites to ensure that non-household retail functions receive no advantage as a result of being associated with an incumbent monopoly supplier. To ensure these customers receive a smooth customer experience, the CRT are also responsible for all the eligible customers' associated sites.

As the CRT is separate to the non-contestable customers, it is possible isolate these costs. To calculate the cost per customer, the cost of this team is divided by the total number of eligible customers and associate sites in which the CRT manage.

RET3.28 *Forecast allocated wholesale charge (nominal price base) ~ Band 5; water 50+ML/a*

The allocation of revenue between each band is in line with the outturn 22/23 proportions, as shown in the commentary for RET3.5.

Band 6; wastewater unmeasured

RET3.29 *Number of customers ~ Band 6; wastewater unmeasured*

Unmeasured non-household customer numbers are consistent with forecasts shown in table SUP1A, which are drawn from the forecasts used for the draft Water Resources Management Plan.

RET3.30 *Debtor days ~ Band 6; wastewater unmeasured*

See line 3.2

RET3.31 *Net margin percentage ~ Band 6; wastewater unmeasured*

This is set as 1% to align with Ofwat's "early view" as set out in the PR24 Final Methodology.

RET3.32 *Retail cost per customer ~ Band 6; wastewater unmeasured*

See line 3.4

RET3.33 *Forecast allocated wholesale charge (nominal price base) ~ Band 6; wastewater unmeasured*

The allocation of revenue between each band is in line with the outturn 22/23 proportions, as shown in the commentary for RET3.5.

Band 7; wastewater 0-0.5MI/a**RET3.34** *Number of customers ~ Band 7; wastewater 0-0.5MI/a*

Measured non-household customer numbers are consistent with forecasts shown in table SUP1A, which are drawn from the forecasts used for the draft Water Resources Management Plan. For the purposes of table RET3, we assume that the numbers in bands 3-5 remain constant at the 22/23 level, with movements in the overall number of non-household customers assumed to impact band 2 only.

RET3.35 *Debtor days ~ Band 7; wastewater 0-0.5MI/a*

See line 3.2

RET3.36 *Net margin percentage ~ Band 7; wastewater 0-0.5MI/a*

This is set as 1% to align with Ofwat's "early view" as set out in the PR24 Final Methodology.

RET3.37 *Retail cost per customer ~ Band 7; wastewater 0-0.5MI/a*

See line 3.4

RET3.38 *Forecast allocated wholesale charge (nominal price base) ~ Band 7; wastewater 0-0.5MI/a*

The allocation of revenue between each band is in line with the outturn 22/23 proportions, as shown in the commentary for RET3.5.

Band 8; wastewater 0.5-5MI/a**RET3.39** *Number of customers ~ Band 8; wastewater 0.5-5MI/a*

This is assumed to remain constant at the 22/23 level.

RET3.40 Debtor days ~ Band 8; wastewater 0.5-5MI/a

See line 3.2

RET3.41 Net margin percentage ~ Band 8; wastewater 0.5-5MI/a

We have chosen to maintain our margin at 1% net in line with the market, this adheres with Ofwat guidance from previous years.

RET3.42 Retail cost per customer ~ Band 8; wastewater 0.5-5MI/a

See line 3.4

RET3.43 Forecast allocated wholesale charge (nominal price base) ~ Band 8; wastewater 0.5-5MI/a

The allocation of revenue between each band is in line with the outturn 22/23 proportions, as shown in the commentary for RET3.5.

Band 9; wastewater 5-50MI/a**RET3.44** Number of customers ~ Band 9; wastewater 5-50MI/a

This is assumed to remain constant at the 22/23 level.

RET3.45 Debtor days ~ Band 9; wastewater 5-50MI/a

See line 3.2

RET3.46 Net margin percentage ~ Band 9; wastewater 5-50MI/a

This is set as 1% to align with Ofwat's "early view" as set out in the PR24 Final Methodology.

RET3.47 Retail cost per customer ~ Band 9; wastewater 5-50MI/a

See line 3.4

RET3.48 Forecast allocated wholesale charge (nominal price base) ~ Band 9; wastewater 5-50MI/a

The allocation of revenue between each band is in line with the outturn 22/23 proportions, as shown in the commentary for RET3.5.

Band 10; wastewater 50+MI/a**RET3.49** Number of customers ~ Band 10; wastewater 50+MI/a

This is assumed to remain constant at the 22/23 level.

RET3.50 Debtor days ~ Band 10; wastewater 50+MI/a

See line 3.2

RET3.51 Net margin percentage ~ Band 10; wastewater 50+MI/a

This is set as 1% to align with Ofwat's "early view" as set out in the PR24 Final Methodology.

RET3.52 Retail cost per customer ~ Band 10; wastewater 50+MI/a

RET3.53 Forecast allocated wholesale charge (nominal price base) ~ Band 10; wastewater 50+MI/a

The allocation of revenue between each band is in line with the outturn 22/23 proportions, as shown in the commentary for RET3.5.