TMS62 PR24 Data Table Commentary - Retail

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

Data Table	Whole Table or Individual Line/s	Commentary
RET1	Whole Table	RET1 contains Retail cost to serve analysis across Ofwat's upstream activities. Data table inputs is derived from internal forecasts of management costs and translated to price control using the most recent audited 2022/23 accounts APR percentages. This data table provides the make-up of retail cost to serve by upstream activities like Customer services, Debt management, Doubtful debt, Meter reading and other operating expenditures. Recharge to capital: To get to net operating expenditure which gets translated to price control upstream activities, a recharge to capital is deducted from gross operating expenditures. Recharge to capital is the portion of operating expenditures that is ascribed to projects that are capital in nature (either through direct or time sheet allocation). Recharge to Capital assumptions in AMP8 forecasts was signed off by management. This materially declined in AMP8 for some parts of the retail management costs, where the expectation is that there will be less time allocated to capital projects. Additional costs driven by macroeconomic headwinds: In AMP8, the business has built in some costs to accommodate the impact of macro head winds, inflation and cost of living crisis. It is expectation of management that the effect of these macro challenges will linger a little longer.
	RET1.3 (Doubtful debt)	Doubtful debt charge in AMP8 was forecast as a % of revenue and consequently changes with revenue forecasts. This trajectory represents the business' view of target efficiency that it intends to achieve over the course of AMP8. AMP7 forecasts were determined using a detailed doubtful debt model. The doubtful debt forecast is expected to increase to end the first year of AMP8. The steep increase in the first year of AMP8 is because of forecasted increase in bill profile (revenue) in AMP8. It is our expectation that doubtful debt will decline within AMP8 as the cost-of-living crisis gradually eases off.

	RET1.5 (Meter reading)	Meter readings costs are forecast to decline in AMP8 because of efficiencies from migration of non-smart meters to smart meters. An annual efficiency of circa £500k is expected in AMP8.
	RET1.10, RET1.12, RET1.17 (Depreciation and amortisation + net recharges)	Depreciation and Amortisation costs are based on charge related to principal use assets that have been tagged to retail. Depreciation is calculated on a straight-line basis, using costs and expected useful life of assets. A third of depreciation and amortisation costs (c£56m) is contributed by the Billing system that was commissioned in 2019 and this cost eventually drops off significantly at the end of AMP8.
	RET1.24 (Demand side water efficiency)	The operating costs of water efficiency has declined in AMP8 forecast because we anticipate the expenditures in this space in the future to be more capital in nature.

RET1a - Cost analysis - retail

Data Table	Whole Table or Individual Line/s	Commentary
RET1a	Whole Table	RET1a data table is based on data contained in RET1, adjusted for impact of frontier shifts captured in SUP11 data table.

RET2 - Residential retail

Not applicable.

RET4 - Cost adjustment claims - residential retail

Data Table	Whole Table or Individual Line/s	Commentary
RET4	Whole Table	Thames Water submitted one cost adjustment claim for the materially higher costs that we experience due to population Transience. The need for this adjustment is set out in our Transience Cost adjustment claim summary document (TMS19). Population transience and retail costs (ofwat.gov.uk)
	Line RET4.5	Gross adjustment (section B1). We first find a set of robust retail cost models that include a transience measure in it. In particular, we use a set of Ofwat's proposed retail cost models as set out in its PR24 consultation, which includes a transience measure. We calculate Thames Water's efficient allowance from these models by applying the upper quartile benchmark to Thames Water's modelled retail costs.

	Line RET4.6	Implied allowance (section B2). We run the full set of Ofwat's PR24 consultation models (i.e. without a transience measure, as they are specified) and triangulate them. We then calculate Thames Water's efficient allowance from these models by applying the upper quartile benchmark to Thames Water's modelled retail costs. This provides an estimate of the efficient allowance that Ofwat will set at PR24 if transience is not taken into account.
	Line RET4.7	To calculate the total net value of the Cost Adjustment Claim, we subtract the implicit allowance from the gross adjustment.
	Line RET4.8	Thames Water' historic residential retail total expenditure related to transience. We have used the historic total expenditure related to transience from the PR19 CAC (item reference R202004). The PR19 CAC values were uplifted from 17/18 prices to 22/23 prices using ONS CPIH. It should be noted that the cost adjustment claims for PR19 and PR24 used different methodologies. The bottom-up methodology used at PR19 results in the net value of the claim changing marginally each year. Whereas in the PR24 claim the impact is averaged over the years.

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