

DATA TABLE COMMENTARY – PRT57 RETAIL



CONTENTS

TABLE RET1 - Cost analysis – retail (post frontier shift and real price effects).....	3
TABLE RET1a - Cost analysis – retail	5
TABLE RET2 - Residential retail	8

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

The data in Table RET1 represents the final level of opex for the calculation of Retail allowed revenue in the PWL Business Plan submission. The frontier shift is included, and there are no real price increases are reflected.

2022/23

The data for 2022/23 is taken directly from the Annual Performance Report (APR). Table 2C in the APR is in exactly the same format as RET1 and RET1a and was used to populate all these numbers.

2023/24 and 2024/25 Forecasts

The data for these years is in line with the Company Budget process, and these numbers were approved at the Board in February 2023. The main differences between 2022/23 and 2023/24, 2024/25 are as follows:

- Doubtful debts – there was a large movement in the provision for bad and doubtful debts in 2022/23. This includes an additional provision for the ongoing cost of living crisis. The reduced level of movement in the provision is maintained into 2024/25. -£0.623m
- Reduction in Customer Services costs of -£0.173m.
- No FRS17 pension charge, as the scheme has been closed -£0.114m
- Reduction in the level of free repairs and other customer network activities. -£0.138m This is due to higher than normal costs in 2022/23.

Smoothed Bad Debt

	2019	2020	2021	2022
A1 - reported	543,930	535,540	136,555	26,176
A2 - corrected	543,930	2,024,540	227,837	26,176
A3 - smoothed		1,033,540	723,837	521,176

The released amount of additional COVID provision is spread over the last 2 years to give a smoothed profile.

2025/26 – 2029/30

The numbers for these years start with the 2024/25 forecast followed by a number of movements which are in line with the strategy for the Retail Household business.

Subsequently, an efficiency challenge (frontier shift), has been applied to bring the total costs for AMP8 in line with the expected efficient costs from the published Ofwat Retail models.

Table RET1 shows the data post the frontier shift.

NB No real price effects have been reflected in Table RET1, as Portsmouth Water have decided to take the risk on these impacts.

The movements after 2024/25 have been applied to the relevant cost line items and include the following:

- Increase in Customer Services staff by 2 FTEs per annum as a result of the Smart Metering programme.
- Increase in Bad Debt provision in line with increased revenue from customer bills.
- Increase in recharge from IT, to reflect the change in delivery of services costs in this department.
- Recharges from Wholesale relating to the new CRM and Billing system, including depreciation and licence costs. These increase over the AMP as more Smart meters are installed.
- Efficiencies relating to the implementation of the Smart meters and the new CRM and Billing system, including savings on postage and Computerserve. These savings are in the Customer Services line and increase over the AMP.

Line RET1.13

The recharges in RET1 also include a rental charge for occupying part of the Head Office building in Havant. This asset is owned by the Water Network+ business unit (principal use business unit). The rental charge is based on a market rate for a similar office space rental in the area.

TABLE RET1a - Cost analysis – retail

Table RET1a shows the data before the frontier shift was applied in the years 2025/26 – 2029/30. The frontier shift amounts to £1.675m in 2022/23 prices, over the 5 year period, which is 5.5% of the total operating costs.

Table SUP11 reflects the frontier shift by year, for the Retail business.

There have been no material changes to the reporting methods or assumptions for the allocation of costs. The movements reflect genuine changes in the business.

OFWAT PR24 RETAIL MODELS

Portsmouth Water have worked with Frontier Economics to populate the published draft Ofwat models. This is to give the Company guidance on the level of costs expected at the Final Determination. The following is an extract from the Frontier report:

		PR19 allowance (£m FY2018)	PR24 allowance (£m FY2018)	
			min	max
	PR19 weights			
RDC			4.5	5.0
ROC			21.6	21.9
RDC+RTC	25%		26.1	26.9
RTC	75%		25.6	28.5
Triangulated		21.3	25.7	28.1

Min/max allowances across the range of models considered

These amounts are in March 2018 prices. The PR24 allowance in 2022/23 prices is expected to be in the range of £30.1m and £32.9m. The Portsmouth Water plan amounts to £30.6m, with all the numbers quoted being before the Frontier shift.

There was a final Frontier shift in the Wholesale business costs which impacted the CRM and Billing recharges, as well as the IT recharge to Retail. This final shift reduced the costs in Retail by £0.880m and positions Portsmouth Water at the lower end of the expected range.

Depreciation

There is no remaining depreciation on assets existing at 31 March 2015. The current billing system (RAPID) was installed in 2012 and was fully depreciated by 2022. All other Retail assets have a life of 5 – 7 years and would be fully depreciated by 2022/23.

Assets acquired in the period 2015 – 2020 mainly include small plant and vehicles, which have asset lives of 5 – 7 years. In addition, there was an intangible asset for Computerserve, which is a system to replace manual billing and postage. This was capitalised and depreciated over 5 years, starting from 01/03/2020. Therefore, there is no further direct intangible asset depreciation from 2025/26 onwards.

	Price Base	Asset Life	2020/21 Actual	2021/22 Actual	2022/23 F'cast	2023/24 F'cast	2024/25 F'cast	2025/26 Actual	2026/27 Actual	2027/28 F'cast	2028/29 F'cast	2029/30 F'cast
RESIDENTIAL RETAIL												
EXISTING ASSETS BEFORE MARCH 2015 DEPRECIATION												
Small Plant	Outturn	7	1	1	1							
RAPID Billing system (from 01/04/2012)	Outturn	10	66	63								
Vehicles	Outturn	6	4	4								
Intangible Assets	Outturn	5										
Total Depreciation on existing assets	Outturn		71	68	1	-	-	-	-	-	-	-
EXISTING ASSETS AFTER MARCH 2015 DEPRECIATION												
Small Plant	Outturn	7	35	5	3							
Vehicles	Outturn	6										
Intangible Assets	Outturn	3 - 5	29	29	28	29	30					
Total Depreciation on existing assets	Outturn		64	34	31	29	30	64	34	31	28	28
NEW ASSET ADDITIONS from 2023/24												
Computer and Network Hardware	Outturn					10	11	11	11	11	11	12
Small Plant	Outturn					208	95	52	53	54	55	56
Vehicles	Outturn					16	16	99	101	103	105	107
Intangible Assets (including Computerserve)	Outturn		143			-	-					
NEW ASSET ADDITIONS			143	-	-	234	121	161	165	168	171	175
NEW ASSET DEPRECIATION from 2023/24												
Computer and Network Hardware	Outturn	5				2	2	2	2	2	2	2
Small Plant	Outturn	7				30	14	7	8	8	8	8
Vehicles	Outturn	6				3	3	17	18	14	18	18
Intangible Assets	Outturn	3				-	-	-	-	-	-	-
						-	34	18	27	28	24	29
TOTAL DEPRECIATION - S Plant/Vehicles	Outturn		40	10	4	18	46	77	104	116	108	118
TOTAL DEPRECIATION - Intangibles	Outturn		29	29	28	29	30	-	-	-	-	-
TOTAL DEPRECIATION	Outturn		69	39	32	47	76	77	104	116	108	118
TOTAL DEPRECIATION	2022/23				32	45	72	72	95	104	95	101

RECHARGES FROM WHOLESALE												
EXISTING ASSETS BEFORE MARCH 2015												
Head Office Building	Outturn				156	163	164	168	171	175	178	182
Small Plant	Outturn											
Vehicles	Outturn											
Intangible Assets	Outturn											
			-	-	156	163	164	168	171	175	178	182
EXISTING ASSETS AFTER 31 MARCH 2015												
Computer and Network Hardware	Outturn											
Small Plant	Outturn											
Vehicles	Outturn											
Intangible Assets	Outturn		47	32	32	33	34	663	866	1,083	1,184	1,235
			47	32	32	33	34	663	866	1,083	1,184	1,235
TOTAL RECHARGE	Outturn		47	32	188	196	198	831	1,037	1,258	1,362	1,417
TOTAL RECHARGE	2022/23				188	188	188	773	946	1,124	1,194	1,217

Depreciation is on a straight line basis.

Recharges from Wholesale for CRM and Billing system
Line RET1.15

RECHARGES FROM WHOLESALE

CRM & BILLING CAPEX			FY26	FY27	FY28	FY29	FY30	AMP8	Asset Life
CRM/Billing + Operational Model			43	43	43	43	43	6,227	
ERP System Upgrade (IFS)			1,488	1,488	0	0	0	2,975	
GIS Upgrade			0	850	850	0	0	1,700	
Smart Meter Infrastructure			1,530	2,380	893	43	43	10,902	7
Depreciation charge			968	1,248	1,481	1,548	1,554	7,563	
Asset Charge	Water Network+	50%	-484	-624	-741	-774	-777	-3,781	
	Water Resources	20%	194	250	296	310	311	1,513	
	Retail	30%	291	374	444	464	466	2,269	
Enhancement opex recharge	Retail	30%	294	384	492	542	563	2,275	
Other asset recharges	Retail	30%	32	32	32	32	32	160	
Total asset + opex recharge	Retail		617	790	968	1,038	1,061	4,475	

There are recharges from Wholesale relating to the new CRM and Billing asset. These include:

1. Depreciation charge for the asset
2. Enhanced opex recharge including licence fees and additional staff costs

In addition, there is a £0.032m charge relating to ongoing shared assets which have a Wholesale principal use. These include IT equipment, vehicles, and small plant.

However, these recharges will be offset by efficiencies in the Retail business. This includes postage, printing and staff costs which will be saved as a result of the new CRM and Billing system.

TABLE RET2 - Residential retail

2022/23

The data for 2022/23 is taken directly from the Annual Performance Report (APR).
Table 2F in the APR is in exactly the same format as RET2 and was used to populate all these numbers.

2023/24 and 2024/25 Forecasts

The data for these columns has been taken from the 2023/24 tariff workings, which have been audited, and the estimated 2024/25 tariff workings, which roll forward the tariff model from 2023/24.

The tariff models used the latest estimates for property numbers, as well as CPIH and ODI in-period rewards and penalties.

Allowed revenue is from the Final Determination documents.

Table 6: Price Control for Residential Retail Activities numbers

Charging year beginning 1 April	2020	2021	2022	2023	2024
TR (£million, outturn)	4.720	4.790	4.864	4.940	5.023
M (£, outturn)	15.72	15.86	16.00	16.15	16.32
FC (thousands)	300.217	302.077	303.950	305.860	307.834

However, the allowed revenue needs to be adjusted to reflect the forecast number of properties. This gives £4.923m for 2023/24 and £5.007m for 2024/25.

These amounts are in outturn prices and the revenue needs to be deflated to 2022/23 prices. This gives £4.712m for 2023/24 and £4.750m for 2024/25.

The actual revenue recovered ties back to RR27.25.

The difference in each year, shown in line RR2.10 is the C-Mex reward recovered from the previous years. This gives a higher Retail revenue per customer than in the Final Determination.



GET IN TOUCH



portsmouthwater.co.uk



pr24@portsmouthwater.co.uk



[PortsmouthWater](https://twitter.com/PortsmouthWater)



[PortsmouthWater](https://www.linkedin.com/company/PortsmouthWater)