UUW87

Retail - Table Commentary

October 2023

Data Table Commentaries

This document provides a commentary and supporting information for the Retail PR24 data tables

United Utilities

Water for the North West

Executive Summary

As well as driving significant performance improvements and efficiency savings for customers through our wholesale activities, we are committed to delivering a leading retail service for household customers at the lowest sustainable cost to serve.

With high levels of extreme deprivation in the North West, the scale of affordability and vulnerability challenges is greater than elsewhere in England and Wales, making it one of the toughest operating environments for a utility retailer, and significantly increasing the importance of the affordability and vulnerability support we provide.

In AMP7, through to the end of 2022/23, we had delivered sustained reductions to our underlying retail Cost to Serve. A large contributing factor to this cost to serve reduction is our strong performance in reducing our bad debt charge. At the end of 2022/23 our reported bad debt charge of £42.2m was 3.3% of regulatory household revenue. Over the remaining two years of AMP7, we have forecast that cash collection performance will be sustained and that our bad debt charge will remain at 3.3% of regulated revenues. The bad debt cost does however increase in line with the forecast increase in revenues over 2023/24 and 2024/25.

A number of factors have challenged all retailers since 2020, including the COVID-19 pandemic and cost-of-living challenges to households' incomes, and exposure to higher than forecast cost inflation. In the first three years of AMP7 our retail costs have exceeded the regulatory cost allowance and cost projections indicate that we will continue to exceed the cost allowance over the remainder of the AMP.

We will continue to challenge costs in AMP8 and will strive to make further efficiencies in AMP8, however, we expect bill increases will have a material impact on future cost projections for household Retail activity:

- Bill Increases impacting bad debt and debt management costs (increasing costs);
- Inflation impact on labour and other base costs (increasing costs);
- Further efficiencies achieved via digital transformation, data, AI and other continuing efficiency initiatives (reducing costs);
- Reducing bad debt as a result of smart capability and promotion of water efficiency (reducing costs); and
- Further enhancing affordability schemes to help manage bad debt and return to lower levels (reducing costs).

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1.1 Operating expenditure

RET1.1 Customer services

1.1.1 Customer Services costs are expected to remain relatively stable.

RET1.2 Debt management

1.1.2 Debt management costs are expected to remain relatively stable.

RET1.3 Doubtful debts

1.1.3 The North West has the largest population of economically deprived households in the country. New Institute for Fiscal Studies analysis shows that the pattern of income deprived households being hit harder by inflation is likely to continue. A more than doubling of prices of gas and electricity will further increase the difference in the rate of inflation experienced by more and less affluent households. Due to the levels of extreme deprivation in the North West region, this raises concerns that many United Utilities Water (*UUW*) customers will be hit disproportionally hard, with above average price rises in the short to medium term. As a result we estimate that we will experience a deterioration in collection performance that will flow though to our reported bad debt charge.

RET1.4 Doubtful debts (smoothed)

1.1.4 A smoothing exercise was carried out on the bad debt costs reported in the regulatory accounts for 2019/20 to 2021/22 for an increased provision, and subsequent release, relating to the impact of COVID-19 pandemic. Any remaining provision will be used to manage against any cost of living impacts. This is demonstrated in Table 1 and Table 2.

Table 1: Doubtful debt smoothed for 2018/19 – 2021/22

Financial year	Underlying (£)	Provision Raised (£)	Provision Utilised (£)	Reported (£)
2018/19	44,330,478	0	0	44,330,478
2019/20	44,430,667	19,937,285	0	64,367,952
2020/21	52,641,810	0	-5,116,543	47,525,267
2021/22	46,712,854	0	-3,741,116	42,971,737

Table 2: Doubtful debt – Original vs Smoothed

A	Bad debt costs	Scenario	2019/20 (£)	2021/21 (£)	2021/22 (£)	Total (£)
1	Doubtful debts	Original	64,368	47,525	42,972	154,865
2	Doubtful debts	Corrected	64,368	47,525	42,972	154,865
3	Doubtful debts	Smoothed	60,627	47,525	46,713	154,865

RET1.5 Meter reading

1.1.5 Meter Reading costs are expected to remain relatively stable with a gradual increase in resource cost due to inflation to deliver the meter reading service.

RET1.6 Other operating expenditure

1.1.6 Increase in other operating expenditure in AMP8 as compared to 2024/25 due to investment in cloud based solutions. Such systems are treated as Software as a Service (SaaS) and investment is therefore expensed as an operating cost. We plan to deliver offsetting reductions over AMP8 in general and support expenditure.

RET1.7 Local authority and Cumulo rates

1.1.7 Local authority and Cumulo rates reported as nil.

RET1.8 Total operating expenditure excluding third party services

1.1.8 Auto calculated line.

1.2 Depreciation

RET1.9 - 12

1.2.1 The method for calculating depreciation is consistent with Ofwat guidance and annual Regulatory Reporting. Depreciation in 2022/23 is consistent with that reported in APR Table 2C. The allocation between depreciation on assets existing at 31 March 2015 and post 31 March 2015 has been undertaken using the capitalisation date for each asset.

1.2.2 Forecast depreciation has been calculated from a combination of base and growth data files. The base data is derived from the SAP system and comprises depreciation forecasts for all assets existing at 30 September 2022 across the period to 2029/30. Growth data files comprise forecasts for Work In Progress (WIP) project balances at 30 September and future growth expenditure. WIP forecast depreciation is calculated using standard asset lives (averaging at 7 years) on a straight line basis and expected commissioning dates from the company's project management system. Growth expenditure depreciation is calculated using forecast capital expenditure, standard asset lives (averaging at 7 years) and assumed commissioning dates. All assets with the exception of vehicles are depreciated to a nil residual value, vehicles are depreciated to 15% of their original cost.

1.2.3 The most material year on year movement in RET1 is between 2024/25 and 2025/26 when depreciation reduces by £2.3m. This reduction is due to a number of assets coming out of life in that period in particular depreciation on the Customer Experience Programme assets which reduce from £1.8m depreciation in 2024/25 to £0.6m in 2025/26.

1.2.4 The majority of asset value and depreciation in the Retail business relate to software assets, hence predominantly reported within 'Amortisation (intangible fixed asset)' lines (Ret1.12 & Ret 1.13). Further analysis of capex values and asset lives, based on commissioning dates, is included in Table 3.

Table 3: Capex values and asset lives analysis

Category	Original capex value (£m)	Fully depreciated at Mar 23 (£m)	Original asset life (average) years	Remaining life at March 23 (average) years
Legacy assets existing at 31 March 2015	68.2	66.0	9	1
Assets acquired during the 2015 to 2020 period	46.1	6.9	8	3
Assets acquired or planned after 1 April 2020	39.8	0.1	6	6

1.3 Recharges

RET1.13 - 17

1.3.1 Each asset is recorded in the price control of Principal Use (PU). Depreciation is recharged (i.e. PU recharge impact) to each price control for the shared use of that asset. The recharge amount per asset is equal to the amount of depreciation which would have been recorded by that price control on a proportional allocation basis. Each asset in base and each project in WIP/growth is assessed for the extent of shared use and the recharge impact is forecast.

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

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

1.3.3 Auto-calculated line.

RET1.19 Third party services operating expenditure

1.3.4 Third party services operating expenditure reported as nil.

RET1.20 Pension deficit repair costs

1.3.5 Pension deficit repair costs reported as nil.

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

1.3.6 Auto-calculated.

1.4 Debt written off

RET1.22 Debt written off

1.4.1 See RET1.3 – due to the highlighted factors that are expected to impact collection, the total debt is expected to increase and therefore debt written off, as a consistent proportion of total debt, is expected to increase.

1.5 Capital expenditure

RET1.23 Capital expenditure

1.5.1 Movement in capital expenditure is expected to reduce in AMP8 compared to AMP7 due to a combination of greater focus on maintenance of existing systems and a transition to investment in SaaS based solutions.

1.6 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

1.6.1 All water efficiency expenditure is incurred to meet Wholesale outcomes. AMP8 sees an increase in water efficiency expenditure due to the enhancement claim linked to WRMP investment requirements.

RET1.25 Demand-side water efficiency - expenditure funded by wholesale

1.6.2 Equal to RET1.25 as it is fully funded by Wholesale.

RET1.26 Demand-side water efficiency - net retail expenditure

1.6.3 Auto-calculated.

RET1.27 Customer-side leak repairs - gross expenditure

1.6.4 Customer side leaks is the expenditure incurred in the investigation and resolution of private leakage. For the APR and PR24 submission this is taken to equate to the value of supply pipe repair costs in Table CW19 and the APR equivalent Table 6D.

1.6.5 On average, we forecast to repair circa. 5,000 private leaks each year which is in line with historic completion rates. The direct construction cost of this is the core expenditure with an allocation of operational staff and contract support costs to reflect the investigation and coordination of the resolution activity. This proportional allocation is calculated using private leakage expenditure as a percentage of the overall network maintenance contract value, therefore slight changes in the mix of work completed under this contract will have a marginal impact on the proportion of support costs allocated to this activity and explains why there is a slight fluctuations in expenditure.

1.6.6 Over time, to maintain leakage levels we will need to complete more leakage repairs (including customer side leaks) due to the natural rate of rise from new networks not being ‘leak-free’, however,

we have not specifically increased forecast expenditure over AMP8 and have instead assumed this will be absorbed as an efficiency.

RET1.28 Customer-side leak repairs - expenditure funded by wholesale

1.6.7 Equal to RET1.27 as it is fully funded by Wholesale. All private leakage expenditure is incurred to meet Wholesale outcomes.

RET1.29 Customer-side leak repairs - net retail expenditure

1.6.8 Auto calculated as RET1.27 minus RET1.28

2. RET1a – Cost analysis – residential retail

2.1 Whole table

RET1a.1 - 29

2.1.1 Since RET1a illustrates a pre real price effects and frontier shift view of RET1, the line commentaries for RET1 still hold for this table. Please see table SUP11 for real price effects and frontier shift assumptions applied.

3. RET2 – Revenue – residential retail

3.1 Residential revenue

RET2.1 Wholesale revenue

3.1.1 This line reports the share of wholesale price control revenues to be recovered from household customers. The year-on-year increases are primarily due to the impact on the wholesale price controls from Outcome Delivery Incentives (ODI) and the Revenue Forecasting Incentive mechanism.

RET2.2 Retail revenue

3.1.2 This line reports the retail revenues recovered from household customers, not including any revenues that have been sacrificed to support Social Tariffs. The year-on-year increase is predominantly due to the impact from ODI.

RET2.3 Total residential revenue

3.1.3 Sum of RET2.1 and RET2.2.

3.2 Retail revenue

RET2.4 Revenue Recovered ("RR")

3.2.1 This is the same as RET2.2.

RET2.5 Revenue sacrifice

3.2.2 This line reports the revenues we have sacrificed to support Social Tariffs. The year-on-year increases reflect the increase in the number of customers supported on Social Tariffs.

RET2.6 Actual revenue (net)

3.2.3 Auto-populated line.

3.3 Customer information

RET2.7 Actual customers ("AC")

3.3.1 This line reports 'Actual customers ("AC")' where numbers have been taken directly from table SUP1A.

RET2.8 Reforecast customers

3.3.2 2022/23 actual is as reported in APR table 2F. Forecast years are in line with RET2.7 above.

3.4 Adjustment

RET2.9 Allowed revenue ("R")

3.4.1 This line reports the allowed retail revenue for household customers. The year-on-year increase in allowed revenues is predominantly due to the impact from ODI.

RET2.10 Net adjustment

3.4.2 Auto populated line. For 2022/23 this shows the variance between allowed revenues and actual revenues. For 2023/24 and 2024/25 we assume that the sum of forecast revenues recovered and revenue sacrifice will be equal to allowed revenues, therefore the net adjustment for these years will be nil.

3.5 Other residential information

RET2.11 Average household retail revenue per customer

3.5.1 Auto-populated line.

4. RET3 –Business retail tariffs (Welsh companies only)

4.1 Whole table

RET3.1 - 53

4.1.1 Table not required for *UUW*.

5. RET4 – Cost adjustment claims – residential

5.1 Whole table

RET4.1 - 100

5.1.1 No retail cost adjustment claims for *UUW*.

Appendix A Compliance with reporting requirements

A.1 General

A.1.1 *UUW* have endeavoured to fully comply with all of the reporting requirements. In a small number of instances where this is not the case, we have fully explained this within the table commentaries with appropriate justification.

A.2 Ofwat query response ID-533

A.2.1 *UUW*, in response to query ID-533, have not trimmed our data to match Ofwat's defined number of decimal place requirements. For display purposes data will, however, always conform to the formatting rules as set within the Ofwat PR24 tables. We believe this to be fully aligned to the table requirements

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