
PR24

NORTHUMBRIAN
WATER *living water*

ESSEX & SUFFOLK
WATER *living water*

RETAIL TABLE COMMENTARY

NES_COM7



1. RET1 AND 1A

Our methodology for retail forecast costs:

For AMP8, we have used upper quartile allowance from our estimate of retail base models. This is then split into different cost lines and for each price control using the average shares of the last 3 years.

We have applied frontier shift and real price effects to retail business rates as these are included in modelled costs.

Explanations for significant changes and variations:

There is a big increase in demand side water efficiency from 2024-25 to 2025-26 (1.643 to 4.014): this is because the AMP8 numbers include base and enhancement (see our [demand management enhancement case](#), NES15).

Forecast expenditure for demand side water efficiency: as part of our Water Resource Management Plan an options appraisal was completed to identify the preferred options for delivery. Each option detailed a volume of activity, a water saving volume per activity and cost to deliver per activity. This data comes from existing AMP7 delivery and tests of new ways of working ahead of AMP8 that will be scaled. These individual options then deliver a plan for deliver as part of our base household delivery and also as an enhancement delivered at the same time as a smart meter installation. The options include delivery of visits to homes, identifying and repairing toilet leaks, educating future generations, whole home flow restrictions, digital engagement and more. We explain this further, including the enhancement elements, in our [demand management enhancement case](#), NES15.

There are no changes in reporting methods or assumptions for these tables.

Underlying calculations and assumptions:

For 2022-23, the data source from which both the depreciation and recharges figures come from is the NWL Journal Entry Reserve Ledger (JERL). The JERL is an export from the Fixed Assets system (part of Oracle Financials) and shows 'asset in use date', 'historic cost', 'depreciation reserve' and 'net book value' for each individual asset (also showing whether an asset is tangible or intangible). We then carry out analysis to assign each asset with a 'principal business area of use' (e.g., water, sewage, retail etc). Note: some assets (like IS and Vehicles) are used by multiple business areas and thus are allocated using % splits.

On forecasting: the depreciation/amortisation charge on assets existing at 31-Mar-2015 will decrease each year. This is because a number of these assets will be reaching the end of their useful life and thus the depreciation/amortisation charge will decrease every year until all assets eventually reach a zero NBV. As such, our Finance Team has used the JERL to accurately estimate what the depreciation charge will look like on assets existing in 2015 moving forward. Subsequently, the amount of depreciation recharge relating to assets existing in 2015 can be predicted to decrease at a similar rate.

Assets that were acquired after 2015 will work differently, but - some assets will again be beginning to reach the end of their useful life, however the depreciation charge that will be lost on these assets will instead be replaced by the depreciation charge of newly acquired assets (in 23-24 and so on). Because of this we expect the depreciation charge on assets acquired post 2015 to remain similar, with perhaps a slight increase each year due to the extra capital investment (coupled with increased economic costs) that the new AMP period will bring. Again, we would expect the recharge rate on post 2015 assets to mirror the rate of increase in depreciation charge on post 2015 assets.

RET1.4 – commentary for 2019-20 and 2020-21:

Below are the smoothed doubtful debts for 2019-20 to 2021-22 that we previously submitted:

Bad debt costs	Scenario	Existing Bon code	Units	2019-20	2020-21	2021-22	Total
Doubtful debts	Original	BM9003	£000s	28096	23386	13392	64874
Doubtful debts	Corrected	N/A	£000s	0	0	0	0
Doubtful debts	Smoothed	N/A	£000s	-6500	0	6500	0

Household retail operating expenditure excluding third party services has increased by £9.2m, in real terms, compared to 2018/19, due mainly to an increase in doubtful debts of £8.6m. This includes a provision of £6.5m for increased bad debt risk as a result of the economic impact of Covid-19 on our household customers.