

29<sup>th</sup> September 2022

## REC22: Update to the proposed REC allowances for Group One customers

### OFFICIAL

Since the publication of our [Consultation on proposals: 2021-22 review of the Retail Exit Code](#) on the 1st of September 2022, we identified a small error in Ofwat's Group One cost allocation model in relation to adjusting Retailer reported costs to a consistent (2021-22) price base.

This error does not change our proposed method or approach, but it does lead to minor changes in the calculation of Retailer costs and therefore the proposed allowances. This will affect our proposed allowances as follows:

Allowance	Previous value at 01/09/2022 (2021-22 prices)	Updated allowance (2021-22 prices)
Running costs	£32.97	£34.63
Meter reading costs	£7.34	£7.56
Water efficiency	£0.42	£0.45
MOSL, Ofwat and CCW fees	£0.68	£0.72
Sum of fixed elements	£41.41	£43.36

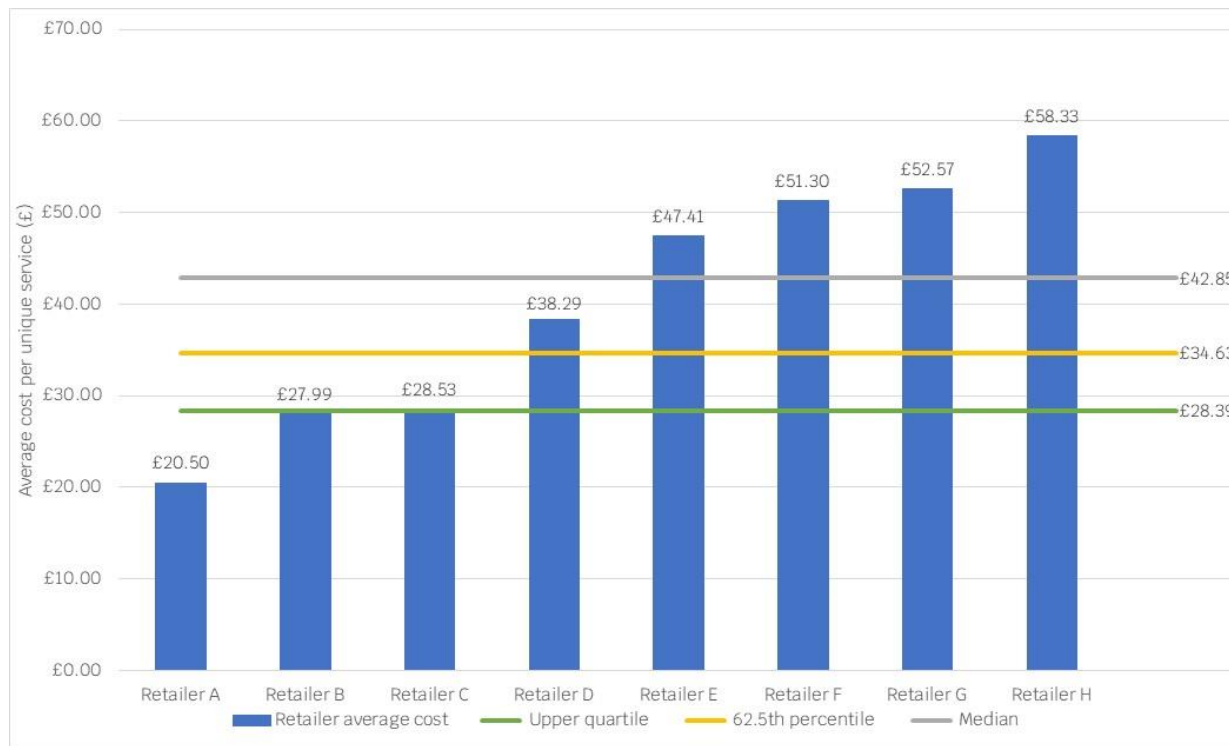
On average, and after correcting for the inflation adjustment error noted above, we currently estimate that across all regions in England, the revised changes that Ofwat propose would see average business retail tariff increase by around 4.6% before inflation<sup>1</sup>, with an increase of 1.0% to an average business customer bill.

We also have updated corresponding graphs, as below. These should be taken as updated graphs for the equivalent graphs in the Main document and also Annex A – Methodology of our 1st September 2022 consultation.

<sup>1</sup> Based on a typical Retail tariff for a metered customer taking both water and wastewater services

**Updated – Figure 5.2 Main document and Figure 3.2.2 Annex A – Methodology**

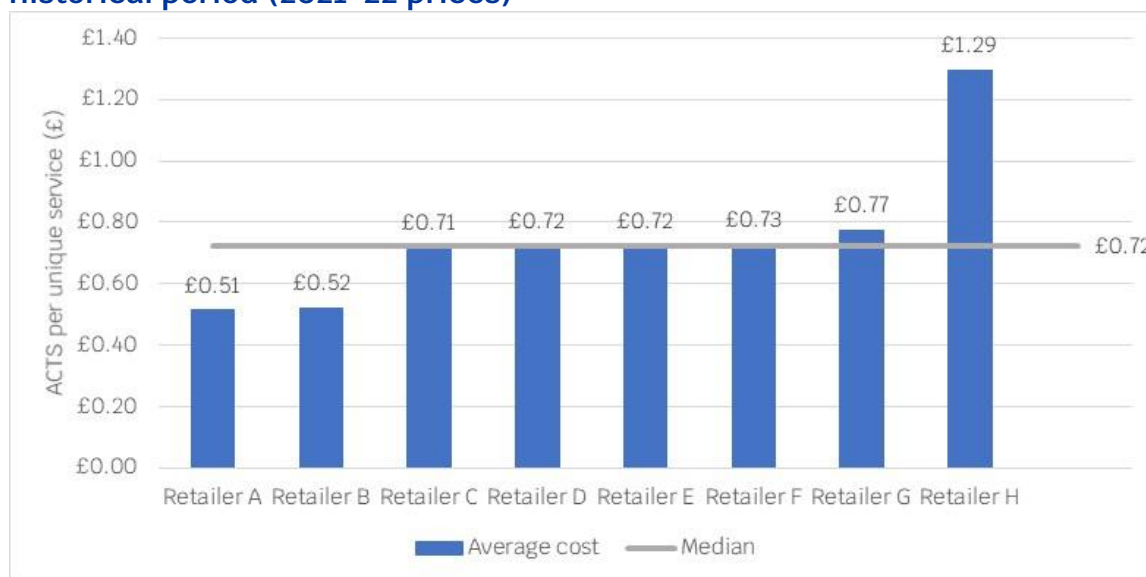
**Average cost per unique service across the historical period, in 2021- 22 prices**



Source: Retailer REC22 RFI returns, Ofwat allocation, 2021-22 prices

**Updated Figure 3.2.3 Annex A – Methodology**

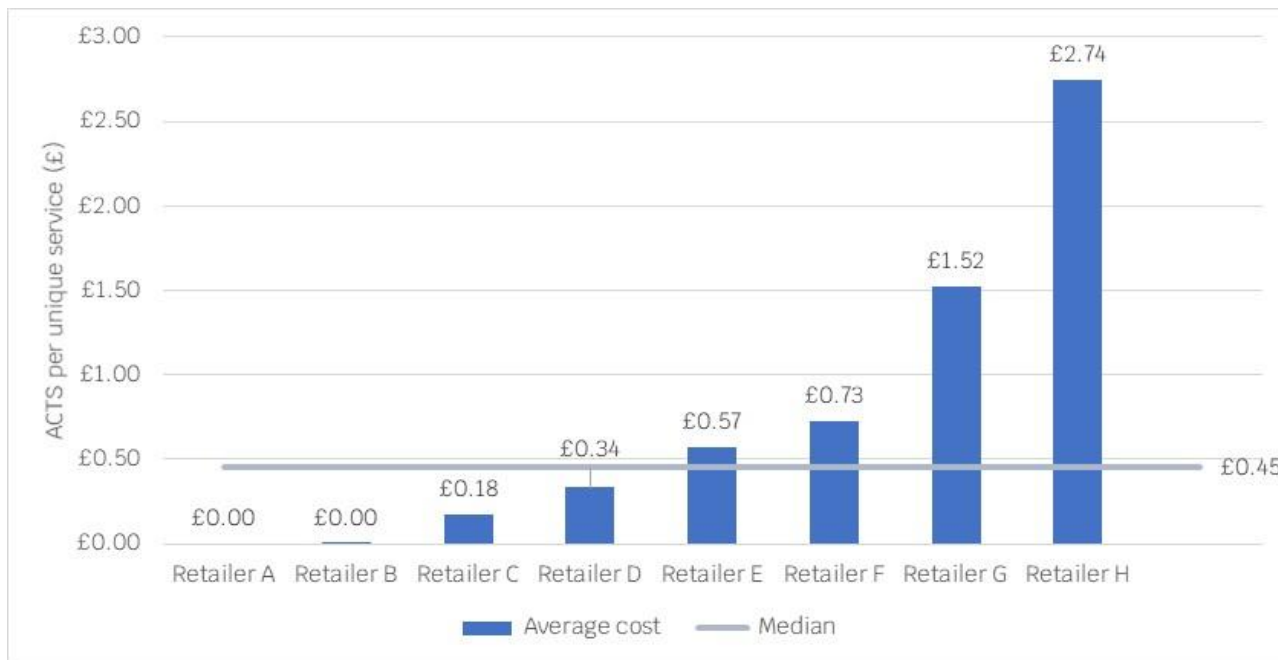
**Average MOSL, CCW and Ofwat fees allocated to Group One customers across the historical period (2021-22 prices)**



Source: Retailer REC22 RFI returns, Ofwat allocation, 2021-22 prices

**Updated Figure 3.2.4 Annex A – Methodology**

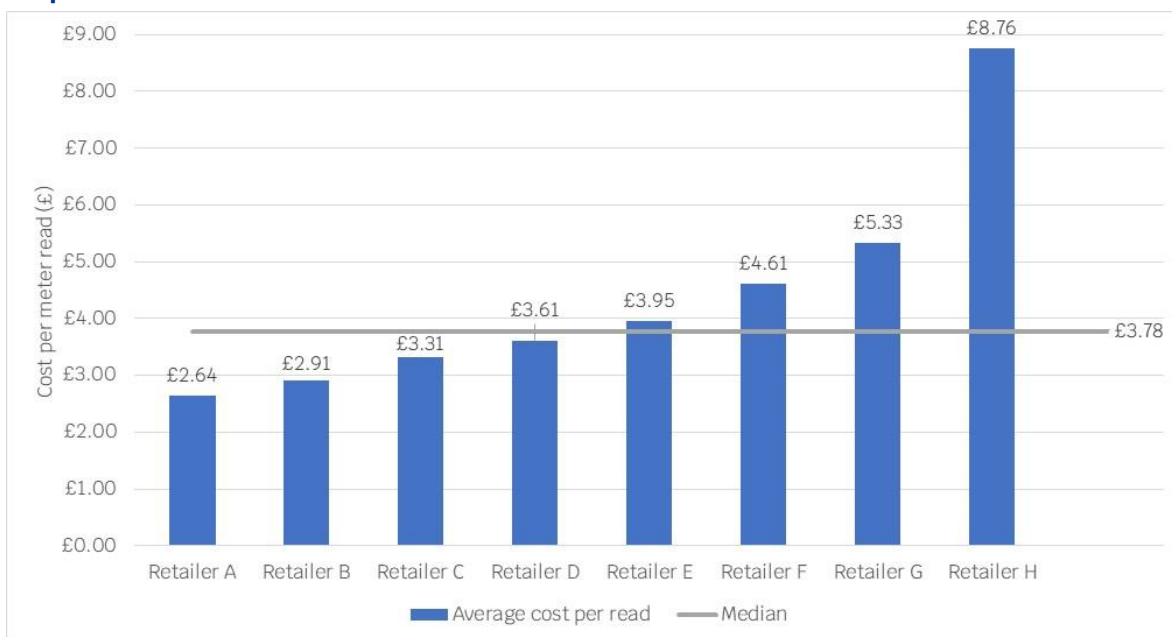
**Average water efficiency cost across the historical period in 2021-22 prices**



Source: Retailer REC22 RFI returns, Ofwat allocation, 2021-22 prices

**Updated Figure 3.3.2 Annex A – Methodology**

**Retailers' weighted average cost per meter read across the historical period (2021-22 prices)**



Source: Retailer REC22 RFI returns, Ofwat allocation, 2021-22 prices