

Information notice

08 February 2023

Note of amendments to the Retail Exit Code (version 7.0)

OFFICIAL

Following the 2021–22 review of the Retail Exit Code, our [December 2022 Decision document](#) set out our decision to revise price protections for small business customers (those with annual consumption below 0.5Ml) in England who have not engaged in the market, with effect from 1 April 2023. Our decision is given legal effect through, and takes the form of, amendments to the Retail Exit Code ('REC'), specifically amendments to Defined terms in §1.1, Annex A1 and Annex A2. We published, as Annex B of our December 2022 decision, an updated version of the REC to take effect from 1 April 2023.

Accordingly, we have now published an updated version of the REC (REC version 7.0). In updating the REC, we have – with two exceptions – followed the revisions we set out in Annex B of our Decision document. This note sets out the two exceptions, which are clarifications intended to better implement our Decision. These are:

- Decision document Annex B (p.5) sets out the amendments to the REC Annex A1 including:

"For charging years 2024–25 and subsequent charging years:

For the charging year 2024–25 and subsequent charging years, in relation to Customer Group One where a customer takes a water service on a measured basis (ie. the service includes metered reads), the Licensee's charges in respect of each unique service provided to each Customer in each Charging Year in respect of its Business Retail Activities shall not exceed C_{ti} calculated in accordance with the following formula:

$$C_{ti} = [(acts_t + mc_t + w_{ti}) \div (1 - nm - b)]$$

where:

acts_t = £49.98 (in 2023–24 prices adjusted for inflation as explained below)

$mc_t = \pounds 9.74$ (in 2023–24 prices adjusted for inflation as explained below) if the unique service for which the maximum charge is being calculated is a water metered service, zero otherwise

w_{it} = the wholesale charge, for the Wholesaler area and customer type (i), for the corresponding charging year for which the maximum charge is being calculated ; and

$nm = 2\%$, the allowed net margin (expressed as a percentage).

$b = 2.45\%$, the allowed customer bad debt cost allowance (expressed as a percentage)."

For the amended REC (version 7.0), we have omitted the words "where a customer takes a water service on a measured basis (ie. the service includes metered reads)". We have made this change to clarify that the maximum charge applies to all Group One customers. This is consistent with our Decision, which applies to both metered and unmetered Group One customers.¹

- Decision Document Annex B (p.11) sets out the amendments to REC Annex A2, including:

"Maximum charge per customer

In relation to Customer Group Two (customers consuming 0.5Ml to 50Ml per year), the Licensee's charges to each Customer in each Charging Year in respect of its Business Retail Activities shall not exceed Ct calculated in accordance with the following formula:"

For the amended REC (version 7.0), we have omitted the words "(customers consuming 0.5Ml to 50Ml per year)". This is because these words are unnecessary as Customer Group Two is given as a defined term in §1.1 of the REC.

¹ See for example §3.3.2 of [Business-retail-market-2021-22-review-of-the-Retail-Exit-Code-Decision.pdf \(ofwat.gov.uk\)](#)