

By email

23 November 2023

Dear Retailer,

Retail Exit Code – Permitted Adjustment 2024–25

I write to you regarding the revised Retail Exit Code (REC) price cap protections that came into force from 1st April 2023. Obligations on Retailers to comply with the price cap protections are set out in the [REC](#), and our decisions in relation to future REC price protections are detailed in our December 2022 [decision](#).

In respect of the protections that apply to Group One customers, annual changes to two components underlying the maximum retail price cap (allowed cost to serve and meter read cost allowance) are subject to a Permitted Adjustment linked to inflation. This adjustment is applicable from the start of each Charging Year and based on the CPIH inflation rate as measured in October of the Charging Year prior to the Charging Year to which the charges will apply. The Permitted Adjustment is determined using CPIH indices as published by the Office of National Statistics (ONS).

Our email sent to you on 16 October 2023 informed you of our intention to write to Retailers ahead of each Charging Year setting out the calculations and value of the inflation adjustment (inf_t) to be used by Retailers in deriving their relevant REC charges for the following Charging Year.

Following the 15 November 2023 CPIH publication by the ONS, we are now writing to all Retailers to set out the value of inf_t and REC allowances for the 2024–25 Charging Year.

Table 1 below sets out the Permitted Adjustment (inf_t) for Charging Year 2024–25, as calculated by the ratio of CPIH applying in October 2023 and October 2022.

Table 1 – Permitted Adjustment for Charging Year 2024–25, based on CPIH indices

Item	Value
CPIH index – October 2022	124.30
CPIH index – October 2023	130.20
Permitted Adjustment (inf_t)	1.05

Table 2 sets out the allowances that comprise the REC price cap for Group One customers for Charging Year 2024–25, reflecting the Permitted Adjustment noted in Table 1.

Table 2 – REC allowances for Group One customers for Charging Year 2024–25 following the Permitted Adjustment

Element of REC price cap for Group One customers	Allowance for 2024–25 Charging Year
Allowed Cost to Serve (ACTS)	£52.35
Meter read cost allowance	£10.20
Allowed Net Margin (%)	2.00%
Customer bad debt costs (%)	2.45%

Please note that the allowed Net Margin for Charging Year 2024–25 does not include the [temporary uplift of 0.49% to the allowed Net Margin](#) as this applied only to Charging Years 2022–23 and 2023–24. For the maximum charge applying to Group Two customers, the allowed gross margin for Charging Year 2024–25 will also exclude the temporary 0.49% uplift.

We have published an excel model alongside that explains our calculation of the Permitted Adjustment and its application to the relevant allowances as set out in REC (REC version 7.0).

Retailers should use the allowances set out in Table 2 for setting charges for Group One customers in Charging Year 2024–25 to ensure they remain compliant with the price protections as set out under the REC.

If you have any queries, please contact retailexitcode@ofwat.gov.uk

Kind regards,

Shaun Kent
Director, Business Retail Market