<table>
<tr><th colspan="3">RET1- Cost analysis - retail (post frontier shift and real price effects)</th></tr>
<tr><th colspan="2">Line description</th><th>Commentary</th></tr>
<tr><td></td><td>Operating expenditure</td><td rowspan="20">For data table RET1 (also CW1 and CWW1) we have made an active decision to deviate from the additional guidance at paragraph 3.1 – for AMP7 periods only - which states:
3.1 Table RET1 should include the impact of the frontier shift and real price effects assumptions included in table SUP11.

The application of the blended RPE and frontier shift inflation adjustments across cost categories is a practical way to build up our forecasts for AMP8, and AMP8 periods have a clear link to RET1a and SUP11. This is in line with the data table guidance.

For AMP7 periods, however, this methodology does not support accurate reporting of our forecast performance for the remainder of AMP7, developed as part of our internal business planning and forecasting process. Attempting to force compliance with paragraph 3.1 of the table guidance results in mis-stated AMP7 forecasts.

The AMP7 periods of this table are populated so that application of the CPIH (FYA) in table PD1 generates our AMP7 forecasts in projected outturn prices. This approach replicates that adopted in tables CW1 and CWW1 and, while not necessary for PR19 cost reconciliation purposes, ensures accuracy of forecast information consistency of approach across our price control cost tables.</td></tr>
<tr><td>1</td><td>Customer services</td></tr>
<tr><td>2</td><td>Debt management</td></tr>
<tr><td>3</td><td>Doubtful debts</td></tr>
<tr><td>4</td><td>Doubtful debts (smoothed)</td></tr>
<tr><td>5</td><td>Meter reading</td></tr>
<tr><td>6</td><td>Other operating expenditure</td></tr>
<tr><td>7</td><td>Local authority and Cumulo rates</td></tr>
<tr><td>8</td><td>Total operating expenditure excluding third party services</td></tr>
<tr><td></td><td>Depreciation</td></tr>
<tr><td>9</td><td>Depreciation (tangible fixed assets) on assets existing at 31 March 2015</td></tr>
<tr><td>10</td><td>Depreciation (tangible fixed assets) on assets acquired after 1 April 2015</td></tr>
<tr><td>11</td><td>Amortisation (intangible fixed assets) on assets existing at 31 March 2015</td></tr>
<tr><td>12</td><td>Amortisation (intangible fixed assets) on assets acquired after 1 April 2015</td></tr>
<tr><td></td><td>Recharges</td></tr>
<tr><td>13</td><td>Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)</td></tr>
<tr><td>14</td><td>Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)</td></tr>
<tr><td>15</td><td>Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale</td></tr>
<tr><td>16</td><td>Income from wholesale assets acquired after 1 April 2015 principally used by retail</td></tr>
<tr><td>17</td><td>Net recharges costs</td></tr>
<tr><td>18</td><td>Total retail costs excluding third party and pension deficit repair costs</td></tr>
<tr><td>19</td><td>Third party services operating expenditure</td></tr>
<tr><td>20</td><td>Pension deficit repair costs</td><td>See table Ret 1a</td></tr>
<tr><td>21</td><td>Total retail costs including third party and pension deficit repair costs</td><td>Calculation</td></tr>
<tr><td></td><td>Debt written off</td><td></td></tr>
</table>

22	Debt written off	Estimate for debt written off – based on annual bad debt charge
	Capital expenditure	
23	Capital expenditure	No commentary
	Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale	
24	Demand-side water efficiency - gross expenditure	Nil
25	Demand-side water efficiency - expenditure funded by wholesale	
26	Demand-side water efficiency - net retail expenditure	
27	Customer-side leak repairs - gross expenditure	
28	Customer-side leak repairs - expenditure funded by wholesale	
29	Customer-side leak repairs - net retail expenditure	

RET1a- Cost analysis - retail		
Line description		**Commentary**
	Operating expenditure	
1	Customer services	Customer Services costs are increasing due implementation costs of the new CRM system (SaaS assumed) and therefore being recognised as opex, total spend over the AMP is £68m: 11m, 18m, 23m, 12m, 4m. Customer Services efficiencies predominantly due to the CRM implementation, have been included throughout the AMP8: £1m, £1.2m, £1.4m, £4.3m, £6.9m.
2	Debt management	No material change in costs year on year.
3	Doubtful debts	Higher bad debt provision due to increased revenues is a material year on year variance increasing from £15m Y5 of AMP 7 to £23m Y1 of AMP 8 and £27m by Y5. This is net of a 0.1% yoy bad debt provision rate improvement throughout the AMP. (2.9% to 2.5%).
4	Doubtful debts (smoothed)	We believe that our provisions made for both covid and current cost of living are correct and do not require smoothing.
5	Meter reading	Meter reading costs which have been reduced as a result of the Smart Metering roll out total £7m, starting in Y1 and increasing proportionally throughout the AMP, in addition to procurement efficiencies of £1m per year.
6	Other operating expenditure	Allocated overhead costs run off our 24-25 forecast, which is used as a baseline for AMP8.
7	Local authority and Cumulo rates	
8	Total operating expenditure excluding third party services	Calculation
	Depreciation	
9	Depreciation (tangible fixed assets) on assets existing at 31 March 2015	The only depreciation predating 31 March 2015 is in relation to an upgrade of our billing system, which is depreciated over ten years. This is almost completely depreciated by the end of AMP7, with a minor charge remaining in 2025-26 only.
10	Depreciation (tangible fixed assets) on assets acquired after 1 April 2015	Assets acquired in the period 2015-20 have depreciation charges of £1.8m in 22-23, £1.1m in 23-24, £0.8m in 24-25 and £0.5m in 25-26. These schemes are driven by our change delivery programme and updates to our debt management system. For the period 2020-25 any further depreciation charges are in relation to our retail transformation programme, as well as several vehicles, both of which are depreciated over five years.
11	Amortisation (intangible fixed assets) on assets existing at 31 March 2015	The only amortisation predating 31 March 2015 is in an upgrade of our billing system, which is amortised over ten years. This is fully amortised by the end of AMP7.
12	Amortisation (intangible fixed assets) on assets acquired after 1 April 2015	Assets acquired in the period 2015-20 have amortisation charges of £0.5m in 22-23 and £0.3m in 23-24, after which they are fully amortised. This is in relation to our tailored collection programme.

<table>
<tr><th></th><th>Recharges</th><th></th></tr>
<tr><td>13</td><td>Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)</td><td>PUA recharges are predominantly made for office leases, IT networks and security, as well as some commercial vehicles.</td></tr>
<tr><td>14</td><td>Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)</td><td>Not applicable</td></tr>
<tr><td>15</td><td>Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale</td><td>PUA recharges are predominantly made for office leases, IT networks and security, as well as some commercial vehicles.</td></tr>
<tr><td>16</td><td>Income from wholesale assets acquired after 1 April 2015 principally used by retail</td><td>Not applicable</td></tr>
<tr><td>17</td><td>Net recharges costs</td><td>Calculation</td></tr>
<tr><td>18</td><td>Total retail costs excluding third party and pension deficit repair costs</td><td>Calculation</td></tr>
<tr><td>19</td><td>Third party services operating expenditure</td><td>Not applicable</td></tr>
<tr><td>20</td><td>Pension deficit repair costs</td><td>Pension deficit recovery payments have been excluded from Ret1a as payments after 2025 are not recovered from customers per IN 13/17. Details are as below, in £m of the deficit payments we forecast to make across AMP8
<table><tr><th></th><th>22-23</th><th>23-24</th><th>24-25</th><th>25-26</th><th>26-27</th><th>27-28</th><th>28-29</th><th>29-30</th></tr><tr><td>Retail HH</td><td>£0.0m</td><td>£0.0m</td><td>£0.0m</td><td>£1.5m</td><td>£1.5m</td><td>£1.5m</td><td>£1.5m</td><td>£1.1m</td></tr></table></td></tr>
<tr><td>21</td><td>Total retail costs including third party and pension deficit repair costs</td><td>Calculation</td></tr>
<tr><th></th><th>Debt written off</th><th></th></tr>
<tr><td>22</td><td>Debt written off</td><td>Estimate for debt written off – based on annual bad debt charge</td></tr>
<tr><th></th><th>Capital expenditure</th><th></th></tr>
<tr><td>23</td><td>Capital expenditure</td><td>AMP8 capex is driven by an upgrade to our powercurve system, as well as compliance.</td></tr>
<tr><th></th><th>Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale</th><th></th></tr>
<tr><td>24</td><td>Demand-side water efficiency - gross expenditure</td><td rowspan="5">Nil</td></tr>
<tr><td>25</td><td>Demand-side water efficiency - expenditure funded by wholesale</td></tr>
<tr><td>26</td><td>Demand-side water efficiency - net retail expenditure</td></tr>
<tr><td>27</td><td>Customer-side leak repairs - gross expenditure</td></tr>
<tr><td>28</td><td>Customer-side leak repairs - expenditure funded by wholesale</td></tr>
<tr><td>29</td><td>Customer-side leak repairs - net retail expenditure</td><td>Calculation</td></tr>
</table>

RET2- Residential retail		
Line description		**Commentary**
	Residential revenue	
1	Wholesale revenue	2022-23 is the actual wholesale revenue as per our audited APR tables, 2023-24 relates to the revenue upon which 2023-24 charges have been raised; 2024-25 wholesale revenue relates to the provisional view of Indicative charges, not yet published, subject to final Board approval.
2	Retail revenue	As per line 2 in relation to connected household properties.
3	Total residential revenue	The addition of line 1 & 2
	Retail revenue	
4	Revenue Recovered ("RR")	Actual revenue recovered as per 2022-23 APR tables, and budget 2023-24 values and 2024-25 indicative charges.
5	Revenue sacrifice	£nil in each year.
6	Actual revenue (net)	Equal to line 4 as there is £nil revenue sacrifice.
	Customer information	
7	Actual customers ("AC")	Mid-year count of connected properties, as per audited APR submission in 2022-23. As per charges-setting process in 2023-24, and as per forecast count for 2024-25. They include the impact of voids reduction and gap site identification project ongoing in 2023-24.
8	Reforecast customers	2022-23 values are the count of customers as per charges-setting process, finalised in January 2022. Year 4&5 equal line 7 as there is no material difference.
	Adjustment	
9	Allowed revenue ("R")	Budget revenue allowed as per the final determination adjusted for customer count and impact of ODI penalties
10	Net adjustment	Variance between line 9 and 6
	Other residential information	
11	Average household retail revenue per customer	Line 6 divided Line 7. Actual revenue divided by actual customers in 2022-23, and budget values for 2023-24, and indicative values for 2024-25

RET3 - Business retail tariffs (Welsh companies only)

RET4- Cost adjustment claims - residential retail		
Line description		**Commentary**
	No Retail cost adjustment claims submitted – N/A for Southern	