August 2026

Notification of the PR24 cost change process draft determination for Thames Water Utilities Limited

Ofwat

Chris Weston
Chief Executive Officer
Thames Water Utilities Limited
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Dear Chris

Cost change draft determination 2026

13 August 2026

I enclose in Appendix 1, the cost change draft determination by the Water Services Regulation Authority (Ofwat), including proposed changes to Price Controls for the period from 1 April 2027 to 31 March 2030.

This draft determination is published on our website. We also publish the following documents, which support our cost change draft determination for Thames Water:

- Cost change draft determinations 2026 - Sector Overview
- Cost change draft determinations 2026 – Price control deliverables appendix;
- Cost change draft determinations 2026 – Asset health cross cutting issues appendix;
- Cost change draft determinations 2026 – Asset health PCDs; and our suite of
- Cost change draft determinations 2026 models.

In accordance with sub-paragraph 15ZA.1 of Condition B: Charges of Thames Water Utilities Limited's appointments as a water and sewerage undertaker, Ofwat now gives notice of its intention to determine the questions set out in sub-paragraph 15ZA.3 of Condition B in relation to the following Eligible Item(s):

- 4. Major Projects Development Costs

I enclose the following additional information relevant to our decisions within the appendices of this document:

Appendix 2: the impact of our draft determination on Thames Water's customers' bills from 1 April 2027 to 31 March 2030 and price controls.

Appendix 3: Our draft determination on how Thames Water's expenditure allowances are funded.

Appendix 4: Our detailed assessment of, and decision on, Thames Water's submitted claims.

Thames Water should ensure that it reads all the information referred to above before responding to this consultation. The closing date for responding to this draft determination consultation is 24 September 2026. Thames Water has published its cost change submission on its website. We include a link to this publication on our website.

Yours sincerely,

Helen Campbell

Executive Director, Delivery

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Appendix 1: Cost change draft determination

In Thames Water's 2026 cost change submission, we received two claims across the following cost areas:

- Asset Health- Gravity sewers inspections
- Major projects development costs

Table 1 below provides a summary of our draft determination total cost change expenditure allowance compared to the cost change expenditure you requested in your submission. We explain our decisions in Appendix 4 of this document.

Table 1: Breakdown of the difference between Thames Water's view and Ofwat view of costs (£million, 2022-23 FYA CPIH prices)

	2025-30 period	2030-35 period
Company total cost change claim	307.2	0.0
Ofwat 'insufficient evidence of need' or 'out of scope of cost change process' assessment[1]	-6.0	0.0
Company total 'in scope' cost change claim[2]	301.2	0.0
Ofwat 'best option' challenge[3]	0.0	0.0
Ofwat efficiency challenge[4]	0.0	0.0
Ofwat draft determination cost change allowance	301.2	0.0

Our draft determinations include price control deliverables (PCDs) to hold Thames Water to account for delivery. Our approach to PCDs is set out in the Cost Change Draft Determinations 2026 – Price control deliverables appendix.

The impact of our draft determination for revenue and regulatory capital value (RCV) adjustments by price control are set out in tables 2 and 3 below.

[1] Details of costs excluded are set out in Appendix 4.
[2] The company's total eligible cost claim that demonstrates the need for the required step change in investment and is within the scope of the cost areas.
[3] Our review of the company's evidence of optioneering and associated cost benefit analysis and that the options put forward are the best option for customers.
[4] Our review of the company's evidence of efficient unit costs and associated methodology.

Table 2: Thames Water's draft determination revenue adjustments by price control and when they apply (£million, 2022-23 FYA CPIH prices)

	Water resources	Water network plus	Waste-water network plus	Bio-resources	Thames Tideway Tunnel	Total
Total in-period revenue adjustment for 2027-28	15.846	0.000	0.000	0.000	0.000	15.846
Total in-period revenue adjustment for 2028-29	22.034	1.597	1.350	0.000	0.000	24.980
Total in-period revenue adjustment for 2029-30	22.173	0.610	0.330	0.000	0.000	23.114
Total end of period revenue adjustment at PR29	0.000	0.000	7.875	0.000	0.000	7.875

Table 3: Thames Water's draft determination RCV adjustments by price control (£million, 2022-23 FYA CPIH prices)

	Water resources	Water network plus	Waste-water network plus	Bio-resources	Thames Tideway Tunnel	Total
Total end of period RCV adjustment at PR29	266.313	0.000	0.000	0.000	0.000	266.313

Table 4 sets out the impact of our draft determination on the company's last determined price controls[5].

Table 4: Draft determination changes to price controls for Thames Water

Price control		2025-26	2026-27	2027-28	2028-29	2029-30
Water resources (K factors)	Last determined	-26.95	32.21	2.02	4.54	-0.07
	Revised	-26.95	32.21	18.52	-9.64	-0.07
Water network plus (K factors)	Last determined	36.46	7.65	1.48	4.02	4.42
	Revised	36.46	7.65	1.48	4.02	4.42
Wastewater network plus (K factors)	Last determined	40.01	-10.10	3.39	4.22	5.18
	Revised	40.01	-10.10	3.39	4.22	5.18
Bioresources (unadjusted revenue, UR_t £m, 2022-23 FYA CPIH prices)	Last determined	237.838	236.871	241.071	242.688	244.369
	Revised	237.838	236.871	241.071	242.688	244.369

[5] For Thames Water, the last determined price controls are those updated for the 2025 blind year reconciliation.

Price control		2025-26	2026-27	2027-28	2028-29	2029-30
Additional control 1 - K factors Thames Tideway Tunnel for Thames Water	Last determined	106.24	-22.79	14.56	-0.54	-0.18
	Revised	106.24	-22.79	14.56	-0.54	-0.18

Appendix 2: Impact on Thames Water's customers' bills and price controls

The average bill increase for customers of Thames Water, in absolute and relative terms, is set out in table 5. This is the average bill increase for all customer classes as a result of our cost change decisions. The bill increase for each customer class will be different.

Table 5: Average bill increase above the PR24 final determination due to cost change process[6]

Company	2027-28 £	2029-30 £
Thames Water	3	5

[6] This is the average bill increase for all customer classes as a result of our cost change decisions when compared to the average bill from the 2024 final determination. The bill increase for each customer class will be different.

Appendix 3: Our decisions on how we fund Thames Water's expenditure allowances

Thames Water requested in-period funding for its cost change allowances in its submission.

We must determine whether expenditure allowed in the cost change process requires a change to company price controls to allow in-period funding. The cost change guidance notes set out our approach to assessing whether to provide in-period or end of period funding for allowed expenditure. The factors we consider are set summarised in section 5 of PR24 Cost change draft determinations 2026 – Sector overview document. Where we provide in-period revenue adjustments, this consists of:

- any pay as you go expenditure reflecting opex allowances;
- allowed return on any committed additions to RCV, based on the allowed return in companies' PR24 determination;
- run-off on any committed additions to RCV based on the final determination RCV run-off rates for the relevant wholesale controls; and
- where applicable, we will also provide issuance costs for additional required equity identified within the financial model at the same rate as for the final determinations of 2.5% of new equity.

For Thames Water we allow in-period funding for some of the allowed expenditure. Details of the revenue adjustments are set out in appendix 1 of this document. Our decision reflects our consideration of the relevant factors in the round.

- We provide in-period revenue funding for £294.1 million allowed expenditure during the 2025-30 control period related to major projects. This funding will allow Thames Water to progress this work during the current price control period. We will make an adjustment to RCV at 31 March 2030 for allowed totex not recovered in-period.
- We do not provide in-period funding for £7.1 million of allowed expenditure for Thames Water's gravity sewers inspections claim. We set out in our PR24 Cost change guidance for gravity sewers, that any adjustments to allowances for increased gravity sewer inspections would be funded through an end-of-period adjustment.[7] Inspections themselves are not eligible for in-period funding under the Asset Health Eligible Item included in Appendix 1 to Condition B of Thames Water's appointment (licence) because it relates to the costs of works to "maintain, renew or replace" relevant assets. Funding for the gravity sewer inspections allowances will be provided through an adjustment to RCV at 31

[7] Ofwat, 'PR24 Cost change process: Gravity sewers investment assessment guidance' February 2026, p.9

March 2030 and an adjustment to revenues over the 2030-35 price control period.

In our assessment we carefully considered the financial impact of the additional expenditure we allow and how a company is progressing against delivery of its existing investment programme. We set out our assessment of these below. While the financeability assessment identified possible financeability constraints, there are issues with progress on delivery of the existing investment programme. However, as previously set out we allow in-period funding for major projects because the expenditure relates to major project schemes and, consistent with our previous guidance[8], companies should only access the cost change process for major project development costs if they required in-period funding and have prior agreement from RAPID or Ofwat.

We expect Thames Water to set out, or update, its consideration of the impact of both the cost change and Outcome Delivery Incentive (ODI) payment processes in its response to the draft determination[9]. This should take account of our draft determinations and its view of this and any other factors or changes since they submitted their claims during the March to May window. This should take account of the latest view on progress on delivering existing investment programmes.

A3.1 Delivery assessment

2025-30 delivery

We reviewed the company's May 2026 delivery plan update. Overall, the company does not provide sufficient and convincing evidence to demonstrate that it is on track to deliver its PR24 commitments by the end of 2025-30 period. We provide a summary of our assessment below for water and wastewater.

Water

In its May 2026 delivery plan update, the company showed the following positive indicators in relation to 2025-30 delivery progress for water:

- The company showed good progress in relation to water price control deliverables (PCD) outputs, delivering above baseline target in 2025-26 (see section below on delivery in 2025-26).
- The company reported meeting all of its interim milestones in 2025-26.
- The company spent most of its water PCD allowances in 2025-26 and is forecasting to spend its PCD allowances by the end of the 2025-30 period.

[8] Ofwat, 'Cost change process guidance note' November 2025
[9] see Ofwat, 'cost change guidance, IN 26/01 Submission of cost change applications', February 2026

- The company remains confident that it will deliver all of its PCD outputs by the end of 2025-30 period.

However, we have concerns about the company forecasting to have only 20% of capital schemes released to the supply chain by the end of 2026-27. This is significantly below the sector average and raises the risk of slippage later in the 2025-30 period.

Wastewater

In its May 2026 delivery plan update, the company showed mostly negative indicators in relation to 2025-30 delivery progress for wastewater:

- The company has not shown good progress in relation to its wastewater PCD outputs, delivering just over half of its 2025-26 baseline target (see section below on delivery in 2025-26).
- The company is forecasting to deliver 47% of its PCD outputs for wastewater by the end of the 2025-30 period.

Delivery in 2025-26

Based on its May 2026 delivery plan update, the company has failed to demonstrate that it is not behind delivery in 2025-26:

- On water, the company reported delivering 10% more PCD outputs (in value terms) in 2025-26 compared to baseline target.
- On wastewater, the company reported delivering 44% less PCD outputs (in value terms) in 2025-26 compared to baseline target.

A3.2 Financeability assessment

Thames Water requested in-period funding within its cost change submission for all elements of its claims, although it withdrew its submission for large gated schemes at this time.

The company recognised that its submission for gravity sewers inspections did not meet the materiality threshold required for in-period revenue adjustment. However, Thames Water asked us to allow in-period revenue adjustment for this programme, as the company is required to undertake this survey programme, which is additional to the requirements expected at PR24 Final Determination. It considered that companies should not be required to provide bridge funding for new regulatory requirements where there are mechanisms to allow funding to be reconciled in-period.

Thames Water set out projected key financial ratios for its major projects cost change submission, under the scenario that there was no adjustment to in-period revenue or RCV, and under scenarios where in-period revenue and/or RCV adjustments were made. Whilst adjusted interest cover and funds from operations to net debt were both impacted where in-period revenue was not provided, the impact was relatively minor affecting the ratios by around 0.2x and 0.2% respectively.

We have set out our approach to assessing financeability in annex A2.2 of the PR24 cost claim draft determinations 2026 sector overview report. We have assessed Thames Water's financeability on the basis of the notional capital structure within a copy of the final determinations financial model by adding in the additional cost allowances in our draft determination. We have maintained other assumptions, including the allowed return on capital, in line with the final determinations. Our financeability assessment assumes the company spends its totex allowances according to the profile set out in the final determinations and has no under- or out-performance.

Adjusted interest cover and funds from operations to net debt are lower than the financial ratios set out in our final determinations. The adjusted interest cover ratio for all years is above our guidance for the target credit rating of Baa1/BBB+ and the average across 2025-30 provides material headroom to that guidance. However, funds from operations to net debt fall below our guidance for each of the years 2027-28 to 2029 -30. As such, we consider that Thames Water may have a financeability constraint over the later years of the 2025-30 price control period without in-period funding.

Appendix 4: Our assessment of and decision on Thames Water's submitted claims

This appendix sets out our detailed assessment of, and decision on, each of the company's 2026 cost change claims. It should be read alongside the documents specified in the first page of this draft determination.

In its response to the draft determination, the company should confirm, to the extent that it has not already done so, which proposed schemes could impact sites of special scientific interest (SSSIs) or land in National Parks, or areas of outstanding natural beauty.

A4.1 Asset health

4.1.1 Gravity sewers inspections

Assessment criteria	Assessment	Decision
Approach and Robust and Efficient Costs	**Decision summary – Pass** The company has provided sufficient and convincing evidence that its sampling approach is appropriate and that its costs are efficient. We propose to provide the full allowance.	**Pass**
Customer Protection	**Decision - Adequate** The company has provided sufficient and convincing evidence that customers will be protected if it under-delivers against the investment. **Company Evidence -** The company proposes a price control deliverable (PCD) for the investment funded by the requested additional allowance. The additional allowance will fund a programme of random and representative inspections covering 0.5% of the company's gravity sewer network. This PCD consists of a single element to ensure delivery of gravity sewer length inspections. The company also provides a single non-delivery PCD rate for inspections. **Our assessment** - The company's proposed non-delivery PCD is in line with our expectations, as set out in the asset health guidance document, and aligns to the approach set out in the PR24 Final Determination. If the company under delivers, the funding will be returned to customers.	**Adequate**

A4.2 Development costs for major projects

Summary of Request

In the PR24 final determinations, Thames Water was granted a contingent allowance of £363.77 million to account for uncertainties with particular development activities, such as enabling works. Thames Water has now requested £300.09 million through the cost change process for additional development allowances identified on the White Horse Reservoir and Teddington DRA projects. The majority of this request is a drawdown of the agreed contingent allowance.

This request relates to changes in scope and de-risking on both projects in preparation for the upcoming Development Consent Order (DCO) application and procurement, requiring further design, environmental and enabling works activities. In addition to this, following the onboarding of Technical Partner both projects have developed more mature cost forecasts relative to those which informed development allowances set out in the PR24 final determinations.

Company Evidence

Thames Water's cost change request was accompanied by a high-level overview of and a set of updated expenditure templates. This was only partially sufficient in explaining a detailed breakdown of the request, as there was significant change in the cost forecast since prior engagement with the Regulators' Alliance for Progressing Infrastructure Development (RAPID) and Ofwat.

Therefore during the assessment period, we engaged extensively with Thames Water to fully understand the breakdown of expenditure being requested. This included an understanding of what was driving the needs for additional costs i.e. changes to timing or scope, what activities these costs would cover as part of the projects remaining development and what output we can expect to see as a result of this.

Thames Water provided both Board Assurance and third-party technical assurance reports to support their submission, in line with the requirements of the cost change guidance.

White Horse Reservoir

Additional costs requested on this project through the cost change process amounted to £232.02 million, with a further £13.57 million to be reprofiled from headroom elsewhere in their major projects portfolio. This request was supported by relevant co-sponsors through accompanying letters of agreement submitted as part of Thames Water's submission.

Through further engagement, Thames Water were able to provide a clear understanding of cost drivers behind their request. This was explained as being an increase in the scope of their project since the PR24 final determinations, resulting in further design and environmental work. Further activity, such as an updated land strategy to support accelerated enabling works, has also been identified as necessary to de-risk the overall programme of the project.

In addition to this, Thames Water have requested additional financing costs of £2.08 million in relation to additional development allowance agreed to be incurred in 2025-26 and 2026-27 but logged up as part of the RAPID gate process, to be reconciled at the end of the period. This expenditure is being incurred on behalf of the developing partners (Affinity Water and Southern Water) to secure the project's continued progress. For this reason, we have exceptionally agreed to pay actual financing costs. This financing costs claim is based on a number of assumptions, and so costs may not turn out to reflect the actual costs that have (or which will be) incurred. Furthermore, to reflect the expenditure incurred, Thames Water have also requested £6.02 million of costs relating to time value of money adjustments.

Teddington DRA

Additional costs requested on this project through the cost change process amounted to £59.97 million, with a further £16.57 million to be reprofiled from headroom elsewhere in their major projects portfolio. The explanation of cost increases on Teddington DRA was explained by a number of drivers. This includes greater understanding of cost forecasts since the onboarding of the Technical Partner, externally driven costs, further environmental work and improved scope for Early Contractor Involvement (ECI).

Our Assessment

In assessing Thames Water's request, we have considered all the evidence provided to us as part of the cost change submission and additional areas of clarification. Our review considered whether the proposal was fully understood and whether a granular breakdown of costs were provided, with a clear reconciliation back to the PR24 final determinations. In addition to this, we considered whether the cost request was in line with the ongoing engagement as part of the Major Water Infrastructure Programme and therefore whether costs were supported by aligning evidence, including upcoming project milestones, risks and opportunities.

We also considered whether the additional development allowance remained in line with the core development expenditure caps set as part of our PR24 final determinations.

Draft determination

Thames Water has provided sufficient and convincing evidence that there is a need for the majority of additional development expenditure on White Horse Reservoir and Teddington DRA. We are therefore proposing to accept £294.07 million out of the £300.09 million requested, with a breakdown provided below. Our proposed decision will supersede previous agreements of logging up additional costs on White Horse Reservoir and Teddington DRA, as part of the RAPID gated process.

We are proposing to allow the costs of £232.02 million and £59.97 million on White Horse Reservoir and Teddington DRA following all evidence provided. This funding will be considered as part of the contingent allowances agreed for the PR24 final determinations. However, we recognise the new allowance for Teddington DRA exceeds the core development cap set out in the PR24 final determinations. We agree to make an exception in this case as we understand the importance of activities that need to be undertaken at this stage to ensure successful de-risking of the project ahead of the DCO application.

We are proposing to allow the costs of £2.08 million relating to the cost of financing incurred on behalf of Affinity Water and Southern Water. This allowance, based on a number of assumptions, will be subject to Thames Water providing us evidence of the actual cost incurred. Any variation from this will require adjustment and hence be managed through the major projects end-of-period reconciliation model. We expect Thames Water to subsequently recover these charges from Affinity Water and Southern Water via the Bulk Supply Agreement, once finalised.

We are proposing not to allow the costs of £6.02 million relating to time value of money adjustments. This is because modelling undertaken by Ofwat as part of the cost change process, and end of period reconciliations, will account for this adjustment based on the information provided by Thames Water for expenditure incurred in 2025-26 and 2026-27.

We are proposing not to make any adjustments to development expenditure on the Lower Thames to West London Reservoir transfer project as part of the cost change process. No additional development costs, relative to the PR24 final determinations allowance, were requested as part of the cost change process for this project. This will be managed as part of the recently transitioned Major Water Infrastructure combined gated process, in line with the recent RAPID gate one draft decision.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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