

Thames Water Utilities Limited (TWUL) Wholesale

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Statement of Compliance

2026/27

NAV bulk charges to new appointees

Introduction

1. The purpose of this document is to provide a statement of our compliance with the NAV bulk charging rules¹ ("the Rules") published by Ofwat on 10 November 2025 to take effect from 1 April 2026.
2. Following discussions on 8 September 2025, Ofwat requested, in a letter dated 11 December 2025, that we publish a statement of compliance with the Rules to address concerns that our NAV Bulk Charges for 2026/27 may not be compliant if they were based on the methodology that had been used in the prior Charging Year, 2025/26.
3. This Statement therefore:
 - includes details of the changes in methodology for calculating our NAV Bulk Charges for 2026/27 compared to the 2025/26 Charging Year;
 - sets out how our NAV Bulk Charges comply with the Rules; and
 - provides assurance that our NAV Bulk Charges for 2026/27 are compliant with the Rules.

Background

4. Our NAV Bulk Charges have previously been set in accordance with the Ofwat guidance that uses the wholesale-minus approach. As has been set out in previous published documents (for example, our NAV Tariff Document 2025/26²), we use the top-down methodology for the avoided Ongoing Costs adjustment and a bottom-up approach for the Renewal and Replacement Costs of On-site Assets adjustment.
5. We decided ahead of setting our 2020/21 tariffs to align our NAV Bulk Charges to the lowest rates applied to our Wholesale Charges for large user tariffs, specifically our super large user water rate (for usage in excess of 250,000m³ per annum) and our large user wastewater rate (for usage in excess of 100,000m³ per annum). This approach has been used in the setting of our NAV Bulk Charges since that time.
6. The legacy discount adjustment that has been applied to align to our lowest wholesale large user tariffs is not a recognised component within the wholesale-minus framework. Whilst Ofwat has confirmed that it does not believe our approach is non-compliant with the original guidance, it did express concerns over whether our approach would be compliant with the Rules and the outlier status of the margins that our Bulk Charges offer to NAVs. As such, we plan to remove the legacy discount adjustment from our NAV Bulk Charges to avoid any ambiguity regarding our alignment with the Rules.
7. The derivation of our NAV Bulk Charges for 2025/26 from the relevant starting point is set out in Table 1 below to illustrate the impact of the legacy discount adjustment.

¹ [Rules for Bulk Charges for New Appointments and Variations \(English Undertakers\)](#), Ofwat, November 2025

² [NAV Tariff Document 2025-26](#), Thames Water, January 2025

Table 1: Breakdown of adjustments applied to NAV Bulk Charges 2025/26

2025/26 charges	Water £ per m ³	Wastewater £ per m ³
Relevant Wholesale Charges starting point	2.4743	1.5480
Avoided on-site Ongoing Costs	(0.2811)	(0.0871)
Renewal and Replacement Costs of On-site Assets	(0.3188)	(0.0333)
Network losses	(0.0668)	n/a
Legacy discount adjustment	(0.3230)	(0.1892)
NAV tariff (excluding on-site SPS discount)	1.4846	1.2384
On-site Sewage Pumping Station (“SPS”) costs	n/a	(0.1720)
NAV tariff (including on-site SPS discount)	1.4846	1.0664

Methodological changes being applied for 2026/27

8. We acknowledge that removal of the legacy discount adjustment will generate increases in the overall charges applied to NAVs and reduce the implied margin that NAVs make on services provided in the Thames Water supply area. As such, we are proposing to phase the removal of the legacy discount adjustment, which is something that Ofwat indicated it would support during our discussions on 8 September 2025.
9. Table 2 below shows the impact on the implied margin available to NAVs of fully removing the legacy discount adjustment in a single year, based on our 2026/27 charges.
10. Note that our calculations for Avoided Costs for wastewater now include an adjustment for Leakage not previously applied. This results in lower NAV Bulk Charges than would have been calculated under the methodology used in 2025/26.

Table 2: Implied NAV margins with and without legacy discount adjustment 2026/27

2026/27 charges	Water £ per m ³	Wastewater £ per m ³
Relevant Wholesale Charges starting point	2.7346	1.4721
NAV Bulk Charges including legacy adjustment	1.6408	1.1777
Implied NAV margin including legacy adjustment	40%	20%
NAV Bulk Charges excluding legacy adjustment	2.0198	1.1871
Implied NAV margin excluding legacy adjustment	26%	19%
Movement in implied NAV margin	(14%)	(1%)

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11. Note that the margins set out in Table 2 are only those that relate to the Volumetric Charges that are applied. Fixed Charges are applied for the provision of surface water and highway drainage services.
12. We believe that it would be appropriate and proportionate to phase out the legacy discount adjustment over the course of a two-year period, rather than making the full adjustment in a single year in our 2026/27 charges. Our reasons for this are:
 - the full movement in the implied NAV margin is 14% which is above the “significant” threshold of 10% (a phased approach mitigates against this significant impact with a movement in the implied NAV margin of 9% in 2026/27);
 - Ofwat indicated that it would support us using a phased approach in order to limit the annual impact on NAVs from the resultant increase in our Bulk Charges; and
 - the implied NAV margin in 2026/27 when phasing over two years will be 31% which is still upper quartile based on Ofwat’s industry analysis for 2025/26, so this suggests the phasing does not need to be over a period longer than two years.
13. Reference is made in Annex 1 of the Rules to “significant” movements in the Avoided Costs, defined as an annual movement of more than 10%. Such changes will, from 2027/28, require a Statement from the Board setting out the reasons for the changes and why any mitigating action was or was not taken to avoid such changes.
14. As set out in Table 3 below, phasing out the legacy discount adjustment over a two-year period will exceed this significant annual threshold for movements in Avoided Costs for our water charges in 2026/27 (a movement of 14%), however we believe it is a proportionate approach and one that our NAV customers have been forewarned of through a consultation that we issued in November 2025. This approach also has the benefit of us fully aligning to the Rules by the start of the 2027/28 Charging Year.
15. For our wastewater charges, the annual movement in the Avoided Costs is below the 10% threshold and hence the removal of the legacy discount adjustment can be processed in a single year.

Table 3: Movement in Avoided Costs 2025/26 to 2026/27

	Water £ per m ³	Wastewater £ per m ³
Avoided Costs 2025/26	0.9897	0.3096
Avoided Costs 2026/27 – full legacy discount adjustment removal	0.7148	0.2850
Movement in Avoided Costs – full legacy discount adjustment removal	28%	8%
Avoided Costs 2026/27 – phased legacy discount adjustment removal	0.8523	0.2850
Movement in Avoided Costs – phased legacy discount adjustment removal	14%	8%

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16. Phasing the removal of the legacy discount adjustment generates NAV margins in 2026/27 (calculated on the basis of the Volumetric Charges, as per Table 2) of 31% for water and 19% for wastewater.

[Compliance with the Rules for NAV Bulk Charges](#)

17. Please see Appendix 1 for details on how our Bulk Charges comply with each of the Rules. Note that Rules 1 to 8 are not included as these relate to the basis on which the Rules have been set and the definition of terms relevant to the setting of Bulk Charges.

[Declaration](#)

18. Subject to the phasing of the removal of the legacy discount adjustment for water charges discussed above, this document provides assurance that the Bulk Charges that we have published for 2026/27 comply with the Rules that apply to the 2026/27 Charging Year.

Signed by, and on behalf of Thames Water:

Dated: 23 January 2026

Signed



Cathryn Ross
Strategy & External Affairs Director

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Appendix 1: Compliance with the Rules for NAV Bulk Charges

Section	Rule number and description	Compliance comments
Consultation	9. Incumbents should only make changes to their Bulk Charges following proportionate, timely and effective consultation with groups likely to be significantly affected by the proposed changes.	We issued a consultation to all of our NAV customers on 19 November 2025 setting out the proposed phased approach to unwinding the legacy discount adjustment and the reasons for this change being required, namely to comply with the new Rules and to remove a component of the process to set our Bulk Charges that is not a recognised part of the wholesale-minus framework.
General charging principles	10. Bulk Charges should reflect: <ul style="list-style-type: none"> a) fairness and affordability; b) environmental protection; c) stability and predictability; and d) transparency and customer-focused service. 	<p>a) Charges are set and applied without prejudice and to reflect the usage and specific characteristics of each Site (such as the existence of an on-site Sewage Pumping Station ("SPS") or drainage solutions that reduce the volumes of surface water and highways drainage discharged to the Incumbent). We believe that the margins offered to NAVs once the legacy discount adjustment has been unwound will be comparable to the industry median implying that our Bulk Charges are affordable for NAVs.</p> <p>b) Our Bulk Charges encourage all degrees of Sustainable Drainage Systems (SuDS) as we offer bespoke abatements for surface water and highways drainage services. The significant majority of our Bulk Charges are applied as Volumetric Charges, so efficient water use by NAVs and their customers is encouraged through our chosen Bulk Charges structure.</p> <p>c) Movements in our Bulk Charges will generally follow the trends within our underlying Wholesale Charges for which we endeavour to maintain a stable annual profile, subject to the regulatory mechanisms that impact wholesale allowed revenues. During AMP8, we will be using the Blind Year Adjustment as a means of smoothing bill volatility within our Wholesale Charges, which will have a similar smoothing effect on our Bulk Charges.</p> <p>d) All charges are specifically listed and explained in the Bulk Charges Schedule. Within our Bulk Charges Schedule and a separate document relating to avoided Ongoing Costs, we set out in detail the approach we go through in deriving the Avoided Costs adjustment within the wholesale-minus framework.</p>
Principles for determining Bulk Charges for NAVs	11. Consistent principles must be applied for calculating the Bulk Charges for different sites and different NAV customers. 12. Charging structures must reflect the long-run costs of providing the relevant service.	<p>For the sake of simplicity, transparency and ease of interpretation, the same charging structure and set of Bulk Charges is applied to all Sites and NAV customers without prejudice. Site-specific adjustments to our Bulk Charges (e.g. for an on-site SPS) are offered to all qualifying sites regardless of the NAV customer operating the Site.</p> <p>Our Bulk Charges are structured in the same way as our underlying Wholesale Charges, namely by applying the significant majority of the charges as Volumetric Charges (for clean water and foul wastewater services). Fixed Charges are applied only for surface water and highways drainage services as these services are not linked to the volume of water used by the customer. The structure of our Wholesale Charges reflects the long-run costs of providing the relevant services to our customers according to the volume of water used and the extent of the supply network utilised.</p>

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	<p>13. Bulk Charges should not financially penalise New Appointees for promoting greater water efficiency.</p>	<p>Our Bulk Charges are structured such that the significant majority of the charges is applied as a Volumetric Charge. As such, for each cubic metre of water saved by the NAV's customers, the NAV will see a reduction in their overall Bulk Charges. Our chosen charging structure therefore promotes water efficiency and does not financially penalise the NAV for encouraging its customers to use less water.</p>
	<p>14. Differences in Avoided Costs for services provided to larger users of water and charges for services provided to smaller users of water must only be based on cost differences associated with differential use of network assets, differential peaking characteristics, different service levels and/or different service measurement accuracy.</p>	<p>For the sake of simplicity, transparency and ease of interpretation, the same charging structure and set of Bulk Charges is applied to all Sites and NAV customers. As such, our chosen charging structure does not, in general, assume that different levels of Avoided Costs apply to different Sites based on the volume of water used by the NAV customer. We do however have specific Bulk Charges that reflect the additional Avoided Costs that apply to NAV customers whose network asset base includes an on-site SPS.</p>
	<p>15. Where cost differences associated with differential peaking characteristics are used as a basis for differences between charges for services provided to larger users of water and charges for services provided to smaller users of water, the charges fixed on that basis must be structured on an appropriate peak demand basis.</p>	<p>We do not use differential peaking characteristics as a means of distinguishing the Bulk Charges applied to larger and smaller users of water, so this rule does not apply to our chosen charging structure.</p>
	<p>16. Charges for Bulk Discharge Services must take into account the different pollutant loads associated with foul sewage, trade effluent, surface water draining from premises and surface water draining from highways.</p>	<p>Our Bulk Charges for wastewater that relate to surface water and highway drainage services are the same as those within our underlying Wholesale Charges. These charges reflect the relative costs of treating and disposing of these effluent streams and hence by extension, the relative pollutant loads. Our Wholesale Charges for foul sewage and trade effluent are set according to a calculation that checks the alignment of the relative charges by applying the Mogden formula to wastewater with the characteristics of foul sewage from households. Our Bulk Charges for wastewater are subsequently derived from the Wholesale Charges for household foul sewage.</p>
	<p>17. Charges to be paid in connection with the carrying out of a sewerage Incumbent's trade effluent functions must be based on the Mogden formula (as defined in our Wholesale Charging Rules), a reasonable variant of the Mogden formula or on a demonstrably more cost-reflective basis.</p>	<p>The significant majority of NAV Sites are comprised solely of household customers. If a NAV Site included a non-household customer with a trade effluent consent, the overall discharges from the Site would very likely be of the same, or a very similar, composition as that of a household-only Site. As such, for the sake of simplicity and in the absence of any material need, our methodology for setting Bulk Charges is not currently adjusted for any potential or actual trade effluent discharges.</p>
The wholesale-minus approach	<p>18. To determine Bulk Charges, Incumbents should adopt the wholesale-minus approach, which requires that they deduct Avoided Costs from their wholesale charges, relevant to the customers to be served on the Site to which the charges relate.</p>	<p>Our Bulk Charges are set according to the wholesale-minus framework. As set out in our Bulk Charges Schedule and accompanying Avoided Costs document, we use the top-down methodology for the avoided Ongoing Costs adjustment and a bottom-up approach for the Renewal and Replacement Costs of On-site Assets adjustment. We also apply an adjustment to water and wastewater Bulk Charges for on-site network losses, referred to as Leakage in the Rules.</p>

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	19. Incumbents should set the starting point of the wholesale charges for non-household customers used in the wholesale-minus calculation by reference to those included in their Wholesale Charges (as published by 13 January) for the relevant Charging Year.	Due to NAV Sites in our supply area almost exclusively comprising household customers, our default starting point for the wholesale-minus calculation is the wholesale rate applied to household customers (which is the same as that for standard user non-household customers). If, however, there was a need to derive a starting point for a NAV Site that primarily served non-household customers, then we would use the Wholesale Charges set out in our Wholesale Tariff Document published on or before 13 January each year.
	20. Incumbents should include in their Bulk Charges Schedules the Fixed and Volumetric Charges for Wholesale Charges for Household and Non-Household customers.	The Wholesale Charges (both Fixed Charges and Volumetric Charges) that apply to our household and non-household customers are included within our Bulk Charges Schedule.
	21. Incumbents should specify in their Bulk Charges Schedules the Avoided Costs in accordance with the Avoided Costs table set out in our CTWEBC.	This rule only takes effect from the 2027/28 Charging Year.
	22. Incumbents must specify the sources of data used in their calculations of Avoided Costs, the assumptions made, and the methodology used.	The detail included within our Bulk Charges Schedule and accompanying Avoided Costs document sets out the data sources, assumptions and methodologies used in deriving our Bulk Charges. We use the top-down methodology for the avoided Ongoing Costs adjustment and a bottom-up approach for the Renewal and Replacement Costs of On-site Assets adjustment.
Menu of cost drivers	23. Incumbents should calculate charges according to a discrete set of cost drivers, in accordance with the Menu of Cost Drivers set out in the CTWEBC and make it clear when these cost drivers would apply.	This rule only takes effect from the 2027/28 Charging Year.
	24. Incumbents should specify in their Bulk Charges Schedules the adjustment made for Leakage, in accordance with the CTWEBC.	This rule only takes effect from the 2027/28 Charging Year.
Worked examples	25. Incumbents should present in their Bulk Charges Schedule worked examples of the Bulk Charges payable for each of the scenarios set out in the worked examples in our CTWEBC.	This rule only takes effect from the 2027/28 Charging Year. We will, however, be including the defined worked examples in our Bulk Charges Schedule for 2026/27.
Publication	26. Each Incumbent must publish its Bulk Charges Schedule on or before 1 February in the Charging Year immediately preceding the Charging Year in relation to which they have effect.	Our Bulk Charges Schedule for 2026/27 was published by 1 February 2026.
	27. Incumbents should ensure all services offered that have charges subject to the present rules are clearly specified in	The services to NAVs to which our Bulk Charges apply are specified within our Bulk Charges Schedule. In accordance with Rule 20, we also set out in our Bulk Charges Schedule the Wholesale Charges that apply to household and non-household customers for the provision of wholesale services.

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	<p>the Bulk Charges Schedule, along with the charge(s) for those services.</p>	
	<p>28. Bulk Charges must be published with such additional information or explanation as is necessary to make clear what services are covered by each charge.</p>	<p>Our Bulk Charges Schedule specifies the services covered by each charge within our Bulk Charges.</p>
	<p>29. Bulk Charges Schedules must be written and presented in a clear and accessible manner, which takes due account of the varying levels of expertise of persons likely to be affected by these charges using, where appropriate, the terms as defined at Rule 8 and those set out in the list of common terms published by Ofwat in the CTWEBC.</p>	<p>Our Bulk Charges Schedule has remained consistent in its presentation and language for many years without any feedback relating to a lack of clarity or accessibility being received from users of the document (which will primarily be the employees of our NAV customers). For 2026/27, we have ensured that the terminology used throughout the Bulk Charges Schedule uses the defined terms referenced in Rule 8.</p>
	<p>30. Incumbents must publish the charges covered by these rules in such a way that a New Appointee can confidently work out a reasonable estimate of the charges payable if they know the relevant parameters of a Site.</p>	<p>The only parameters needed to work out a robust estimate of the charges payable for a given NAV Site are the volume of water delivered annually to the Site at the Site's bulk supply meter(s) and the size of the bulk supply meter(s) that provide the Site with its water supply. The worked examples included within the Bulk Charges Schedule (as required by Rule 25) set out how a NAV should use the Bulk Charges within the document to calculate the charges that would apply to any proposed Site.</p>
	<p>31. Each Incumbent's Bulk Charges Schedules must be published on its website and in such other manner as the Incumbent considers appropriate for the purpose of bringing it to the attention of persons likely to be affected by these charges.</p>	<p>Our Bulk Charges Schedule is published each year within the Document Library on the wholesale pages of our external website. Communications are issued to our NAV customers when the document has been published each year.</p>
Information requirements	<p>A1. Each Incumbent should provide to Ofwat an assurance statement from its Board of Directors and publish its statement no later than the time of publication of its final Bulk Charges.</p>	<p>This rule only takes effect from the 2027/28 Charging Year. This Statement of Compliance serves a similar purpose for the 2026/27 Charging Year.</p>