Thames Water Utilities Limited (TWUL)
Published date: 15 July 2026

Request for deferral of ODI payments

Annual Performance Report 2025/26

Introduction

1. This document seeks Ofwat's approval for Thames Water to defer a proportion of the Outcome Delivery Incentive ("ODI") payments relating to the company's 2025/26 performance. Under the existing framework, these would normally apply to our allowed revenues in 2027/28. Thames Water is instead requesting that Ofwat permits the ODI payments to be applied in 2028/29.

2. The reason for making such a request is to smooth the bill impacts for customers over the remainder of the 2025 – 2030 period, avoiding a situation whereby bill reductions are followed by more significant bill increases. The outcome of a more consistent level of annual bill increase aligns with customer preferences for avoiding bill volatility.

3. This document has been submitted alongside our Annual Performance Report 2025/26 ("APR26"), in accordance with Ofwat's in-period determination process.

Background

4. The Ofwat in-period determination process allows water companies to request that ODI payments, which may comprise rewards for outperformance and penalties for underperformance, be deferred. By default, ODI payments are applied with a lag of two years, but in the interest of smoothing bill impacts for customers, deferrals can be requested that would apply ODI payments with a longer lag time.

5. As reported in our APR26 submission, we have not met a number of Performance Commitment ("PC") targets that applied in 2025/26. This will result in ODI payments being incurred that should by default apply in 2027/28 as reductions to our allowed revenue. This is set out in Table 1.

Table 1: **ODI payments impacting 2027/28 allowed revenues**

ODIs 2025/26	Price base	Water £m	Wastewater £m	Retail £m	Total £m
Water Resources	2022-23	(0.8)	0	0	(0.8)
Water Network	2022-23	(34.8)	0	0	(34.8)
Wastewater Network	2022-23	0	(56.0)	0	(56.0)
Bioresources	2022-23	0	(0.5)	0	(0.5)
Thames Tideway Tunnel	2022-23	0	0.4	0	0.4
D-MeX	2022-23	(7.7)	(4.4)	0	(12.1)
BR-MeX	2022-23	(1.0)	(1.0)	0	(2.1)
C-MeX	2022-23	0	0	(34.9)	(34.9)
ODI payment 2025/26	**2022-23**	**(44.3)**	**(61.6)**	**(34.9)**	**(140.8)**
Total ODI payment adjusted for inflation to apply in 2027/28	**Nominal**	**(56.1)**	**(77.9)**	**(44.2)**	**(178.2)**

6. The allowed revenue profile currently being forecast for the remainder of AMP8 shows a decrease of revenue in 2027/28, followed by revenue increases in the final two years. This is set out in Table 2. We have included the underlying revenue allowances from the PR24

Final Determination ("FD"), and other regulatory mechanisms, such as the Revenue Forecasting Incentive ("RFI") and Blind Year Adjustment ("BYA").

Table 2: **Forecast of allowed revenues (nominal prices) for the remainder of AMP8**

Allowed revenue (nominal prices)	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m
Wholesale revenue allowance	3,625	3,740	3,976	4,218
Retail revenue allowance	266	286	299	314
Wholesale ODI and MeX payments	(100)	(134)	0	0
Retail ODI and MeX payments	(18)	(44)	0	0
Revenue Forecasting Incentive	0	(150)	0	0
Blind Year Adjustments	(10)	0	(77)	(145)
Total allowed revenue	**3,762**	**3,698**	**4,198**	**4,387**

7. This subsequently gives the household customer bill profile forecast set out in Table 3.

Table 3: **Forecast of typical metered customer bill movements for the remainder of AMP8**

Nominal bills	2027-28	2028-29	2029-30
Water bills	(3.5%)	13.7%	3.1%
Wastewater bills	0.9%	11.7%	5.3%
Combined bills	(1.6%)	12.8%	4.1%

8. We have an opportunity to smooth these bill impacts for customers through the ODI payments deferral mechanism. Ofwat's charging rules require the principles of stability and predictability to be applied when setting charges (rule 11.A(c)) and customers have consistently expressed a preference for smooth bills, per the examples set out below:

- Customer research from PR19 indicated that customers prefer costs to be spread gradually over time and for bills to increase gradually over a longer period, rather than there being sharp increases. [*PR19 CR19 Intergenerational Fairness report, Thames Water, October 2016, slides 38 - 39*]
- Customer research from PR24 showed a similar preference for gradual and smooth increases in bills. [*Thames Water Long Term Delivery Strategy: Qualitative engagement, September 2023, slides 30 - 38*]
- On whether bill decreases and subsequent increases would be preferable to a more consistent profile, most preferred consistency, though a significant minority liked the idea of having a short-term decrease in bills, but any subsequent increases would need to be gradual. [*PR19 CR19 Intergenerational Fairness report, Thames Water, October 2016, slide 40*]

- At PR24, customers expressed a preference for bill increases to start sooner rather than deferring bill increases to commence later. [*PR24-17 Acceptability and affordability testing quantitative, Thames Water, September 2023, section 4.12*]
- The Consumer Council for Water ("CCW") agrees that smooth bill profiles are generally preferred by customers and acknowledges that a deferral of ODI payments would achieve the objective of smoothing bills.
- We also note research carried out by other companies in support of smooth bill profiles including Severn Trent, South East Water, United Utilities, Yorkshire Water and most notably Southern Water whose request to defer ODI penalties relating to the 2022/23 in-period determination[1] was approved on the basis of managing bill volatility.

9. For any customers that may experience financial difficulty as a result of the bill increases that would follow a deferral of ODI payments, our social tariff support is available through our WaterHelp tariff as well as our Extra Support Scheme.

10. While this document can only formally request a deferral of ODI payments for the 2025/26 reporting year, we have also considered the need to defer ODI payments from future years. This is necessitated by the impact that the unwinding of deferrals will have on future allowed revenues, and the ODI net penalty position currently being forecast for the remainder of AMP8. The tables throughout this paper include no forecast ODI payments for any years beyond 2025/26, however the potential impact from future ODI payments has been considered separately.

11. We have also considered the need for potential in-period increases to allowed revenues from the Cost Change process, for which Thames Water has submitted a request for our Strategic Resources Options ("SRO") programme. Scenarios with and without this additional revenue - which we will refer to as SRO revenue - are considered below.

Request to defer ODI payments (scenario excluding SRO revenue)

12. If we were permitted to defer ODI payments from 2027/28 to 2028/29, then we could achieve a much smoother bill profile for customers. Table 4 sets out our allowed revenues should we defer ODI payments and achieve an optimised 'smooth' bill profile. Inflation and time value of money adjustments have been added to reflect the calculations applied to the deferred amounts. The calculations uplifted for forecast November CPIH inflation and applied a discount factor of 3.97% (the wholesale WACC from the PR24 FD).

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[1] 'Final determination of Southern Water's in-period outcome delivery incentives for 2022-23', Ofwat, November 2023

Table 4: **Forecast of smoothed allowed revenues (excluding SRO revenue)**

Allowed revenue (nominal prices)	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m
Total allowed revenue before deferral	**3,762**	**3,698**	**4,198**	**4,387**
Wholesale water deferral from FY28	0	56	(60)	0
Wholesale wastewater deferral from FY28	0	39	(42)	0
Retail deferral from FY28	0	44	(47)	0
Total allowed revenue after deferral	**3,762**	**3,837**	**4,049**	**4,387**

13. The deferrals set out in Table 4 represent the following proportions of the ODI payments that apply in nominal terms to each service:

- **Wholesale water**: deferral of **100%** of payments from FY28
- **Wholesale wastewater**: deferral of **50%** of payments from FY28
- **Retail**: deferral of **100%** of payments from FY28

14. The resultant household customer bill profile forecast then becomes that seen in Table 5. Note that the smoothing of bills for 2029/30 has been considered separately and is not presented in this paper.

Table 5: **Forecast of smoothed typical metered customer bill movements (excluding SRO revenue)**

Nominal bills	2027-28	2028-29	2029-30
Water bills	0.5%	4.9%	7.3%
Wastewater bills	4.2%	4.8%	8.7%
Combined bills	2.1%	4.9%	7.9%

Request to defer ODI payments (scenario including SRO revenue)

15. Our Cost Change submission for SRO will increase our allowed revenues in FY28 - FY30 if Ofwat approves an in-period application of the requested revenue adjustments. In nominal prices, this would add the following figures to our wholesale water allowed revenues for the remainder of AMP8:

- **£15m** in FY28;
- **£27m** in FY29; and
- **£28m** in FY30.

16. The allowed revenue position with the SRO revenue included alongside the ODI deferral request is set out in Table 6.

Table 6: **Forecast of smoothed allowed revenues (including SRO revenue)**

Allowed revenue (nominal prices)	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m
Total allowed revenue before deferral	**3,762**	**3,698**	**4,198**	**4,387**
SRO allowed revenue	0	15	27	28
Wholesale water deferral from FY28	0	56	(60)	0
Wholesale wastewater deferral from FY28	0	39	(42)	0
Retail deferral from FY28	0	44	(47)	0
Total allowed revenue after deferral	**3,762**	**3,853**	**4,077**	**4,414**

17. The subsequent bill profiles would then be as set out in Table 7.

Table 7: **Forecast of smoothed typical metered customer bill movements (including SRO revenue)**

Nominal bills	2027-28	2028-29	2029-30
Water bills	1.2%	5.5%	7.2%
Wastewater bills	4.2%	4.8%	8.7%
Combined bills	2.5%	5.2%	7.8%

18. This bill profile is still deemed to be sufficiently smooth when looking at the movements for 2027/28 and 2028/29, so in this scenario with the SRO revenue included, we would not propose that a different level of ODI deferral is required.

Customer engagement on deferral of ODI payments

19. As set out in the requirements of Ofwat Information Notice 26/02[2], published on 2 April 2026, we have engaged with CCW as well as our Independent Challenge Group ("ICG") on the proposed deferral of ODI payments and the benefit it will bring to customers regarding a smoother bill profile for the remainder of AMP8.

20. The CCW and our ICG are supportive of smoothing bills for customers. The CCW acknowledges that ODI deferral will achieve a smoother bill profile and notes the need for careful customer communications on the topic of deferring performance-related penalties. Evidence of the engagement with the CCW can be seen in Appendix 1.

Summary and ODI deferral request

21. As set out above, we believe that it is in the interest of our customers for a deferral of ODI payments to be applied to our allowed revenues for 2027/28, thus deferring the application of the ODI payments from 2027/28 to 2028/29.

22. Noting that the tables throughout this paper include no forecast ODI payments for any years beyond 2025/26, we intend to submit a similar request with our Annual Performance Report 2026/27 to action the proposed smoothing of customer bill impacts between

[2] 'IN 26/02 Expectations for large water company annual performance reporting 2025-26', Ofwat, April 2026

2028/29 and 2029/30, however this falls outside of the scope of the in-period determination for 2025/26.

23. We have additionally considered the potential impact on AMP8 allowed revenues from the Cost Change process, however we are not proposing that our ODI deferral request would be subject to change depending on whether the Cost Change process applies the revenue adjustments in-period or end-of-period.

24. We are therefore requesting that, in 2022-23 prices, we defer (£44m) of wholesale water ODI payments, (£31m) of wholesale wastewater ODI payments and (£35m) of retail ODI payments to apply in 2028/29 instead of applying in 2027/28.

25. Alongside this document and as a part of our APR26 submission, we include the In-period adjustments model that reflects our ODI deferral request, per the filename listed below.

- PR24R12-In-period-adjustments-v3.0 - TMS in-period 2025-26 v4 20260709.xlsx

26. The ODI deferral requests are being processed through the Water Resources, Water Network Plus, Wastewater Network Plus, Bioresources, Thames Tideway Tunnel (TWUL) and Residential Retail price controls, as set out on rows 74, 75, 76, 77, 80 and 81 of the 'Inputs' tab of the In-period adjustments model.

Appendix 1 – Evidence of engagement with CCW

Summary of discussion with CCW

We met with CCW on 12 May 2026 to discuss the proposed smoothing of customer bills through the deferral of ODI payments. CCW agreed that smooth bill profiles were generally preferred by customers (based on earlier price review research by several companies) and that the bill profile in the absence of any mitigation does warrant action to be taken to smooth bills for customers over the remaining years of AMP8. CCW acknowledged that a deferral of ODI payments would provide mitigation and achieve the objective of smoothing bills. However, CCW pointed out that bills being smoothed by way of Thames Water not taking performance-related penalties at the earliest opportunity may not be supported by the public and could be a difficult message to land with customers.

We pointed out that, in deferring the application of ODI payments by a year, the magnitude of the reduction to allowed revenues and future customer bills is increased, thus meaning that Thames Water is not benefitting from taking a higher level of revenue from customers earlier, as the deferred penalty is appropriately increased for inflation and time value of money adjustments. CCW acknowledged that whilst this does mean that Thames Water does not financially benefit from pushing penalties to a later year, it will require carefully considered communication with customers to effectively land a complex message.

CCW also suggested that new customer research could be undertaken by Thames Water to understand the relative importance to customers of smooth bill profiles and water companies taking performance-related penalties at the earliest opportunity, given the possibility of changing views given current cost of living issues. CCW was not aware of any such customer research having been undertaken across the industry previously on bill smoothing of ODI impacts.