



Cost Change Process Submission: Major Projects

Main Submission, August 2026

Contents

1. Executive Summary
 - A. A summary of our Major Projects Cost Change Process request
 - B. The cost efficiency of our forecast expenditure
 - C. Customer impacts
 - D. Documentation submitted
2. Major Projects Cost Change Process Request for Adjusted Expenditure Allowances
 - A. Thames Water's portfolio of SROs and associated FD allowances
 - B. A summary of the adjustment to expenditure allowances required across the SRO portfolio
 - C. Adjustment to allowances for White Horse Reservoir (WHR)
 - D. Adjustment to allowances for Teddington Direct River Abstraction (TDRA)
 - E. Adjustment to allowances for Beckton Water Recycling (Beckton WR)
 - F. Adjustment to allowances for Severn to Thames Transfer (STT)
 - G. Adjustment to allowances for Thames to West London Reservoirs (LTWLR)
 - H. Our request for the cost to finance co-sponsor shortfall
 - I. Our request for an adjustment to account for the time value of money
3. Cost Efficiency Assessment
 - A. Assessing cost efficiency at FD
 - B. Our updated cost forecasts and a revised assessment of efficiency
4. Customer Impact Assessment
 - A. Revised customer bill profile
 - B. Affordability
 - C. Customer support
5. Approach to Assurance of this Cost Change Process Request
6. Glossary
7. Appendix: SRO Background

1. Executive Summary

Section 1A: A summary of our Major Projects Cost Change Process request

At PR24, Ofwat introduced a new uncertainty mechanism called the Cost Change Process. This process applies to specific critical areas that face uncertain costs, and acts as an adjustment for companies to access additional in-period revenue.

One of the critical cost areas for which the Cost Change Process applies is for Major Projects. Major Projects include large scale water infrastructure projects that are critical to securing the long-term water supply of England and Wales, providing increased resilience to more severe droughts. Ofwat recognises that the costs of such projects can be highly uncertain, particularly during development, as both: (i) unexpected issues may arise that need to be resolved to keep the project on track; and (ii) it can be hard to estimate certain costs that are key to de-risking the delivery of the project at an early stage. Ofwat also recognises that failure to manage this uncertainty can result in material delays to project delivery. The Cost Change Process was therefore developed to enable funding decisions to be revisited as projects progress and better information becomes available.

Consistent with this approach, and in addition to the fixed baseline allowances, in its 2024 Price Review (PR24) Final Determination (FD) Ofwat established a contingent funding allowance of £363.77m for Thames Water's Major Projects portfolio of Strategic Resource Options (SROs). This represented an earmarked funding pot that could be accessed during Asset Management Period 8 (AMP8)¹ through the Cost Change Process, subject to further assessment. The contingent allowance reflected Thames Water's request for SRO funding to be split between baseline and contingent amounts, recognising the significant uncertainty associated with a proportion of forecast project costs. This approach was intended to protect customers from funding uncertain activity until costs were more certain and the need for these activities was established, while also aiding Thames Water in managing the associated financing risk.

This submission details Thames Water's Cost Change Process request for an in-period increase in development allowances across its SROs, with cost recovery proposed through both in-period revenue and in-period Regulatory Capital Value (RCV) adjustments.

Our request for an uplift in development allowances

Our engagement regarding in-period access to contingent funding began during 2025, where we developed updated forecasts for Years 1 and 2 of AMP8 that were shared with RAPID² and Ofwat. Since this early engagement, we have updated our portfolio expenditure estimates for the entirety of AMP8. These latest forecasts indicate that we expect to overspend against our FD allowances for White Horse Reservoir (WHR) and Teddington Direct River Abstraction (TDRA), and forecast an overall underspend against our remaining three projects: Lower Thames to West London Reservoirs (LTWLR), Beckton Water Recycling (Beckton WR), and Severn to Thames Transfer (STT). As a result of these updated forecasts, we are requesting access to **£300.09m** out of the £363.77m contingent allowance set at FD. This £300.09m comprises:

¹ AMP8 is the eighth five-year regulatory cycle for the water industry in England and Wales since privatisation, running from 2025-2030.

² RAPID is the Regulators' Alliance for Progressing Infrastructure Development. It is a partnership between Ofwat, the Environment Agency and the Drinking Water Inspectorate.

- **£291.99m** variance between the FD allowance and Thames Water's forecast allocation of costs across the SRO portfolio (excluding co-sponsor allocation of costs).
- **£2.07m** for the actual cost to finance the co-sponsor shortfall in expenditure expected during Years 1 and 2 of AMP8.
- **£6.02m** to account for the time value of money (TVM) associated with additional expenditure incurred during Years 1 and 2. This is to reflect that these costs are incurred in advance of any cost recovery allowed through this Cost Change Process request.

Thames Water's projected appointed turnover for 2025-26 is £3,234.5m (in 2022-23 prices).³ On this basis, the total AMP8 request for additional development allowances represents approximately 9% of Thames Water's 2025-26 revenue, and therefore exceeds the materiality threshold set by Ofwat for requesting an in-period revenue adjustment of 2%.

Table 1 summarises our Cost Change Process request for increased AMP8 development allowances, broken down by SRO. We include this alongside baseline and contingent allowances set at the FD.

Table 1: A summary of our Cost Change Process request, £m

Project	TMS PR24 FD allowance	TMS PR24 contingent allowance	Total requested uplift to allowances for the full AMP8 period
WHR	316.32	235.37	245.59
TDRA	31.05	0.00	76.55
Beckton WR	37.33	0.0	-16.57
STT	25.70	28.90	-5.79
LTWLR	63.56	99.50	-7.78
Portfolio	473.96	363.77	291.99
Cost to finance adjustment			2.07
Time value of money adjustment			6.02
Total 2026 Cost Change Process request			300.09

Additional features of our Cost Change Process request

We are requesting an in-period revenue adjustment to accompany any increase to our development allowances approved through the Cost Change Process. In addition:

- We are also requesting the associated RCV adjustment to occur in-period, rather than receiving this as a midnight adjustment at the 2029 Price Review (PR29). This is on the grounds of the negative impacts that a midnight RCV adjustment has on our key financial metrics, in period.
- Should equity or debt issuance costs arise as a consequence of this claim, we consider that such costs should be reconciled at PR29. Given the uncertainty surrounding these costs, particularly in light of Thames Water's ongoing financial restructuring, they have not been included in this submission.
- The Competition and Markets Authority (CMA) has recently published its Final Determinations report for water companies who referred their PR24 FDs. In its Final Determinations, the CMA allowed a Weighted Average Cost of Capital (WACC) which is

³ Thames Water Annual Performance Report 2025-26, Regulatory Accounts. This reports appointed revenue of £3,656.0m in outturn prices. This converts to £3,234.5m in 2022-23 prices.

23 basis points higher than the WACC set by Ofwat at PR24. The CMA's assessment is based on more up to date evidence, and we consider that any Cost Change Process allowances should be remunerated with the WACC determined by the CMA.

Further information regarding: (i) the latest forecasts underpinning our Major Projects Cost Change Process request, and reasons for the variance between these cost estimates and FD allowances; and (ii) the additional adjustments requested for the cost to finance and to account for the time value of money, can be found in Chapter 2.

In the remainder of this Chapter, we summarise: (i) our findings regarding the cost efficiency of our forecast expenditure; and (ii) the expected impact on customers of this request, in accordance with the guidance provided by Ofwat.⁴

Section 1B: The cost efficiency of our forecast expenditure

In developing this Cost Change Process request, we have reassessed the cost efficiency of the SROs for which we are requesting an increase in our development allowances for AMP8: WHR and TDRA. We find that:

- Our updated forecast for WHR indicates that development expenditure (devex) as a proportion of capital expenditure (capex) lies at between 5.7% and 7.8%, well within the 10% used by Ofwat to set efficient development cost allowances.
- In contrast, our forecast for TDRA indicates that devex as a proportion of capex is higher, at between 23.9% and 35.6%. This falls above the relevant cap used by Ofwat of 12%.

While forecast development costs for TDRA lie above the relevant cap, we consider these to be the efficient costs for the project, as its nature means that it is not possible for development costs to account for 12% or less of the total project value. Mitigating factors include: (i) the cost of complying with statutory requirements; (ii) the complexities of integrating with Mogden Sewage Treatment Works (STW), one of the UK's largest treatment sites; and (iii) the cost of additional consultation and engagement.

Further information regarding this cost efficiency assessment can be found in Chapter 3.

Section 1C: Customer impact assessment

We have undertaken a detailed assessment of the expected impact of this Cost Change Process request on customers. Specifically, we have:

1. Modelled the impact on customer bills should this Cost Change Process request for an in-period revenue adjustment be accepted, compared with the impact on bills that would result from an end-of-period adjustment.
2. Used our Affordability Threshold Model to establish the number of Thames Water customers that are expected to fall below the affordability threshold⁵ should the request for an in-period revenue adjustment be accepted, compared with the number expected to fall below this threshold should the revenue adjustment occur at the end of the period.
3. Undertaken work to understand whether customers support the bill profile associated with this request. To do this, we have undertaken research to determine whether customers

⁴ [Cost Change Process Guidance Note](#) (Ofwat, 2025), page 35.

⁵ This is defined as households paying over 5% of their net equivalised income on their water bill. Also known as Water Poverty Threshold.

would prefer the bill profile associated with an in-period versus an end-of-period adjustment.

The findings of our work under points 1. to 3. above show that an in-period revenue adjustment would both be more affordable for our customers, and preferred, compared to an end-of-AMP adjustment. Specifically:

1. The average customer bill would increase by £2.71 in 2027-28; £4.62 2028-29; and £4.57 in 2029-30 (in 2022-23 prices), should this Cost Change Process request for an in-period revenue adjustment be accepted. This contrasts with a larger average bill increase of £12.89 in 2030-31, should Ofwat instead allow an end-of-period adjustment to occur in Year 1 of AMP9.⁶
2. Should the request for an in-period revenue adjustment be accepted, fewer customers would be expected to fall below the affordability threshold by 2029-30, relative to an end-of-period adjustment. Specifically, following the provision of support, the bill increases associated with this Cost Change Process request would result in a 1-2% increase in customers facing affordability issues if an in-period revenue adjustment is allowed, compared to an estimated 3-4% increase in the number of customers should an end-of-period adjustment be allowed. Therefore, an in-period adjustment will result in improved outcomes to customers, relative to an end-of-period adjustment.
3. Our PR24 customer engagement shows that customers prefer bill increases that begin earlier and rise gradually and predictably over time, rather than higher, sharper spikes in the future. This preference is motivated by fairness across generations, budgeting comfort, avoidance of financial shocks, and the need for transparency and trust in billing. This indicates that customers would also prefer the bill profile associated with the adjustment taking place in-period, as per our Cost Change Process request.

Further information regarding our assessment of the impact of this request on customers can be found in Chapter 4.

Section 1D: A guide to our Major Projects Cost Change Process submission

Table 2: Documentation

Document Reference	Purpose
TMS Cost Change Request-Major Projects	Main submission (this document)
TMS Cost Change Request-Data tables	Cost Change Process Data Tables for Major Projects and Gravity Sewers

⁶ Year 1 of AMP9 is 2030-31. AMP9 is the regulatory period running from 2030-35.

2. Major Projects Cost Change Process Request for Adjusted Expenditure Allowances

In this section we detail our request for additional expenditure allowances for the portfolio of Strategic Resource Options (SROs). In total, Thames Water is requesting an increased total expenditure (totex) allowance of **£300.09m**, with cost recovery requested as an in-period revenue adjustment. This equates to 9% of forecasted appointed business revenue in 2025-26 (in 2022-23 prices),⁷ thereby surpassing Ofwat's materiality threshold of 2%.

The total of £300.09m comprises:

- **£291.99m** variance between the Final Determination (FD) allowance and Thames Water's forecast allocation of costs across the SRO portfolio (excluding co-sponsor allocation of costs).
- **£2.07m** for the actual cost to finance the co-sponsor shortfall in expenditure expected during Years 1 and 2 of AMP8.⁸
- **£6.02m** to account for the time value of money (TVM) associated with additional expenditure incurred during Years 1 and 2. This is to reflect that these costs are incurred in advance of any cost recovery allowed through this Cost Change Process request.

This chapter is structured as follows:

- Section 2A. This section includes the background to our portfolio of SROs, including the process by which they are investigated, developed and funded, before setting out the allowances set by Ofwat at the 2024 Price Review (PR24).⁹
- Section 2B. In this section we summarise the latest forecasts and associated request for an increase in totex allowances for our SROs at the portfolio-level, which equates to the variance (of £291.99m) between these updated forecasts and the FD allowances.
- Sections 2C-2G. These sections detail the variance between our latest forecasts and the FD allowances at the project-level.
- Section 2H. In this section we detail our request (of £2.07m) for the cost to finance our co-sponsors' allocation of additional expenditure during Years 1 and 2 of AMP8.
- Section 2I. Here, we detail the TVM adjustment (of £6.02m) that we are requesting to be applied to additional forecast expenditure incurred during Years 1 and 2 of AMP8.

Section 2A: Thames Water's portfolio of SROs and associated FD allowances

Thames Water's SRO portfolio

Thames Water's Water Resources Management Plan 2024 (WRMP24), approved by the Secretary of State for the Department of Environment, Food and Rural Affairs (DEFRA), sets out the statutory pathway through which the company commits to maintaining a secure, sustainable and resilient water supply over the long term.

The portfolio of SROs approved in the WRMP24 comprises the following:

⁷ Thames Water's projected appointed turnover for 2025-26 is £3,234.5m (in 2022-23 prices).

⁸ AMP8 is the eighth five-year regulatory cycle for the water industry in England and Wales since privatisation, running from 2025-2030.

⁹ Further background to our portfolio of SROs can be found in Appendix: SRO background.

- **White Horse Reservoir (WHR).** WHR is a proposed reservoir in Oxfordshire, intended to provide substantial new storage capacity for the region's growing and drought-vulnerable demand. The reservoir would be used to store water abstracted during periods of high flow in the River Thames, for use during periods of low river flow or high demand for water. The scheme is being developed by Thames Water as the Lead Party, with Southern Water (SRN) and Affinity Water (AFW) as co-sponsors.
- **London Water Recycling Scheme (LWRS): Teddington Direct River Abstraction (TDRA).** The preferred sub-option of the LWRS, the TDRA option involves the removal of water from the river via a new intake. This water would be replaced with recycled water from Mogden Sewage Treatment Works (STW). This scheme allows for the access of additional water supplies while maintaining river levels.
- **LWRS: Beckton Water Recycling Scheme (Beckton WR).** The alternative sub-option of the LWRS, the Beckton WR scheme proposes to treat effluent from Beckton STW, supplying to the River Lee and Lee Valley Reservoirs, thereby increasing London's available water resources for abstraction.
- **The Severn to Thames Transfer (STT).** A major inter-regional transfer scheme, enabling water to be moved between river systems (the River Severn and the River Thames), supporting the South East of England during periods of scarcity. STT is currently being developed as an alternative scheme to WHR, in partnership with Severn Trent Water (SVE) and United Utilities (UU).

In addition to those already set out in Thames Water's WRMP24, there is a further SRO that forms part of our portfolio, the **Lower Thames to West London Reservoirs (LTWLR) scheme**. The intention of this scheme is to alleviate supply constraints during periods of drought, and its development was motivated by the drought experienced in 2022.¹⁰

The RAPID process for SRO delivery

SROs are investigated and developed through RAPID's¹¹ four stage gated process, which provides a structured series of checkpoints at which the regulators assess company progress, evaluate whether costs incurred to date are efficient, and determine whether each solution continues to merit advancement to the next stage. This approach is designed to enable SROs to progress efficiently and transparently, with appropriate safeguards to protect the environment and customers.

SRO funding and the interactions with the RAPID process

Ofwat sets development allowances for each SRO through the price control process. While funding allowances are set at the project-level, Ofwat permits a portfolio approach to considering SROs, and recognises that the scale, uncertainty and long lead times associated with SROs mean that not all options will ultimately be needed or deliverable.

The ring-fenced SRO allowances are aligned to the RAPID gated structure, with funding released in tranches as a solution successfully passes each Gate. At each stage, companies must demonstrate that they are making appropriate progress, that expenditure is efficient, and that the option remains justified. The release of further funding is contingent on RAPID's assessment and recommendations at each Gate, such that customers are protected from inefficient or

¹⁰ Further information about each of the five SROs can be found in Appendix: SRO background.

¹¹ RAPID, the Regulators' Alliance for Progressing Infrastructure Development, is a partnership between Ofwat, the Environment Agency and the Drinking Water Inspectorate.

unwarranted spending and that only robust, well evidenced solutions proceed through the development cycle.

Once a project successfully completes Gate 4, obtains a Development Consent Order (DCO) or other relevant planning consents, and is ready to move into construction, its funding arrangements transition out of the RAPID process. At this point, delivery funding is either provided: (i) through enhancement allowances within the price control; or where appropriate, (ii) outside of the price control, for example via Direct Procurement for Customers (DPC) or the Specified Infrastructure Project Regulations route (SIPR), depending on the delivery model chosen for the scheme. This ensures that once solutions have been proven, consented, and are construction-ready, they receive the appropriate capital funding route while retaining regulatory assurance and value-for-money protections for customers.

As of March 2026, RAPID has started transitioning SROs to a new combined gated process that brings together the RAPID Gates and Ofwat's Major Projects stages under the Major Water Infrastructure Programme (MWIR).

PR24 allowances for Thames Water's SRO portfolio

All five of Thames Water's SROs are currently at various stages of development within the RAPID gated process. At the PR24 FD, Ofwat set a total development allowance for these SROs over AMP8 of £587.12m (in 2022-23 prices).¹² This includes:

- Thames Water's baseline development allowances at FD, excluding partner company allowances, totalling £473.95m.
- Baseline co-sponsor allowances (for Affinity Water and Southern Water on WHR; and Severn Trent Water and United Utilities on STT), totalling £113.16m.

In addition, Ofwat set a contingent funding amount for Thames Water's portfolio of SROs totalling £363.77m – an allowance that could be accessed later in-AMP via the newly created Major Projects Cost Change Process mechanism. This was a result of our request for the cost allowance to be split between baseline and contingent funding, having identified potential costs that were highly uncertain, to protect customer bills and manage uncertainty. At the time of PR24, the potential uncertain costs included, but were not limited to, additional costs of acquiring all land rights for WHR, and the potential costs of switching from a DPC approach to an in-house delivery model for LTWLR.

The allowances and contingent funding set at FD for the continued development of these SROs are summarised by financial year in Table 3 and Table 4. More detailed breakdowns by Gate are included in Sections 2C-2G.

¹² A separate enhancement allowance for Thames Water was set for the delivery phase of TDRA, totalling £107.62m. Thames Water is due to begin in-house delivery of TDRA following the completion of all Gates within AMP8. This does not form part of Thames Water's SRO allowance.

Table 3: Project-level FD allowances and contingent funding (including co-sponsor allowances for WHR and STT), profiled by financial year, 2022-23 prices, £m.

Project	2025-26	2026-27	2027-28	2028-29	2029-30	AMP8 Total	Contingent
WHR	64.68	69.59	80.99	104.90	102.89	423.06	235.37
TDRA*	7.92	8.86	9.43	4.84	-	31.05	0.0
Beckton WR	16.52	20.81	-	-	-	37.33	0.0
STT	5.00	5.00	7.37	7.37	7.37	32.12	28.90
LTWLR	2.62	2.62	12.23	16.26	29.84	63.56	99.50
Portfolio Total	96.73	106.89	110.02	133.37	140.10	587.12	363.77

*Note: This excludes the delivery allowance for TDRA of £107.6m.

Table 4: Thames Water-only FD allowances and contingent funding (excluding co-sponsor allowances for WHR and STT), profiled by financial year, 2022-23 prices, £m.

Project	2025-26	2026-27	2027-28	2028-29	2029-30	AMP8 Total	Contingent
WHR	43.37	47.32	56.09	77.99	91.55	316.32	235.37
TDRA*	7.92	8.86	9.43	4.84	-	31.05	0.0
Beckton WR	16.52	20.81	-	-	-	37.33	0.0
STT	4.00	4.00	5.90	5.90	5.90	25.70	28.90
LTWLR	2.62	2.62	12.23	16.26	29.84	63.56	99.50
Portfolio Total	74.42	83.62	83.65	104.99	127.28	473.95	363.77

*Note: This excludes the delivery allowance for TDRA of £107.6m.

As part of cost management, RAPID expects companies to use a hierarchy of regulatory levers to manage cost changes across the portfolio. Companies are expected to use the 'portfolio approach' to balancing costs across SROs and reducing administrative burden when moving funds between projects, or when triggers are met, in the first instance. Under this approach, underspend on one project may be used to offset overspend on another (subject to agreement with RAPID). If the cost increases for some projects cannot be offset by underspend on others, companies can use end-of-period reconciliation or the Cost Change Process mechanism, depending on the scale of the increase.

Section 2B: A summary of the adjustment to expenditure allowances required across the SRO portfolio

In this Cost Change Process submission, we are requesting to access a total of £291.99m of additional expenditure allowances to account for the variance between the FD allowance and our latest forecasts of Thames Water's allocation of costs across the SRO portfolio (excluding co-sponsor allocation of costs). In reaching this request, we have used the portfolio approach to rebalance costs as far as is possible, proposing for forecast underspend on three of our SROs to be reallocated to WHR and TDRA, for which we forecast overspending against allowances.

We note that we have engaged with Ofwat and RAPID regarding updated cost forecasts since submission of our PR24 Business Plan and Draft Determination (DD) Representations, and prior to the submission of this Cost Change Process request. Specifically, in 2025, we presented

updated forecasts for Years 1 and 2 of AMP8, indicating that we would require in-AMP access to contingent funding. Since then, we have been able to complete a re-forecast of the SRO programme costs for the entirety of the AMP8 forecasts, which have informed the development of this Cost Change Process submission.

In Table 5 and Table 6 overleaf, we summarise our revised forecasts for AMP8 and the variance between these forecasts and the FD allowance, which gives rise to the £291.99m portion of our Major Projects Cost Change Process request.

Cost Change Process Submission 2026 – Major Projects

Table 5: Summary of the variance between our latest project-level forecasts for AMP8 and the FD allowance (including co-sponsor allowances), profiled by financial year, 2022-23 prices, £m.

Project	Revised 2026 forecasts						Variance					
	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8
WHR*	118.31	145.26	218.18	125.78	107.27	714.80	53.64	75.67	137.19	20.88	4.38	291.75
TDRA**	34.19	34.77	37.01	1.62	-	107.60	26.27	25.91	27.59	-3.22	-	76.55
Beckton WR	6.30	12.77	1.69	-	-	20.75	-10.22	-8.04	1.69	-	-	-16.57
STT***	4.22	7.33	7.87	3.54	1.91	24.88	-0.78	2.33	0.50	-3.84	-5.46	-7.24
LTWLR	0.53	3.55	10.65	14.73	26.33	55.79	-2.09	0.93	-1.58	-1.53	-3.51	-7.78
Portfolio Total	163.55	203.68	275.40	145.67	135.52	923.82	66.82	96.80	165.38	12.29	-4.58	336.70

*Note: Co-sponsor (AFW and SRN) costs included.

**Note: This excludes TDRA delivery allowance/costs.

***Note: Co-sponsor (SVE and UU) costs included.

Table 6: Summary of the variance between our latest Thames Water-only forecasts for AMP8 and the FD allowance (excluding co-sponsor allowances), profiled by financial year, 2022-23 prices, £m.

Project	Revised 2026 forecasts						Variance					
	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8
WHR	70.75	95.54	188.46	106.99	100.17	561.91	27.39	48.22	132.36	29.00	8.62	245.59
TDRA*	34.19	34.77	37.01	1.62	-	107.60	26.27	25.91	27.59	-3.22	-	76.55
Beckton WR	6.30	12.77	1.69	-	-	20.75	-10.22	-8.04	1.69	-	-	-16.57
STT	3.37	5.87	6.30	2.83	1.53	19.90	-0.63	1.87	0.40	-3.07	-4.37	-5.79
LTWLR	0.53	3.55	10.65	14.73	26.33	55.79	-2.09	0.93	-1.58	-1.53	-3.51	-7.78
Portfolio Total	115.15	152.50	244.10	126.17	128.03	765.95	40.73	68.88	160.45	21.18	0.75	291.99

*Note: This excludes TDRA delivery allowance/costs.

As shown:

- On WHR, we forecast a total overspend over AMP8 of £291.75m against the FD allowance of £423.06m, at the project-level. Thames Water's allocation of this overspend is £245.59m. The variance from FD allowances can be explained by:
 - An estimated increase in Gate 4 costs of £129.47m. This is a result of a number of project scope changes, improved forecast accuracy and externally driven cost changes (such as National Insurance increases and planning reforms).
 - A slight underspend in relation to Post Gate 4 core development.
 - An overspend on early contractor involvement (ECI) work, as AMP9 work is brought into AMP8 to maintain the Water Available for Use (WafU) date.
 - An overspend on land and enabling works over AMP8 to bring enabling works forward to begin in Years 4 and 5.¹³
- On TDRA, we forecast a total overspend of £76.55m over AMP8 against the FD allowance of £31.05m. This variance relative to the FD can be explained by: (i) a forecast increase in both Gate 4 and Post Gate 4 costs of £38.81m and £6.14m respectively; (ii) a forecast reduction in land acquisition of £4.16m; and (iii) bringing ECI works forwards into AMP8, resulting in an increase in ECI cost of £22.78m to be incurred within the AMP.¹⁴
- We forecast a total underspend against allowances for Beckton WR over AMP8 of £16.57m. This is a result of a review of the work that is needed to prepare for Gate 3 without adding risk to the TDRA consenting process.
- We expect a total underspend against allowances for STT across AMP8 of £7.24m. Thames Water's allocation of this forecast decrease in costs is £5.79m. The majority of this underspend is due to the FD allowing more than was requested in our DD Representations, which allowed funding for DPC development. Our current forecasts indicate that this DPC allowance will not be required unless the project is triggered in 2027. We propose to reallocate Thames Water's portion of the underspend (£5.79m) to WHR.
- We forecast a total underspend against allowances for LTWLR across AMP8 of £7.78m. This is predominantly a result of Gate 4 and Post Gate 4 being reprofiled out of AMP8, leading to a reduction in forecast expenditure for these Gates of £17.49m. We propose to reallocate the £7.78m underspend to WHR.
- Taken together, this equates to a total forecast overspend over AMP8 of £291.99m against our FD allowances.

In the following sections 2C-2G, we detail the updated cost forecasts and the request for additional allowances for each SRO in turn. In doing so, we set out the reasons why costs and/or schedule have changed compared to the prior forecast put forward in our PR24 DD Representations.

Section 2C: Adjustment to the expenditure allowance requested for White Horse Reservoir (WHR)

PR24 FD allowances

In its PR24 FD, Ofwat provided a total (project-level) AMP8 allowance for WHR of £423.06m to progress through Gate 4 and to ready the project for construction to begin in 2029. Core

¹³ Further information regarding the reasons for this variance for WHR can be found in Section 2C.

¹⁴ Further information regarding the reasons for this variance for TDRA can be found in Section 2D.

development costs are split between co-sponsors on a 55/30/15 basis for Thames Water, Southern Water and Affinity Water respectively, while as the Lead Party, Thames Water is fully responsible for enabling works and land costs. As a result, Thames Water received an FD allowance of £316.32m for WHR over AMP8, while Southern Water and Affinity Water received allowances of £71.16m and £35.58m, respectively. Ofwat also set contingent funding of £235.37m for WHR for Thames Water only, accessible via the Cost Change mechanism, to account for project uncertainty. FD allowances for WHR are summarised in Table 7 and Table 8.

Table 7: Project-level WHR FD allowances (including co-sponsor costs), 2022-23 prices, £m.

Project-level allowance	Financial Year					AMP8 Total	Contingent
	2025-26	2026-27	2027-28	2028-29	2029-30		
Gate 4 core development*	47.35	24.62	-	-	-	71.97	235.37
Post Gate 4 core development*	-	24.87	55.34	59.80	25.21	165.23	
ECI	-	2.78	8.33	11.11	2.78	25.00	
Land	17.32	17.32	17.32	17.32	41.57	110.86	
Enabling work	-	-	-	16.67	33.33	50.00	
Delivery	-	-	-	-	-	-	
Total	64.68	69.59	80.99	104.90	102.89	423.06	

*Note: Includes allowances set for our co-sponsors, SRN and AFW.

Table 8: Thames Water-only WHR FD allowances (excluding co-sponsor costs), 2022-23 prices, £m.

Project-level allowance	Financial Year					AMP8 Total	Contingent
	2025-26	2026-27	2027-28	2028-29	2029-30		
Gate 4 core development*	26.04	13.54	-	-	-	39.59	235.37
Post Gate 4 core development*	-	13.68	30.44	32.89	13.86	90.87	
ECI	-	2.78	8.33	11.11	2.78	25.00	
Land	17.32	17.32	17.32	17.32	41.57	110.86	
Enabling work	-	-	-	16.67	33.33	50.00	
Delivery	-	-	-	-	-	-	
Total	43.37	47.32	56.09	77.99	91.55	316.32	

*Note: Excludes allowances set for our co-sponsors, SRN and AFW.

It should be noted that:

- Within our DD Representations, our forecast included £21.89m of delivery costs, which would be incurred by Thames Water-only as the Lead Party. While the FD did not include a delivery allowance, our Post Gate 4 costs were higher than requested. Our interpretation of this is that Ofwat repurposed our forecast £21.89m of delivery costs as Post Gate 4 development funding, which would be split between co-sponsors (with Thames Water's allocation being 55%).
- Within our DD Representations (as well as our subsequent forecasts) we categorise all expected expenditure in Year 5 that is not ECI, land or enabling work as Post Gate 4 core development. This includes costs incurred as a result of Thames' retained role once the Infrastructure Provider (IP) is appointed.

- Ofwat's FD allowed an additional £41.57m for land and £50.00m for enabling works, in excess of our DD Representation forecast.

[Our latest forecast and associated request for an adjustment to the allowance](#)

In Table 9 and Table 10, we present our latest forecasts of confirmed AMP8 costs for WHR, alongside the variance between these and the FD allowances. This forms the basis of our Cost Change Process request for WHR.

Cost Change Process Submission 2026 – Major Projects

Table 9: Variance between project-level WHR FD allowances and revised 2026 forecasts for AMP8 (including co-sponsor costs), 2022-23 prices, £m.

Project-level allowance / forecast	Revised 2026 forecasts						Variance from FD allowance					
	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8
Gate 4 core development*	105.69	95.76	-	-	-	201.44	58.33	71.14	-	-	-	129.47
Post Gate 4 core development*	-	14.73	66.06	41.76	15.78	138.33	-	-10.14	10.71	-12.57	6.99	-5.01
ECI	-	0.02	3.34	10.18	12.72	26.26	-	-2.75	-4.99	-0.93	9.94	1.26
Land	12.63	34.60	101.80	43.63	-	192.66	-4.69	17.28	84.48	26.31	-41.57	81.80
Enabling work	-	0.15	46.98	30.21	78.77	156.11	-	0.15	46.98	13.55	45.44	106.11
Delivery	-	-	-	-	-	-	-	-	-	-5.47	-16.42	-21.89
Total	118.31	145.26	218.18	125.78	107.27	714.80	53.64	75.67	137.19	20.88	4.38	291.75

*Note: Includes allowances/forecasts of our co-sponsors' costs (SRN and AFW).

Table 10: Variance between Thames Water-only WHR FD allowances and revised 2026 forecasts for AMP8 (excluding co-sponsor costs), 2022-23 prices, £m.

Thames Water-only allowance / forecast	Revised 2026 forecasts						Variance from FD allowance					
	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8
Gate 4 core development*	58.13	52.67	-	-	-	110.79	32.08	39.13	-	-	-	71.21
Post Gate 4 core development*	-	8.10	36.33	22.97	8.68	76.08	-	-5.58	5.89	-6.91	3.84	-2.76
ECI	-	0.02	3.34	10.18	12.72	26.26	-	-2.75	-4.99	-0.93	9.94	1.26
Land	12.63	34.60	101.80	43.63	-	192.66	-4.69	17.28	84.48	26.31	-41.57	81.80
Enabling work	-	0.15	46.98	30.21	78.77	156.11	-	0.15	46.98	13.55	45.44	106.11
Delivery	-	-	-	-	-	-	-	-	-	-3.01	-9.03	-12.04
Total	70.75	95.54	188.46	106.99	100.17	561.91	27.39	48.22	132.36	29.00	8.62	245.59

*Note: Excludes allowances/forecasts of our co-sponsors' costs (SRN and AFW).

As shown in Table 9, the project-level cost of continuing progressing WHR to maintain the WafU date of 2040 is expected to be £291.75m higher than the FD allowance. As shown in Table 10, Thames Water's allocation of these costs is £245.59m. Below, we include an explanation of the variance between our latest forecast and the FD allowance (at the project-level):

- Gate 4 core development: Our revised 2026 forecasts indicate that AMP8 Gate 4 expenditure will now exceed the FD allowances by £129.47m at the project-level. Thames Water's share of this expected total overspend is £71.21m. The variance can be explained by:
 - External changes: National Insurance contributions, planning reforms and updated Planning Inspectorate (PINS) guidance increases.
 - Project changes: including increased activity to de-risk the DCO process.
 - Improved forecast accuracy.
 - Procurement beginning earlier: ECI strategy required development of a full New Engineering Contract (NEC) and Engineering and Construction Contract (ECC) Scope and procurement documents to allow appointment in Year 3.
- Post Gate 4 core development: Our latest forecast indicates a slight underspend is expected in relation to Post Gate 4 development work over AMP8, of £5.01m at the project-level. Thames Water's share of this underspend is £2.76m.
- ECI costs: Overall, we expect to overspend against ECI allowances across AMP8 (despite underspending over the first 4 years of the AMP). This is a result of maturity in our schedule indicating that we expect ECI work to begin later during AMP8, but ramp up quickly, with work scheduled for AMP9 taking place in the latter part of AMP8. Overall, ECI costs are expected to come in at £1.26m above the FD allowance.
- Land: Our latest forecast indicates an overall overspend in AMP8 in relation to land costs of £81.80m. This is based on securing land access by Environmental Mitigation Management Agreement (EMMA) in Year 2 for early enabling works, and securing land by acquisition in Years 3 and 4 to allow enabling works to start on site in Years 4 and 5.
- Enabling works: Our latest forecast indicates an overspend of £106.11m during AMP8. This is a result of enabling works being expected to be brought forward.

Section 2D: Changes in the expenditure allowance requested for Teddington Direct River Abstraction (TDRA)

PR24 FD allowances

In its PR24 FD, Ofwat provided a total development allowance for TDRA of £31.05m. This excludes the £107.62m delivery allowance, which is separate from the ring-fenced development allowance and is funded as water supply enhancement. Ofwat did not set any contingent funding for TDRA. The development allowances are summarised in Table 11.

Table 11: TDRA FD development allowances, 2022-23 prices, £m.

Allowance	Financial Year					AMP8 Total	Contingent
	2025-26	2026-27	2027-28	2028-29	2029-30		
Gate 4 core development	7.92	2.66	-	-	-	10.58	-
Post Gate 4 core development	-	6.20	6.20	-	-	12.40	
ECI	-	-	-	-	-	-	
Land	-	-	3.23	4.84	-	8.07	
Enabling work	-	-	-	-	-	-	
Total development allowance	7.92	8.86	9.43	4.84	-	31.05	

It should be noted that the forecasts submitted in our DD Representations (which in turn informed the FD allowance) were developed prior to the appointment of our new Technical Partners (TP) for the TDRA scheme, and as such were relatively immature. This, combined with Ofwat setting an allowance at FD that was lower than these early-stage forecasts (by £12.97m), means that the budget constraint on TDRA over AMP8 is particularly stretching.

Our latest forecast and associated request for an adjustment to the allowance

In Table 12 overleaf, we present our latest forecasts of AMP8 costs for TDRA, alongside the variance between these and the FD allowances. This forms the basis of our request for increased allowances.

Cost Change Process Submission 2026 – Major Projects

Table 12: Variance between TDRA FD development allowances and revised 2026 forecasts for AMP8, 2022-23 prices, £m.

Project-level forecast/variance	Revised 2026 forecasts						Variance from FD allowance					
	2025- 26	2026- 27	2027- 28	2028- 29	2029- 30	Total AMP8	2025- 26	2026- 27	2027- 28	2028- 29	2029- 30	Total AMP8
Gate 4 core development	34.19	21.11	-	-	-	55.30	26.27	18.44	-	-	-	44.72
Post Gate 4 core development	-	12.85	12.76	-	-	25.61	-	6.65	6.56	-	-	13.21
ECI	-	0.38	22.40	-	-	22.78	-	0.38	22.40	-	-	22.78
Land	-	0.43	1.86	1.62	-	3.91	-	0.43	-1.37	-3.22	-	-4.16
Enabling work	-	-	-	-	-	-	-	-	-	-	-	-
Total development forecast/variance	34.19	34.77	37.01	1.62	-	107.60	26.27	25.91	27.59	-3.22	-	76.55

As shown in Table 12, the cost to Thames Water of continuing progressing TDRA to achieve the key milestones planned over AMP8 is expected to be £76.55m higher than the FD allowance. This can predominantly be explained by the following:

- An increase in Gate 4 development costs over Years 1 and 2 of £44.72m. The drivers of this increase in cost fall into the following categories:
 - Externally driven cost changes. These include: (i) higher National Insurance contributions and inflation-linked increases in contractor rates; and (ii) planning reforms and updated PINS guidance.
 - Project scope changes. Changes to project scope that have increased costs for Gate 4 include: (i) land access challenges delaying the 2025 programme, shifting costs from AMP7¹⁵ into AMP8; (ii) extensions to the pilot plant hire at Mogden STW to test tertiary treatment methods; and (iii) the requirement of additional monitoring for the pre-application discharge permit.
 - Improved forecast accuracy. As the project has progressed, the forecast has become more refined, incorporating actual costs and clearer scope definition.
- An increase in Post Gate 4 development costs of £13.21m. We now have greater understanding of the scope of Post Gate 4 work, particularly around the examination period costs where we have been able to make use of benchmarks. In addition, we have a fuller understanding of the costs of engagement with third party vendors and Local Planning Authorities (LPAs), along with procurement costs.
- ECI costs of £22.78m. This is a result of the newly defined ECI Stage 1 scope used to develop our 2025 forecasts becoming more well defined. Specifically, maturity in the delivery phase schedule indicates that in addition to the adoption of the DCO reference design, value engineering and preparation for Stage 2 of the contract, the contractor will need to progress detailed design activities and associated site investigations for critical elements including the tunnel and shafts.
- An overall reduction in land costs of £4.16m. This is, in part, a result of needing to acquire fewer properties than previously assumed, due to having a better understanding of the order limits. Land acquisition is now expected to begin in Year 2.

Section 2E: Changes in the expenditure allowance requested for Beckton Water Recycling (Beckton WR)

FD allowance

In its FD, Ofwat allocated £37.33m in development funding for Beckton WR across Years 1 and 2 of AMP8. This approach aligned with our DD Representations, in which we only requested funding for Years 1 and 2 to keep Beckton WR progressing up until the point the decision is made over TDRA's consent. The FD allowance exceeded our DD Representation request (of £31.70m) by £5.63m.

Ofwat did not set any contingent funding. The FD allowances for Beckton WR are summarised in Table 13.

¹⁵ AMP7 covers the regulatory period from 2020-2025.

Table 13: Beckton WR FD allowances, 2022-23 prices, £m.

Allowance	Financial Year					AMP8 Total	Contingent
	2025- 26	2026- 27	2027- 28	2028- 29	2029- 30		
Gate 3/4 core development	16.52	20.81	-	-	-	37.33	-
ECI	-	-	-	-	-	-	
Land	-	-	-	-	-	-	
Enabling work	-	-	-	-	-	-	
Delivery	-	-	-	-	-	-	
Total FD allowance	16.52	20.81	-	-	-	37.33	

Our latest forecast and associated request for an adjustment to the allowance

Our latest forecasts for expenditure to continue Beckton WR's development activities through the first part of AMP8 are included in Table 14.

As shown, we anticipate an underspend against allowances totalling £16.57m over AMP8. This can be explained by: (i) the FD allowing more than was requested in our DD Representations; and (ii) a decrease in our forecasts relative to the DD Representations, resulting from constraining the scope of work that is needed to prepare for Gate 3 without adding risk to the TDRA consenting process.

Therefore, no additional funding for Beckton WR is being sought through this Cost Change Process request, and we propose to reallocate the forecast £16.57m underspend on Beckton WR to address some of the shortfall expected on TDRA. However, we note that if Beckton WR were to become the preferred option or is needed in addition to TDRA, it is likely that additional funding would be required. Therefore, it is possible that a Cost Change Process request will be submitted in future years in relation to Beckton WR.

Cost Change Process Submission 2026 – Major Projects

Table 14: Variance between Beckton WR FD allowances and revised 2026 forecasts for AMP8, 2022-23 prices, £m.

Project-level allowance / forecast	2026 forecasts						Variance from FD allowance					
	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8
Gate 3/4 core development	6.30	12.77	1.69	-	-	20.75	-10.22	-8.04	1.69	-	-	-16.57
ECI	-	-	-	-	-	-	-	-	-	-	-	-
Land	-	-	-	-	-	-	-	-	-	-	-	-
Enabling work	-	-	-	-	-	-	-	-	-	-	-	-
Delivery	-	-	-	-	-	-	-	-	-	-	-	-
Total	6.30	12.77	1.69	-	-	20.75	-10.22	-8.04	1.69	-	-	-16.57

Section 2F: Changes in the expenditure allowance requested for Severn to Thames Transfer (STT)

FD allowance

In its PR24 FD, Ofwat provided a total (project-level) AMP8 allowance for STT of £32.12m. This exceeded the funding requested in the DD Representations (of £25.00m) by £7.12m. This is because Ofwat made this allowance specifically for DPC development and de-risking the commercial model, while our DD Representations assume that the project is not required to reach the DPC development stage in AMP8 (i.e., that Gate 3 is not triggered). We assumed that this additional £7.12m allowance would be spread across Years 3-5 of the AMP (given the likely timings of requiring the allowance in the event that Gate 3 is in fact triggered).

Core development costs are split between co-sponsors on an 80/10/10 basis for Thames Water, Severn Trent Water and United Utilities respectively. As a result, Thames Water received an FD allowance of £25.70m for STT over AMP8, while Severn Trent Water and United Utilities each received allowances of £3.21m.

Ofwat also set contingent funding of £28.90m for STT for Thames Water, accessible via the Cost Change Process. This contingent funding amount was set to allow the scheme to progress in conjunction with WHR, should it be triggered during AMP8. FD allowances for STT are summarised in Table 15 and Table 16.

Table 15: Project-level STT FD allowances (including co-sponsor costs), 2022-23 prices, £m.

Project-level allowance	Financial Year					AMP8 Total	Contingent
	2025-26	2026-27	2027-28	2028-29	2029-30		
Gate 3 core development*	5.00	5.00	7.37	7.37	7.37	32.12	28.90
ECI	-	-	-	-	-	-	
Land	-	-	-	-	-	-	
Enabling works	-	-	-	-	-	-	
Delivery	-	-	-	-	-	-	
Total	5.00	5.00	7.37	7.37	7.37	32.12	

*Note: Includes allowances set for our co-sponsors, SVE and UU.

Table 16: Thames Water-only STT FD allowances (excluding co-sponsor costs), 2022-23 prices, £m.

Thames Water-only allowance	Financial Year					AMP8 Total	Contingent
	2025-26	2026-27	2027-28	2028-29	2029-30		
Gate 3 core development*	4.00	4.00	5.90	5.90	5.90	25.70	28.90
ECI	-	-	-	-	-	-	
Land	-	-	-	-	-	-	
Enabling works	-	-	-	-	-	-	
Delivery	-	-	-	-	-	-	
Total	4.00	4.00	5.90	5.90	5.90	25.70	

*Note: Excludes allowances set for our co-sponsors, SVE and UU.

Our latest forecast and associated request for an adjustment to the allowance

We have produced revised forecasts for STT across AMP8 in its entirety. These forecasts, alongside the variance from FD allowances, are presented in Table 17 and Table 18.

Cost Change Process Submission 2026 – Major Projects

Table 17: Variance between project-level STT FD allowances and revised 2026 forecasts for AMP8 (including co-sponsor costs), 2022-23 prices, £m.

Project-level allowance / forecast	2025 forecasts						Variance from FD allowance					
	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8
Gate 3 core development*	4.22	7.33	7.87	3.54	1.91	24.88	-0.78	2.33	0.50	-3.84	-5.46	-7.24
ECI	-	-	-	-	-	-	-	-	-	-	-	-
Land	-	-	-	-	-	-	-	-	-	-	-	-
Enabling works	-	-	-	-	-	-	-	-	-	-	-	-
Delivery	-	-	-	-	-	-	-	-	-	-	-	-
Total	4.22	7.33	7.87	3.54	1.91	24.88	-0.78	2.33	0.50	-3.84	-5.46	-7.24

*Note: Includes allowances/forecasts of our co-sponsors' costs (SVE and UU).

Table 18: Variance between Thames Water-only STT FD allowances and revised 2026 forecasts for AMP8 (excluding co-sponsor costs), 2022-23 prices, £m.

Thames Water-only allowance / forecast	2025 forecasts						Variance from FD allowance					
	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8
Gate 3 core development*	3.37	5.87	6.30	2.83	1.53	19.90	-0.63	1.87	0.40	-3.07	-4.37	-5.79
ECI	-	-	-	-	-	-	-	-	-	-	-	-
Land	-	-	-	-	-	-	-	-	-	-	-	-
Enabling works	-	-	-	-	-	-	-	-	-	-	-	-
Delivery	-	-	-	-	-	-	-	-	-	-	-	-
Total	3.37	5.87	6.30	2.83	1.53	19.90	-0.63	1.87	0.40	-3.07	-4.37	-5.79

*Note: Excludes allowances/forecasts of our co-sponsors' costs (SVE and UU).

Our latest forecasts show that the costs to continue progressing STT as an adaptive option over AMP8 are now expected to fall below that allowed by Ofwat in its FD. Specifically, at the project-level (including expenditure by our co-sponsors), we expect the total underspend over the course of AMP8 relative to the FD allowance to amount to £7.24m. Thames Water's share of this expected underspend is £5.79m.

These forecasts align closely to those we put forward in our DD Representation, and as a result, the majority of the differential between this forecast and the FD can be explained by the FD allowing more funding than requested (by an additional £7.12m at the project-level). The additional funding allowed in the FD was specifically for DPC development and de-risking the commercial model. We have undertaken some early-stage commercial work into potential delivery models, and our current forecasts indicate that this DPC allowance will not be required unless the project is triggered in 2027. The remaining £0.12m underspend (at the project-level) can be explained by the increased maturity of our forecast.

As a result, we are not requesting any additional funding for STT through this Cost Change Process. We propose to reallocate Thames Water's forecast underspend of £5.79m to address some of the shortfall expected on WHR.

It should be noted that this latest forecast maintains the FD position of STT being progressed up to the trigger point at which it is established whether it should move forward for Gate 3 submission. Should it be agreed that STT should move through Gate 3, we will either: (i) reallocate funding from WHR, in the event that STT becomes the preferred option and progress on WHR is discontinued; or (ii) additional funding will be requested through a future Cost Change Process request, in the event that STT is required to be developed in parallel to WHR.

Section 2G: Changes in the expenditure allowance requested for Lower Thames to West London Reservoirs (LTWLR)

FD allowance

In its FD, Ofwat allocated £63.56m in development funding for LTWLR. These allowances were based on the forecasts included in our DD Representations. The scope and schedule within these forecasts contained a high degree of uncertainty as the project was pre-Gate 1, with limited design having been undertaken. The FD allowed £16.37m more in our baseline allowances than was requested. This can largely be explained by a combination of both Ofwat's addition of £17.56m of land costs, which we had requested in our DD Representations as contingent funding, alongside downwards adjustments to our requests for our Gates 2-Post Gate 4 development costs.

Ofwat also set £99.50m of contingent funding, which was intended for land purchase and in-house delivery, should the scheme either not meet DPC criteria or proceed through the Gates more quickly than initial forecasts indicated.

The FD allowances are summarised in Table 19.

Table 19: LTWLR FD allowances, 2022-23 prices, £m.

Project-level allowance	Financial Year					AMP8 Total	Contingent
	2025-26	2026-27	2027-28	2028-29	2029-30		
Gate 1 core development	-	-	-	-	-	-	99.50
Gate 2 core development	2.62	2.62	-	-	-	5.24	
Gate 3 core development	-	-	12.23	-	-	12.23	
Gate 4 core development	-	-	-	13.98	-	13.98	
Post Gate 4 core development	-	-	-	-	14.56	14.56	
ECI	-	-	-	-	-	-	
Land	-	-	-	2.28	15.28	17.56	
Enabling works	-	-	-	-	-	-	
Delivery	-	-	-	-	-	-	
Total	2.62	2.62	12.23	16.26	29.84	63.56	

Our latest forecast and associated request for an adjustment to the allowance

While still in the early stages of development, the completion of LTWLR's Gate 1 report has provided greater clarity on the scope and cost of activities that will be undertaken in AMP8. We have therefore been able to produce revised forecasts for LTWLR across AMP8. These cost estimates and schedule within this forecast have been informed by the known times and cost of development activities across other projects in Thames Water's portfolio.

Overleaf, we present our latest forecasts for LTWLR, alongside the variance between these forecasts and the FD allowances.

Cost Change Process Submission 2026 – Major Projects

Table 20: Variance between LTWLR FD allowances and revised 2026 forecasts for AMP8, 2022-23 prices, £m.

Project-level allowance / forecast	2026 forecasts						Variance from FD allowance					
	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8	2025-26	2026-27	2027-28	2028-29	2029-30	Total AMP8
Gate 1 core development	0.13	-	-	-	-	0.13	0.13	-	-	-	-	0.13
Gate 2 core development	0.40	3.55	7.31	-	-	11.27	-2.22	0.93	7.31	-	-	6.03
Gate 3 core development	-	-	3.33	14.73	15.41	33.47	-	-	-8.90	14.73	15.41	21.24
Gate 4 core development	-	-	-	-	10.92	10.92	-	-	-	-13.98	10.92	-3.06
Post Gate 4 core development	-	-	-	-	-	-	-	-	-	-	-14.56	-14.56
ECI	-	-	-	-	-	-	-	-	-	-2.28	-15.28	-17.56
Land	-	-	-	-	-	-	-	-	-	-	-	-
Enabling works	-	-	-	-	-	-	-	-	-	-	-	-
Total	0.53	3.55	10.65	14.73	26.33	55.79	-2.09	0.93	-1.58	-1.53	-3.51	-7.78

As shown, our revised forecasts indicate that we are set to underspend against FD allowances on LTWLR by a total of £7.78m over AMP8. Key features of this forecast include the following:

- As set out in the LTWLR Gate 1 submission, Gate 1 expenditure, which commenced in AMP7, has been funded through non-SRO allowances, with the exception of £130k in AMP8 Y1 to cover National Appraisals Unit (NAU) and National England (NE) advisory services (reduced from our prior forecast of £136k). The reprofiling of LTWLR's SRO ring-fenced allowance to fund these advisory costs was agreed with RAPID in June 2025.
- We expect work on Gate 2 to commence later than planned. Over Years 1-3, we expect an overall overspend on Gate 2 of £6.03m, and on Gate 3 of £21.24m. This is a result of having greater understanding of the scale and complexity of the scheme, now that the project has concluded Gate 1. Our Gate 2 and Gate 3 schedule durations and cost forecasts have matured since those that were used to inform the FD allowance, and have been informed by our experience completing these Gates on similar projects like TDRA.
- Gate 4 and Post Gate 4 work has been reprofiled and is expected to commence later than planned. Specifically, Gate 4 work is now expected to commence in Year 5 rather than Year 4, with some work due to take place within AMP9. This results in an expected underspend on Gate 4 of £3.06m in AMP8. Additionally, all Post Gate 4 work is expected to be pushed back into AMP9, resulting in an underspend equating to the full Post Gate 4 allowance of £17.56m.

Given that Post Gate 4 and construction work is expected to now commence in AMP9, we do not expect to require contingent funding for LTWLR. We are therefore not seeking to access additional funding for LTWLR through this Cost Change Process request. We propose to reallocate the expected underspend of £7.78m to address some of the shortfall expected on WHR.

Section 2H: Our request for the cost to finance co-sponsor shortfall

As previously indicated, our submission also includes £2.07m of additional costs relating to financing co-sponsor contribution shortfall.

In the absence of the Cost Change Process for the first two years of AMP8, Thames Water had to cover the shortfall of WHR co-sponsor contributions to maintain programme schedule in line with Ofwat's expectations. As a result, Thames Water had incurred additional financing costs by having to reprofile expenditure from other cost areas and later years. The costs included in the application are for the first two years of the AMP only. As the Cost Change Process is now available, co-sponsors will be able to apply for the shortfall in allowances they face over the remainder of the AMP.

The £2.07m figure is based on the £53.70m shortfall in payments from Affinity Water and Southern Water received in Years 1 and 2 of AMP8. The assumed borrowing rate is 9.75% with no changes over the course of the two-year period. The shortfall was calculated by spreading annual FD allowances evenly across the year.

This £2.07m figure is included within our Cost Change Process Request as fast money (operating costs (opex)). This is because the additional costs of financing co-sponsor contribution shortfalls in Years 1-2 of the AMP must be recovered through in AMP revenues in order to ensure co-sponsor payment timing does not result in reduced cash resources available for Thames Water to deliver essential investment for its customers.

Section 2I: Our request for an adjustment to account for the time value of money

Our request also includes an adjustment of £6.02m to account for the time value of money (TVM). This adjustment is required as we assume that the increased capital expenditure (capex) allowances for the years 2025-26 and 2026-27 are reconciled in 2027-28, as that is the first year that these allowances could be reflected in customers' bills.

Consistent with other Ofwat models in which an adjustment is applied to a future year for a prior year reconciliation (such as the Revenue Forecasting Incentive mechanism), we believe that it is appropriate to apply a TVM adjustment when reconciling 2025-26 and 2026-27 capex allowances in 2027-28 allowed revenues. In doing so, we believe this is consistent with Ofwat's aim to maintain economic neutrality.

We therefore apply an uplift using the 3.97% wholesale WACC from the PR24 FD to the additional capex requested for 2025-26 and 2026-27.

3. Cost Efficiency

In this section, we reassess the cost efficiency of the SROs for which we are requesting an increase in our development allowances for AMP8: WHR and TDRA. We provide this in line with the Cost Change Process guidance, in which Ofwat states that it does “*not intend to undertake any further assessments of the efficiency of costs **unless there has been a change in the proposal***” [emphasis added].¹⁶ We have therefore not included a reassessment of the cost efficiency of Beckton WR, STT or LTWLR as we are not requesting an increase in allowances for these SROs.

We find that:

- Our updated forecast for WHR indicates that development costs as a proportion of capex lies at between 5.7% and 7.8%, which is well within the 10% threshold used by Ofwat to set efficient development cost allowances.
- In contrast, our forecast for TDRA indicates that development costs as a proportion of capex is higher, at between 23.9% and 35.6%. This falls above the relevant cap used by Ofwat of 12%. However, we consider that the development costs for TDRA are efficient despite breaching the level of the cap, as the nature of the project means that TDRA cannot be reasonably developed within the cap.

In the remainder of this chapter, we: (i) set out how Ofwat set efficient allowances at FD, and the use of development spend caps in its approach; and (ii) our updated assessment that the costs requested for WHR and TDRA are efficient, including evidence to explain why TDRA's efficient costs breach the relevant cap.

Section 3A: Assessing cost efficiency at FD

In setting funding allowances for the development of Major Projects in its PR24 FD, Ofwat adopted a benchmark-based methodology to ensure that allowances equated to the efficient cost of development, protecting customers from excessive or poorly evidenced development expenditure.

Ofwat defined development expenditure (devex) to include three principal components:

- Core development expenditure, encompassing engineering design, environmental and water quality investigations, programme management, and the preparation of statutory planning applications;
- Commercial and procurement development costs, relating to the preparation of competitive delivery routes such as DPC and SIPR; and
- Early construction expenditure, including land acquisition and enabling works where these activities were demonstrated to be integral to de-risking timely delivery.

To determine appropriate levels of development funding for each project, Ofwat assessed cost submissions from companies and expressed core devex as a percentage of each project's total capex. This enabled a consistent comparison across projects and with development benchmarks observed in other infrastructure sectors. Ofwat's assessment drew upon evidence that development costs for large projects in energy, transport and comparable sectors typically fall within the range of 8–12% of overall capex, with water sector precedents such as the Thames Tideway Tunnel also exhibiting devex levels towards the middle of this range.

¹⁶ [Cost Change Process Guidance note](#) (Ofwat 2025), page 36.

In order for development allowances to remain proportionate and cost-reflective, Ofwat applied explicit caps on core devex as a percentage of project capex, calibrated to the maturity and nature of the project.

For projects already within the RAPID programme at PR24, Ofwat applied:

- a maximum allowance of 10% of project capex for core devex; and
- a higher cap of 12% of capex for water recycling projects, reflecting the additional complexity and innovation associated with these schemes.

Ofwat allowed companies to recover projected core development costs up to these caps, where the evidence base for the expenditure was considered robust.

For new projects not previously part of the RAPID portfolio, Ofwat applied a differentiated cap structure based on project scale:

- For projects with capex below £350m, Ofwat set a minimum development allowance of 8% of capex and a cap of 10%; and
- For projects with capex of £350m or more, Ofwat set a lower minimum allowance of 6% of capex, again with an upper cap of 10%.

This framework was designed in order to provide newer, less mature schemes with sufficient flexibility to undertake essential early-stage work, while also aligning total development allowances with expected norms for schemes of similar type and scale.

In Table 21, we summarise the across-AMP allowances for Thames Water's SROs, in the context of Ofwat's development cost caps.

Table 21: Thames Water's allowances for core devex across all AMPs (2022-23 prices, £m)¹⁷

SRO	Capex	Total Core Devex	% of Capex	Ofwat % Allowance	Ofwat Core Devex Calc.
WHR	2262.38	213.39	8.01%	8.01%	213.39
TDRA	301.21	49.08	16.29%	12.00%	36.15
Beckton WR	993.55	48.13	4.84%	4.84%	48.13
STT	1536.75	54.67	3.56%	3.56%	54.67
LTWLR	634.95	44.18	6.96%	6.96%	44.18

As shown, for all projects, Ofwat allowed projected costs in full for all of Thames Water's SROs with the exception of TDRA. As shown, TDRA was the only project for which core devex as a % of capex exceeded the relevant cap (of 12%), and as a result, Ofwat reduced allowed costs to be in line with this cap.

Section 3B: Our updated cost forecasts and an assessment of efficiency

We have recalculated core development spend as a proportion of total project capex, based on our updated cost forecasts, to support a reassessment of efficiency for this Cost Change Process request for increased allowances. This assessment has only been undertaken for WHR and TDRA. This is because for these SROs, forecast development costs now exceed the AMP8 FD allowance, and it is therefore only these projects for which we are seeking access to contingent funding. As shown by our forecasts, development costs for Beckton WR, STT and LTWLR are

¹⁷ ['PR24 final determinations: Major projects development and delivery'](#) Ofwat (2024), table 4 page 23-24.

expected to remain within our AMP8 allowances, and we have therefore excluded these from our assessment.

It should be noted that all cost forecasts are subject to established SRO processes to make sure they are robust, efficient and assured including:

- confirmation that the basis/scope is required and necessary;
- testing that resource allocation for required scope is realistic;
- pricing using rates that have been demonstrated as value for money through competitive procurement processes; and
- assurance that the approach has been followed and outcome is appropriate.

These forecasts are used to set budgets for which performance is managed against, with robust change control and governance processes.

In the subsections below, we present and discuss the implications of the results for WHR and TDRA in turn.

WHR

Our updated forecasts indicate that total development spend for WHR (across AMPs) is expected to account for between 5.7% to 7.8% of the scheme value. This has fallen since the 8.0% calculated by Ofwat as part of the FD process, and falls well within the relevant cap of 10%. This indicates that the forecasts that form the basis of this Cost Change Process request to access contingent funding represent efficient costs.

TDRA

Our updated forecasts indicate that total development spend for TDRA (also across AMPs) is expected to account for between 23.9% and 35.6% of the scheme's total value.

While TDRA's forecast development costs therefore exceed the relevant 12% threshold, there are several mitigating factors:

- Statutory requirements – TDRA must follow DCO application requirements, including Environmental Impact Assessment (EIA) scoping, non-statutory and statutory consultations, and preparation of the Environmental Statement and DCO examination. These obligations apply irrespective of project size, meaning lower capex schemes like TDRA are disproportionately affected.
- Integration with Mogden STW – The project must interface with a complex, ageing, and constrained operational asset. TDRA plans to build above existing assets, presenting significant risks throughout development, delivery, and operation.
- Stakeholder engagement – TDRA's urban setting with a high population density requires enhanced engagement, including with over 14,700 consultation responses.

In addition to the above, the core development costs also include the cost of developing several alternative solutions to TDRA in different locations in the early Gates. This is relatively more costly than developing alternative options that just vary by size (similarly to for WHR, for instance). These factors collectively explain why TDRA cannot reasonably be developed within the 12% development cap.

Given the difficulties with using Ofwat's 12% cap to establish whether the costs of TDRA are considered efficient, we have undertaken work to find an appropriate benchmark project. Thames

Water has reviewed development spend across Gates 1 to 4 relative to Southern Water's Hampshire Water Transfer and Water Recycling Project (HWRP). While core development activities are broadly comparable, direct comparison is not straightforward due to differences in scope, schedule, location, and complexity. These are explained as follows:

- Timing of Statutory Consultation – HWRP completed its Statutory Consultation, including an eight-week consultation within Gate 3 (Autumn 2023 to Summer 2024), leading to higher Gate 3 costs of around £17m. TDRA completed this work to Gate 4, preparing Statutory Consultation in early 2025 and conducting a ten-week consultation post Gate 3, explaining much of the cost difference between the two projects across these Gates.
- Location and site constraints – TDRA's London setting introduces significant additional challenges compared with HWRP's rural Hampshire location. The project must also interface with existing Thames Water assets, including Mogden STW and the Thames Lee Tunnel (TLT), further complicating delivery.
- Programme duration – TDRA's Gate 4 programme spans 23 months, compared with HWRP's 18-month schedule, contributing to higher overall costs.

Taken together, these factors demonstrate that a direct comparison of Gate 4 spend between TDRA and HWRP does not provide an accurate or meaningful benchmark, and as a result we have not been able to use this project to assess the efficiency of TDRA's forecast costs.

4. Customer Impact Assessment

In this section, we set out the evidence we have gathered to assess whether this Cost Change Process request for an in-period revenue adjustment for our Major Projects: (i) is affordable for customers; and (ii) has customer support.

To do so, we have:

1. Modelled the impact on customer bills should this Cost Change Process request for an in-period adjustment be accepted, compared with the impact on bills that would result from the adjustment taking place at the end of the period (with the adjustment occurring in Year 1 of AMP9).
2. Used our Affordability Threshold Model to establish the number of Thames Water customers that are expected to fall below the affordability threshold should the request for an in-period revenue adjustment be accepted, compared with the number that would be expected to fall below this threshold should the revenue adjustment occur at the end of the period.
3. Undertaken work to understand whether customers support the bill profile associated with this request. To do this, we have undertaken research to determine whether customers would prefer the bill profile associated with an in-period versus an end-of-period adjustment.

The findings of our work under points 1. to 3. above show that an in-period revenue adjustment would both be more affordable for our customers, and preferred compared to an end-of-AMP adjustment. Specifically:

1. The average customer bill would increase by £2.71 in 2027-28; £4.62 in 2028-29; and £4.57 in 2029-30, should this Cost Change Process request for an in-period revenue adjustment be accepted. This contrasts with a larger average bill increase of £12.89 in 2030-31, should Ofwat instead allow an end-of-period adjustment to occur in Year 1 of AMP9.
2. Should the request for an in-period revenue adjustment be accepted, fewer customers would be expected to fall below the affordability threshold by 2029-30, relative to an end-of-period adjustment. Specifically, following the provision of support, the bill increases associated with this Cost Change Process request would result in an estimated 1-2% increase in the number of customers facing affordability issues if an in-period revenue adjustment is allowed, compared to an estimated 3-4% increase in the number of customers should an end-of-period adjustment be allowed. Therefore, an in-period adjustment will result in improved outcomes to customers, relative to an end-of-period adjustment.
3. Our PR24 customer engagement shows that customers prefer bill increases that begin earlier and rise gradually and predictably over time, rather than higher, sharper spikes in the future. This preference is motivated by fairness across generations, budgeting comfort, avoidance of financial shocks, and the need for transparency and trust in billing. This indicates that customers would also prefer the bill profile associated with the adjustment taking place in-period, as per our Cost Change Process request.

In the subsections below, we detail the work undertaken in relation to bill profiles, affordability and customer support in detail.

Section 4A: Revised customer bill profile

In Table 22, we present the impact that the proposed investments would have on Thames Water's residential customers bills under the following two scenarios:

- First, the scenario in which Ofwat approves this Cost Change Process request of a totex allowance increase of £300.09m, and approves an in-period revenue adjustment over the last 3 years of AMP8.
- Second, the scenario in which Ofwat approves this Cost Change Process request, but does not approve an in-period revenue adjustment, and instead the associated revenue adjustment is made at the end of AMP8. In this case, in order to minimise negative impacts on financeability, we have assumed that the revenue adjustment that would otherwise have been collected in AMP8 would instead be collected in the first year of AMP9.

Table 22: The impact of the Cost Change Process request and counterfactual on average residential customers' annual bills (2022-23 prices)

Scenario	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
In-period revenue adjustment	-	-	£2.71	£4.62	£4.57	-
End-of-period revenue adjustment	-	-	-	-	-	£12.89

As shown, should our Cost Change Process request be accepted, residential customers would face an average bill increase of £2.71 in 2027-28; £4.62 in 2028-29; and £4.57 in 2029-30.

In contrast, should this request be rejected and an adjustment instead made at the end of AMP8, with the impact on bills being felt in Year 1 of AMP9, Thames Water's residential customers would face an average bill increase in 2030-31 of £12.89. This is in addition to any bill increases that might come as a result from the PR29 process.

Section 4B: Affordability

Working with Berkeley Research Group and building on the Water UK studies by CEPA and Frontier, we have built our own model to forecast the number of customers below the Affordability Threshold.¹⁸ This work is particularly important for Thames Water as we are serving a base with higher-than-average numbers of customers who are struggling to pay. Specifically, while 20% of customers in the southeast of England are struggling to pay their bills, this rises to 30% in London.¹⁹

We have used our affordability model to understand the impact of this Cost Change Process request on our customers. Specifically, we have modelled the number of customers that would fall below the Affordability Threshold in the following scenarios:

1. Scenario 1: In this scenario, we assume that this Cost Change Process request is disallowed, and therefore customers receive no associated increase in bills.
2. Scenario 2: We assume that this Cost Change Process request is approved, and associated revenue adjustment takes place in-period, with residential customers facing incremental average bill increases in 2027-28, 2028-29, and 2029-30.

¹⁸ This is defined as households paying over 5% of their net equivalised income on their water bill. Also known as Water Poverty Threshold.

¹⁹ '[Cost of living: Water customers' experiences](#)' (Ofwat, 2023).

3. Scenario 3: We assume that the revenue adjustment associated with this Cost Change Process request is not approved in-period, but instead as an end-of-period adjustment. Therefore, customers face a larger average bill increase in 2030-31. Due to our model being limited to AMP8 only, we model this increase to occur in Year 5 of AMP8, rather than Year 1 of AMP9.

The impact is summarised in Table 23.

Table 23: The increase in customers with affordability issues by the end of AMP8, should our Major Projects Cost Change Process request be approved

	Scenario 1: Cost Change disallowed – no revenue adjustment	Scenario 2: In-period revenue adjustment approved	Scenario 3: Revenue adjustment approved at end-of-period
Variance – % of additional customers with affordability issues post-support, compared to the Cost Change being disallowed	-	1-2%	3-4%

As shown, prior to the provision of any support, our preliminary modelling suggests that, should our Major Projects Cost Change Process request for an in-period revenue adjustment be accepted, the total number of customers expected to fall below the affordability threshold by 2029-30 would increase by approximately 1-2%.

In contrast, should the revenue adjustment be approved to take place at the end of the period, the total number of customers expected to face affordability issues at the end of AMP8 would increase by approximately 3-4%.

We consider that this supports the Cost Change Process request being granted in-period, as it indicates that fewer customers would be expected to face financial distress. We note that the existence of our social tariff will support a significant proportion of the above customers that are estimated to face affordability issues as a result of our Major Projects Cost Change Process request, from facing such issues. This tariff has been designed to target the demographics most affected by the cost-of-living crisis and those customers in water poverty.²⁰

Section 4C: Customer support

In addition to undertaking an analysis of the affordability of the Cost Change Process request for customers, we have also referred to available research to assess whether customers support the request for the revenue adjustment to take place in-period. As set out in Section 4A, an in-period revenue adjustment would result in a smoother, more gradual increase in bills over time, while an adjustment at the end of AMP8 would result in a sharper bill increase in the first year of AMP9.

In order to establish whether customers are in support of this request for an in-period Cost Change adjustment, we have referred to the results of existing customers research that was undertaken as part of Thames Water's PR24 engagement (including our [Acceptability and Affordability Testing](#) and [Long Term Delivery Strategy](#) consultations).

²⁰ Our water poverty criterion adopts CCW definitions of Water Poverty, also used by Ofwat (i.e. SUP15).

Below, we detail the evidence gathered from the existing research that we have currently available.

[The results of PR24 customer engagement](#)

Across the results of the relevant PR24 customer engagement, there is a clear message that customers prefer bill increases that begin earlier and rise gradually and predictably over time, rather than higher, sharper spikes in the future. This preference is motivated by fairness across generations, budgeting comfort, avoidance of financial shocks, and the need for transparency and trust in billing. In the subsections below, we detail the relevant evidence contained in the PR24 engagement.

This research indicates that customers would prefer for any adjustment in allowances for the SROs to be delivered via the in-period Cost Change mechanism, as opposed to as an end-of-AMP reconciliation.

Long Term Delivery Strategy engagement - customers prefer to avoid future sharp bill increases

Thames Water undertook a substantial programme of qualitative customer engagement in September 2023 to test and refine its Long Term Delivery Strategy (covering 2025–2050).²¹ The research was independently conducted by Accent and was designed to understand the acceptability of long-term improvement proposals among a broad cross-section of household, non-household and future customers. It aimed to explore customers' long-term priorities, their expectations of service improvement, and of relevance to this submission, their views on intergenerational fairness and bill phasing for major investment programmes.

As part of this research, participants were presented with trade-offs across different phasing options for bill impacts. Specifically, customers were presented with a choice of three bill profiles and asked which they viewed as their most preferred option. The bill profiles presented can be described as follows:

- Option 1: Front-loaded investment. This bill profile is characterised by higher bill rises sooner, benefits delivered early, and a lower total bill by 2050.
- Option 2: Gradual, linear bill increases over time. This bill profile is characterised by gradual and predictable bill increases to 2050, and steady progress in terms of the delivery of benefits.
- Option 3: Backloaded investment. This bill profile is characterised by lower bill rises in the near-term, before steep bill increases from 2035-2050. It is accompanied by limited benefits delivery to 2035.

The central finding from this analysis was that the majority (three quarters) of customers reported a clear preference for Option 2 – steady, linear increases in bills over time. The reasons underpinning this preference included that: (i) customers believed this bill profile to be the fairest, since it does not place excess burden on either future or current customers; (ii) it is easier to budget and plan for; and (iii) it will (likely) align more with inflation more broadly and wage increases.

Acceptability and Affordability Testing - customers prefer bill increases to begin sooner, and to be more evenly spread across generations

²¹ [‘Thames Water Long Term Delivery Strategy: Qualitative engagement’](#), Thames Water and Accent (September 2023).

As part of developing our PR24 Business Plan submission, we commissioned Accent to independently conduct extensive Acceptability & Affordability Testing,²² consisting of both qualitative and quantitative research. This research is separate from the Long Term Delivery Strategy engagement conducted by Accent, set out above.

Our quantitative research took the form of a large-scale survey conducted in line with Ofwat and the Consumer Council for Water's (CCW) mandated PR24 guidance. As part of the research, customers were asked to state their preferred bill phasing option. Specifically, they were asked to state whether they would prefer:

- Option 1: an increase in bills starting sooner, spreading increases across different generations of bill payers; or
- Option 2: an increase in bills starting later, putting more of the increases onto younger and future bill payers.

Similarly to the research conducted in the context of the Long Term Delivery Strategy, the results show a higher preference for Option 1, where bill increases start sooner. Specifically, both 39% of household customers and 47% of non-household customers would prefer increases to start sooner and be better spread across generations, while only 18% of households, and 32% of non-household customers would prefer to delay increases and pass more of them on to future bill payers. The remaining customers stated that they didn't know enough to answer – potentially indicating the difficulty of the choice in the current financial circumstances.

This too indicates that, based on previous customer engagement, should bills need to increase as a result of this Cost Change submission, customers state a preference for these increases beginning sooner, and thus would prefer the revenue adjustment to be made in-period as opposed to at the end of the AMP.

²² [‘Acceptability and Affordability Testing Quantitative Fieldwork’](#), Thames Water and Accent (September 2023).

5. Approach to Assurance of this Cost Change Process Request

This submission has been subject to appropriate assurance and governance processes:

- The Thames Water Board has reviewed and approved this submission.
- Arcadis has been appointed as our independent regulatory assurance provider to conduct a rigorous, independent, third-line, review of our SRO AMP8 cost forecasts that underpin this Cost Change Process request.
- Other aspects of this submission have been subject to “first” and “second line”, internal assurance to provide confidence that the information provided is accurate and complete, using the assurance approach documented in the Company’s External Reporting Standard. This Standard is used as the framework for all external submissions. This review explicitly covered the following scope:
 - Confirmed completion of first line review by preparers, checkers, senior managers, and head of department;
 - Completed a risk assessment to identify areas of higher risk that require additional review by the Thames Water Internal Assurance Team; and
 - Sample testing of the proposed statements and data within the submissions to confirm accuracy, completeness, and that they can be supported by accurate descriptions and evidence.

6. Glossary

Terms and acronyms	Definition
Abstraction	The process of taking water from any source, either temporarily or permanently.
Adaptive scheme	An adaptive scheme is a future water resource option identified within an adaptive pathway in a company's Water Resources Management Plan. The scheme is not immediately required but will be delivered if defined triggers are reached.
AFW	Affinity Water.
Affordability threshold	Thames Water defines an affordability threshold as the point at which a household's annual water and wastewater bill exceeds 5% of its net equivalised household income, taking account of the number of people living in the property. When bills exceed this threshold, the customer is considered to be facing affordability pressures and may be eligible for support under Thames Water's WaterHelp social tariff
AMP	An 'Asset Management Plan' period is the five-year period covered by a water company's business plan. These are numbered; with AMP1 referring to the first such planning period after the water industry was privatised – i.e. the period from 1990 to 1995. The current period (2025 – 2030) is known as AMP8. AMP7 spans 2020-2025; and AMP9 spans 2030-2035.
Appointed business	The appointed business comprises the regulated activities of the Company which are activities necessary for the Company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.
Beckton WR	Beckton Water Recycling SRO.
Capex	Capital Expenditure is expenditure to acquire, build or upgrade assets such as property, pipes and treatment works.
CCW	Consumer Council for Water is an independent organisation which aims to protect consumers' interests and investigate customer complaints free of charge.
CMA	Competition and Markets Authority.
Contingent funding	Contingent funding is an allowance set by Ofwat through the price control process that is not immediately available to companies, only coming available when certain conditions are met. In the case of Major Projects, the contingent funding is subject to the Major Projects Cost Change Process.
Co-sponsor	In the context of SROs, a co-sponsor is a water company that jointly sponsors, develops and promotes an SRO alongside one or more other appointed companies, sharing responsibility for the planning, development, governance and regulatory engagement of the project. Also referred to as a partner company.
Cost driver	A cost driver is the factor or factors which cause cost to occur. This can be further divided between the driver that causes an activity to occur, and a driver that determines how often it occurs. Costs may vary in relation to the cost driver over the short or longer term, depending on the nature of cost concerned.

DCO	Development Consent Order.
DD Representations	A formal written response to Ofwat's Draft Determination at a price review, setting out the company's objections, evidence, proposed changes and supporting analysis for Ofwat to consider ahead of its FD.
DEFRA	Department of Environment, Food and Rural Affairs.
Deployable output	The maximum sustainable quantity of water that can be supplied by a water resources system (or by an individual source or group of sources) under specified conditions, accounting for operational, environmental and regulatory constraints.
Devex	Development expenditure. Expenditure allowed by Ofwat to fund the early-stage development of major infrastructure projects, including feasibility, design, and consenting activities, prior to construction.
DPC	Direct Procurement for Customers.
DWI	The Drinking Water Inspectorate was formed in 1990 to provide independent reassurance that water supplies in England and Wales are safe and drinking water quality is acceptable to consumers.
EA	The Environment Agency is responsible for protecting and improving the Water Environment which includes rivers, ground waters, coastal waters, fisheries, pollution control, navigation, and flood defences. In addition to this, it regulates both quality and quantity of water we take from and return to rivers, other inland water, and underground sources.
ECC	Engineering and Construction Contract.
ECI	Early Contractor Involvement.
EIA	Environmental Impact Assessment.
EMMA	Environmental Mitigation Management Agreement.
Enabling works	Works undertaken in advance of the main construction phase to prepare the site and surrounding infrastructure, and to facilitate delivery of the authorised development.
End-of-period	This refers to the end of an Asset Management Period (AMP). In this context, end-of-period refers to the end of AMP8.
Enhancement allowance	An Ofwat-approved expenditure allowance for defined improvement or statutory schemes that go beyond base expenditure and are required to deliver improved service, resilience or environmental outcomes.
FD	Final Determination. Every five years Ofwat sets the price, service and incentive package for water and sewerage companies business plan. The Final Determination is Ofwat's final decision regarding this package.
Household	These are properties used as single domestic dwellings (normally occupied), receiving water for domestic purposes which are not factories, offices or commercial premises. These include cases where a single aggregate bill is issued to cover separate dwellings having individual standing charges. (In some instances, the standing charge may be zero). The number of dwellings attracting an individual standing charge and not the number of bills should be counted. Mixed/commercial properties and multiple household properties – for example, blocks of flats

	having only one standing charge – should be excluded.
HWRP	Hampshire Water Transfer and Water Recycling Project.
In-period	This refers to an adjustment taking place within an Asset Management Period (AMP). In this context, in-period refers to the end of AMP8.
IP	Infrastructure Provider.
Lead Party	The water company with primary responsibility for leading and coordinating the development of an SRO, acting as the main interface with RAPID and other regulators on behalf of all participating companies.
LPA	Local Planning Authority.
LTWLR	Lower Thames to West London Reservoirs SRO.
LWRS	London Water Recycling Scheme SROs.
Major Projects	Large-scale water and wastewater infrastructure projects that typically exceed £200 million in total expenditure (totex) and meet the criteria for delivery through competitive procurement models (including Direct Procurement for Customers (DPC) or the Specified Infrastructure Projects Regulations (SIPR)) and/or are Strategic Resource Options (SROs) progressing through the RAPID gated process.
MWIP	Major Water Infrastructure Programme. The new combined gated process that brings together the RAPID Gates and Ofwat's Major Projects stages. Transition of SROs to this programme began in March 2026.
MWC	Main Works Contractor.
NAU	The National Appraisals Unit sits within the Environment Agency and oversees the environmental assessment of the SRO programme.
NE	Natural England.
NEC	New Engineering Contract
Ofwat	The name used to refer to the Water Services Regulation Authority (WSRA) which is the economic regulator of the water industry.
Opex	Operating Expenditure - Payments for the day-to-day operations of our business, such as operating and maintaining our network and treatment works and paying our staff and our energy bills.
PINS	Planning Inspectorate.
PR24	Price Review 2024. Ofwat's price review determining allowed revenues, performance commitments and regulatory requirements for water companies for the period 2025–2030 (AMP8).
Project-level costs	Costs incurred for the development, governance or delivery of an SRO as a whole, which are shared across all co-sponsor companies and aggregated at the scheme level, irrespective of which co-sponsor incurs the expenditure.
RAPID	Regulators' Alliance for Progressing Infrastructure Development. A partnership between Ofwat, the Environment Agency and the Drinking Water Inspectorate.
RAPID gated process	A staged regulatory process overseen by RAPID to assess and approve the development of Strategic Resource Options and

	other major water supply projects, determining continued funding and progression at defined decision gates.
RCV	Regulatory Capital Value - The capital base used in setting price limits. The value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Ofwat Methodology.
SIPR	The Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013.
Social tariff	Thames Water's social tariff, known as WaterHelp, is a bill-reduction scheme designed to support household customers on low incomes or facing financial hardship by reducing water and wastewater charges where bills form a high proportion of household income.
SRN	Southern Water.
SRO	Strategic Resource Option. The SRO portfolio refers to Thames Water's portfolio of five SROs currently under development.
STT	Severn to Thames Transfer SRO.
STW	Sewage treatment works.
SVE	Severn Trent Water.
TDRA	Teddington Direct River Abstraction SRO.
Thames-only costs	Costs related to an SRO that are incurred solely by Thames Water and are not shared with, or attributable to, other co-sponsor companies.
TLT	Thames Lee Tunnel.
TMS	Thames Water.
Totex	Total Expenditure - The mechanism for planning and reporting capital (for example, buying a new car) and operational (repairing an old car) spend. The object is to achieve the optimum combination to deliver the required business plan outcomes. It applies to both water and waste (i.e. our wholesale business) but not to retail.
TP	Technical Partner.
TTP	Tertiary Treatment Plant.
TVM	Time value of money.
UU	United Utilities.
WACC	Weighted Average Cost of Capital. The average rate of return required by investors, calculated as the weighted average of the cost of equity and the cost of debt, with the weights reflecting the assumed (notional) capital structure.
WafU	Water available for use.
WHR	White Horse Reservoir SRO. Previously known as the South East Strategic Reservoir Option (SESRO).
WLR	West London Reservoirs.
WRMP	Water Resources Management Plan. A statutory planning document which sets out how the company will ensure a secure supply of water for customers over the long term. WRMP24 refers to the Water Resources Management Plan published in 2024.

7. Appendix: SRO background

In this appendix we provide key background information for each of our SROs.

Section AA: WHR

Identified in Thames Water's WRMP24, WHR is a new, non-impounding, fully bunded raw water storage reservoir. The purpose of its construction is to provide drought resilience across South East England.

As well as providing water resources to the region, the project is designed to offer spaces for nature and communities, delivering wider benefits for people and the environment. The legacy opportunities for recreational, environmental, social and economic benefits have been developed through collaboration with a wide range of stakeholders and future user groups. The project design continues to evolve and be informed by the environmental impact assessment, through technical developments and in response to feedback received during the Statutory Consultation.

Thames Water is acting as the Lead Party for the development of the project, with Southern Water and Affinity Water being co-sponsors. Core development costs are shared between parties based on their final share of the deployable output (55% to Thames Water, 30% to Southern Water and 15% to Affinity Water), with Thames Water funding all costs associated with land and enabling works. Arrangements over the supply of water between the sponsors will be set out in BSAs.

The WRMP outlines the needs case for WHR for Thames Water, Southern Water and Affinity Water, with the project being part of the plans for achieving 1:500 drought resilience for the region by 2040. To meet drought and resilience targets, Thames Water and Southern Water require access to the associated WafU that is expected upon completion of the asset from 2040, while Affinity Water will require it from 2045. To be "construction ready" in the period 2025–2030 and therefore on track to meet the 2040 deadline, funding is required for investigations and development to progress towards DCO application and subsequent examination, and to support all associated commercial, procurement and consenting activities.

Project delivery to date and next steps

WHR has progressed through the RAPID gated process and has now received RAPID's draft decision on Gate 3 (December 2025), with the final decision expected in May 2026. The next key development milestone for WHR is securing planning consent. We are on track to submit an application for a DCO in November 2026, to obtain permission to construct and maintain the new reservoir.

For further information and project updates, please refer to our website: [White Horse Reservoir](#).

Section AB: TDRA

TDRA is Thames Water's preferred option within the LWRS SRO, designed to deliver enhanced drought resilience benefits from 2033, in alignment with our WRMP24.

During drought conditions, the scheme would allow water to be abstracted from the River Thames. Combined with this, a new Tertiary Treatment Plant (TTP) proposed within the existing Mogden STW site boundary would treat a portion of the final effluent from the STW to a higher standard. This recycled water would, once treated, be transferred via a new conveyance tunnel to a new discharge outfall close to the proposed abstraction site for the scheme. Here, the

conveyed recycled water would be discharged to the River Thames to fully compensate for the water being abstracted from the River Thames.

Delivery of TDRA would be in-house, since it does not meet the criteria for competitive delivery.

Project delivery to date and next steps

Like WHR, TDRA has progressed through the RAPID gated process, and approval of our LWRS Gate 3 submission was received in July 2025. In its final decision, RAPID concluded that the submission met regulatory expectations and, therefore, no penalties were incurred or costs disallowed. The Gate 3 final decision also confirmed Thames Water's preferred sub-option within the LWRS SRO (TDRA), should continue to progress to Gate 4.

For further information and project updates, please refer to our website: [Teddington Direct River Abstraction \(TDRA\)](#).

Section AC: Beckton WR

The Beckton WR is a component of Thames Water's LWRS programme, developed to enhance long-term drought resilience for London. The scheme would treat used water to a high standard using advanced purification, which could then be discharged as source water for drinking water abstraction. Specifically, this scheme would allow water to be discharged at a location on the River Lee Diversion to supplement the raw water supply to the Lee Valley Reservoirs.

Within the LWRS programme, TDRA remains the best value option, but Beckton WR remains the principal adaptive alternative and as such requires continued development during AMP8 to maintain alignment with Thames Water's WRMP24 Monitoring Plan.

Project delivery to date and next steps

Thames Water has undertaken early-stage development of Beckton WR, and the scheme has passed through Gates 1 and 2 of RAPID's gated process. As documented within the Gate 2 Conceptual Design Report, the work to date has comprised the preparation of a concept design, feasibility assessments, cost estimation, programme development, and initial environmental and planning appraisal. Prior to any statutory planning submission, it is recognised that further community and stakeholder engagement, as well as more detailed consultation, will be required.

RAPID's Gate 3 final decision for LWRS confirms the progression of TDRA as the single funded solution to Gate 4, while designating Beckton WR as the sole adaptive option retained for further development. Beckton WR is therefore only expected to progress through AMP8 subject to ongoing checkpoint monitoring. Should the WRMP adaptive pathway indicate that Beckton WR ought to be activated, a separate Gate 3 submission date for Beckton WR will be set during this period. This trigger point is expected to occur during Year 3 of AMP8, either when TDRA is due to obtain its DCO (should it be successful), or Thames Water's WRMP29 identifies Beckton WR as a complimentary scheme to TDRA.

Planned next steps for Beckton WR are therefore to focus on undertaking the necessary activities to support a possible future Gate 3 submission over the first half of AMP8, ahead of the potential trigger points set out above. Importantly, the continued development of Beckton WR should not undermine the TDRA consenting process. To manage this risk, we agreed with RAPID in April 2025 to limit the scope of development activities for Beckton WR in Years 1 and 2 of AMP8. The agreed scope focuses on improving the environmental understanding of the scheme

without initiating key planning activities, such as public consultation, that could compromise TDRA as the preferred option.

Section AD: STT

STT is a scheme designed to enhance drought resilience in the South East. The scheme would enable the transfer of raw water from the River Severn to the River Thames during periods of drought, using a combination of new conveyance infrastructure and redeployed regional water resources. Specifically, STT would operate by abstracting water from the River Severn (with additional water supplied by Severn Trent Water and United Utilities where needed) and transferring it to the River Thames. This transferred water would then be available for re-abstractation from the Thames.

Thames Water is acting as the Lead Party for the development of the project, with Severn Trent Water and United Utilities being co-sponsors. Core development costs are shared between the parties, with Thames Water accounting for 80%, and Severn Trent Water and United Utilities each accounting for 10%.

STT was not a preferred option in the final Thames Water WRMP24, but was identified as an option on various adaptive pathways, including if WHR is found to be unpromotable or to counter any under-performance in demand reduction strategies. It was agreed at PR24 that certain activities be undertaken on STT in parallel with the development of WHR, such that that STT remains a viable alternative. These activities aim at mitigating key risks such as meeting Habitats Regulations Assessment (HRA) obligations, as well as commercial and system design, and will continue until there is sufficient certainty that WHR will progress through its DCO submission.

Project delivery to date and next steps

Substantial early-stage development of the STT SRO has been completed, with the scheme having successfully passed through Gate 1 and Gate 2 of RAPID's gated process. The Gate 1 submission (July 2021) provided the initial solution description, technical feasibility, environmental and drinking-water quality considerations, and early-stage planning, procurement and risk assessments. At Gate 2 (November 2022), Thames Water, alongside our co-sponsors, submitted a detailed feasibility and concept design report, including updated engineering assessments, water resource and water quality modelling, environmental appraisal, programme and planning analysis, and improved cost and benefit evaluations, supported by an expanded evidence base.

The Gate 2 final decision confirmed the scheme's satisfactory progress and continued development within the RAPID programme. Although STT is not currently being progressed toward a near-term consenting pathway, Thames Water's strategic planning position, as reflected in WRMP24, identifies STT as an adaptive option that could be activated if future supply-demand deficits require it, or if WHR fails to receive planning consent. As with other adaptive SROs (such as Beckton WR), RAPID's checkpoint monitoring arrangements continue to apply, ensuring the scheme remains sufficiently developed should a future trigger require re-activation.

Planned next steps for STT therefore focus on the technical, environmental and planning activities required to maintain readiness for a possible future Gate 3 submission. These activities include the further refinement of interconnector options; additional environmental assessment and baseline data gathering; advancement of water quality and ecological modelling; and the further development of programme, planning and option appraisal material. These steps build upon the Gate 2 findings, which identified that full Statutory Consultation, formal EIA, and detailed planning

preparation would be required ahead of any progression to Gate 3 and subsequent consenting stages.

If STT is needed as an alternative to WHR we would assume a RAPID Gate 3 submission in June 2030 which would allow the project to meet the WafU date in the WRMP of 2040. However, this would require a trigger of March 2027 to allow the necessary time for planning and development.

As well as STT being delivered as an alternative to WHR, there are several other factors which could trigger STT being delivered in conjunction with WHR. The WRMP29 process will be key to identifying further need for STT and we will continue to develop and de-risk the project sufficiently to prove its viability and allow inclusion in the WRMP29.

Section AD: LTWLR

The West London Reservoirs (WLRs) are part of a raw water storage system serving customers in London. It consists of two separate systems (the northern and southern systems), each with a number of reservoirs fed by the River Thames.

During the summer of 2022, and subsequently during the summer of 2025, Thames Water experienced an excess drawdown of storage within the northern WLRs, despite exceeding the target flow of water over Teddington Weir. The LTWLR SRO was proposed to address the operational constraints experienced during the drought, improving the resilience and flexibility of raw water abstraction and transfer across the West London reservoir system.

Specifically, this SRO proposes to develop enhanced abstraction capacity and establish a new water transfer to link the southern and northern WLRs.

Project delivery to date and next steps

LTWLR's Gate 1 report was submitted in January 2026, and we are progressing work on Gate 2. The estimated year of delivery of LTWLR is 2037/38, with opportunities to bring this date forward being explored as part of the Gate 2 programme. A summary of the planned key milestones for LTWLR, as per the Gate 1 submission, can be seen in Table 24.

Table 24: LTWLR key milestones

Phase	Milestone	Date (Indicative)
RAPID Gates	RAPID Gate 1 Submission (Completed)	Q1 2026
	RAPID Gate 2 Submission	Q4 2027
	RAPID Gate 3 Submission	Q4 2029
	RAPID Gate 4 Submission	Q1 2034
Commercial strategy and procurement	Ofwat DPC Stage 2 Submission	Q1 2031
	Ofwat DPC Stage 3 Submission	Q4 2031
	Planning determination	Q4 2031
	Ofwat DPC Stage 4 Submission	Q1 2034
Delivery	Construction begins	Q2 2034
	Scheme commissioned and operational - WafU	2037/38

We note that this project has now transitioned to the new Major Water Infrastructure Programme (MWIP), which brings together RAPID's oversight of early project development and Ofwat's Major Projects team's regulation of later stage delivery. As a result, the previous RAPID Gates (included in the table above), have been combined with Ofwat stages and, as a result, upcoming Gates have been renamed (from Gates 2, 3 and 4 to Gates B, C and D).

