November 2025

Cost change process guidance note

Ofwat

About this document

This document sets out our guidance for all water companies on the cost change process for submissions from 2026 until 2028. This version of the guidance should be used until an update is published.

Contents

1. Introduction

We made our final determinations for PR24 based on the best information available to us at the time. Our final determinations set out a revenue, service and incentive package which provides companies with the funding that enables them to meet the requirements set by the UK and Welsh governments and to deliver better outcomes for customers and the environment. We also set out our intention to introduce a new in-period adjustment mechanism for critical cost areas where costs were still uncertain.[1]

This guidance document sets out the criteria for this **cost change process**. The process will give companies earlier certainty over costs that will be recovered in the next price control period. It will also, if necessary, allow companies to access additional revenue in this period. It covers the following critical areas of investment:

- large schemes gated process;
- Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS);
- cyber security;
- Havant Thicket reservoir;
- major projects development costs;
- asset health; and
- demand growth.

This guidance draws on the engagement and discussions we have had with the sector including responses to our consultation.

[1] We set this out in PR24 final determinations: In-period adjustments (December 2024).

2. The cost change process

The cost change process applies to defined critical cost areas. We have formally defined the scope of these cost areas (apart from demand growth) in companies' licences. We have provided more detail on the scope and submission requirements for each cost area in the appendices to this document.

Subject to meeting the relevant criteria, companies are able to recover costs within the scope of the cost change process at the **end of the period**. Companies can also make the case for **in-period adjustments** under specific circumstances, as described in more detail in section 3.1.

Table 1 below summarises the timeline and key steps in the cost change process.

Table 1 Cost Change Process timeline

Application	Companies submit **formal cost change process applications** in a window from **1 March to 1 May**. The application window closes on 1 May. There will be opportunity for companies who submit earlier in the application window to get early feedback and update and amend their proposals. No applications will be accepted after 1 May.
Assessment	Ofwat assesses those applications over spring/summer. This will include continued engagement with companies and other stakeholders and an opportunity to query companies to inform our assessment. Ofwat **decides no later than 15 August**[2] in an applicable year whether: • a **company has met the applicable thresholds** to progress through the cost change process; and • if a company requests an in-period adjustment, it meets the threshold for an in-period determination. If the company has not provided appropriate grounds and information for Ofwat to assess the claim, we will inform the company the **claim is not successful**. The company could submit a claim the following year if appropriate.
Consultation	A period of **consultation** over late summer. This will allow Ofwat to gather views from companies and other industry stakeholders on the proposed increase in cost allowances and associated impact on customer bills.
Decisions	Ofwat publishes **final decisions by 15 December**[3] in an applicable year, after reviewing consultation responses and any other updates. This will allow companies to reflect any in-period revenue adjustments in their annual charges schemes.
In-period adjustments take effect if required	Any in-period revenue adjustments take effect from **April** in the following year.

[2] The formal deadline for initiating the in-period determination process is 15 August, but in practice, we plan to send the necessary notices to companies in July.
[3] The formal deadline for in-period determination decisions is 15 December, but we will aim to publish our decision no later than the first week of December.

2.1.1 Submission dates

Companies can submit claims within the submission windows set out below:

- 1 March 2026 – 1 May 2026
- 1 March 2027 – 1 May 2027
- 1 March 2028 – 1 May 2028

By default, we will assess claims as end-of-period adjustments. However, companies can make the case for in-period adjustments. All companies must clearly state in each submission if they are requesting an in-period adjustment.

We expect companies to normally only submit claims for each cost area once in the period. This will give companies the best chance of meeting the triviality and materiality thresholds. However, we will consider this on a case-by-case basis. For example, for cyber security we will consider multiple claims if threat levels change more than once within the period and for asset health companies may be ready to submit claims for different asset types at different times.

2.1.2 Triviality threshold

We have set a triviality threshold for PFAS and cyber security costs.

This means our assessment of costs for the relevant item must meet the triviality threshold of 0.5% of relevant wholesale totex[4], or £10m (whichever is lower) to be eligible for the cost change process. We have set a triviality threshold to encourage companies to manage small-scale risks in-period. We will not make any end-of-period or in-period adjustments for these cost areas if our view of costs does not meet the triviality threshold.

There is no triviality threshold for the other costs areas that are eligible for the cost change process. However, as part of our planned consultation on allowing companies to make claims for in-period adjustments for growth expenditure from 2027 we will consider whether it is appropriate to apply a triviality threshold.

[4] Wholesale totex is the sum of operating expenditure (opex) and capital expenditure (capex) for the wholesale controls.

3. Application

We expect companies to discuss potential applications with us in advance of submitting them. The window for applications each year opens on 1 March and closes on 1 May. Completed applications should be emailed to companyengagement@ofwat.gov.uk.

When submitting an application to trigger the cost change process, we expect companies to submit:

- assured cost data in the relevant cost change process data table;
- an assured proposed price control deliverable (PCD) for each PFAS, cyber security, demand growth, asset health and large gated scheme application;
- narrative commentary (in line with the requirements set out in the relevant appendix) explaining the above and setting out whether the company is requesting an in-period adjustment (see section 3.1).

Companies can include both operating and capital expenditure (opex and capex) in their cost change process applications.

Companies can submit claims for different eligible costs at different points in the submission window. (For example a company could submit a PFAS claim on 1 March and an asset health claim on 1 May.)

3.1 In-period adjustments

By default, we will assess claims as end-of-period adjustments. However, companies can make the case for in-period adjustments. It is up to companies to put forward evidence that additional in-period revenue is necessary.

Companies should include an assessment of the bill impact of the proposed investments, supported by relevant customer bills testing, if they are making a submission for an in-period adjustment.

Companies should also provide evidence of the impact of the proposed costs on key financial metrics using the final determination financial model. We expect companies to provide a commentary accompanying their cost change process applications that covers:

- the financial position of the notional company;
- the likelihood of getting investment to deliver solutions without in-period adjustments; and
- progress against delivery of existing programmes and against totex allowances.

Companies can submit an updated financial model to help demonstrate that they need an in-period adjustment.

3.1.1 The materiality threshold

If a company requests an in-period adjustment then we will need to assess the materiality of the claim. Our assessment of costs for an eligible item must meet the materiality threshold of at least 2% of appointed business turnover in order for us to consider whether we should make an in-period adjustment.

For these purposes, each scheme in our large schemes gated process is a separate item. Other cost areas (including major projects development costs) are each one item. The costs associated with different eligible items cannot be combined in order to meet materiality.

For example, a company could submit multiple PFAS schemes as part of one PFAS submission. We would then assess the materiality of the PFAS submission as a whole. If a company submitted a cyber security scheme and a PFAS scheme we would not combine these schemes together for the purposes of our materiality assessment as they are different cost items.

Companies should indicate in their submissions how their submitted costs meet the materiality threshold based on appointed business turnover for the relevant financial year. For example, for submissions in 2026 they should use 2025-26 appointed revenue. If companies do not know their actual turnover when they make their submission they should use a forecast. We will update the assessment using actual turnover as reported in the company's Annual Performance Report (APR) when we make our decisions.[5]

If the costs meet the materiality threshold, we will then consider whether a company has made a case for an in-period adjustment based on the criteria set out in section 4.1. If the costs do not meet the materiality threshold, we will still determine the appropriate end-of-period adjustment.

If companies do not submit claims under the cost change process, we would not normally expect them to be able to recover costs at the next price review. Although we note that any additional costs incurred during 2025-2030 will be subject to the applicable cost sharing rates.

[5] For these purposes, Condition B requires us to use "the turnover attributable to the Appointed Business in the latest financial year for which accounting statements have been prepared and delivered to [Ofwat] under Condition F, as shown by those accounting statements" (para. 13.2(7) or 14.2(7) of Condition B, depending on the company concerned).

4. Assessment

For each cost area, our assessment will be based on the relevant element of our approach for our PR24 final determinations. We set out further detail in the relevant appendices.

When assessing costs, we will not take account of any costs to the extent that they would have been, or would be, avoided by prudent management action. For this purpose what constitutes "prudent management action" will be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the company at the relevant time. This is consistent with the treatment of costs in standard interim determinations.

Where claims are supported by evidence from third parties, such as DWI legal notices, we will reflect this in our assessment and decisions.

Additional information may become available after companies have submitted their claims. We expect to take account of:

- any relevant information about company progress against delivery of existing programmes and against totex allowances, for example from delivery plan returns (submitted in May);
- updated appointee turnover submitted in APR's (in July) in our materiality assessment;
- other relevant information submitted in APRs (in July), although we may reflect this following the publication of our draft decisions.

4.1 In-period adjustments

By default, we will assess claims as end-of-period adjustments. However, companies can make the case for in-period adjustments. If a company requests an in-period adjustment as part of its application, we will first assess whether it meets the materiality threshold (see section 3.1.1).

If one or more eligible claims is above the materiality threshold we will then consider whether we need to make any adjustments in-period and, if so, what changes to the level of price controls should be made.

We will assess the impact of eligible allowed costs on key financial metrics using the final determination financial model. When determining the appropriate revenue adjustment, we will take account of:

- the financial position of the notional company;

- any in-period or end-of-period allowances agreed in previous years under the cost change process;
- the cumulative value of any previously agreed end-of-period adjustments for major projects development costs;
- the likelihood of getting investment to deliver solutions without in-period adjustments; and
- progress against delivery of existing programmes and against totex allowances.

4.2 Price control deliverables

Where companies submit PCDs with their cost change process applications, we will assess these using the same criteria we used in our final determinations.[6] We will monitor new PCDs through Delivery Plan reporting.[7] We will provide companies with updated delivery plan tables once the new PCDs come into effect.

[6] For further information, see PR24 final determinations: Price control deliverables appendix - Ofwat (May 2025).
[7] For further information, see our delivery plan guidance.

5. Decisions and consultation

We have committed to publish our draft decisions by 15 August and our final decisions by 15 December each year. In practice we plan to publish our draft decisions by the end of July and our final decisions in the first week of December. We will try to provide cost certainty as early as possible, recognising the impact of an earlier decision for project forward planning.

Where a company has asked for an in-period adjustment, and provided sufficient information to enable us to conclude that there is a valid claim, we will formally initiate the cost change process interim determination mechanism in Condition B for the relevant item(s) when we publish our draft decision. We will not make an interim determination under Condition B in other cases. Where a company has only requested an end-of period adjustment we do not need to formally initiate the cost change process interim determination mechanism, however we will still publish and consult on our decisions for end-of period adjustments.

In our decisions we will set out our view of:

- the efficient costs for each eligible item we are considering;
- the calculated triviality and materiality for each eligible item (where relevant);
- accompanying PCDs (if applicable);
- end-of-period revenue and regulatory capital value (**RCV**) adjustments; and
- any in-period revenue adjustments that will take effect from the following April.

The deadline of 15 December for our final decision aligns with the deadline for other in-period determinations, including those for outcome delivery incentive (ODI) payments in relation to performance commitments. Table 2 below provides more detail on the timing of the revenue adjustments:

Table 2 Revenue adjustment dates

Submission date	March-May 2026	March – May 2027	March – May 2028
Decision published	• December 2026	• December 2027	• December 2028
Charging years in-period revenue adjustments would apply to (if relevant)	• 1 April 2027 to 31 Mar 2028 • 1 April 2028 to 31 Mar 2029 • 1 April 2029 to 31 Mar 2030	• 1 April 2028 to 31 Mar 2029 • 1 April 2029 to 31 Mar 2030	• 1 April 2029 to 31 Mar 2030

We will make any RCV adjustments as a midnight adjustment at the next price review. We will not adjust RCV in-period. However, as part of our cost change determinations we will publish and commit to a level of RCV adjustment that will be made at the end of the period. Companies should not include any adjustments in reported RCV. But companies have the flexibility to report gearing on an adjusted basis should they wish to do so in the commentary to their annual performance reports.

We will consult on our decisions for up to 8 weeks. We will establish a clarification process for stakeholders. The consultation period could also include a representation meeting for each company that has submitted applications to the cost change process.

Following our consultation and engagement period we will:

- review consultation responses and any further information received through other routes (e.g. APRs, Delivery Plans);
- request further clarifications where appropriate; and
- set out our final decisions.

5.1 Appeals

When we make an interim determination under Condition B in a year, a company will have the right to ask the Competition and Markets Authority (**CMA**) to redetermine our decision on whether the materiality threshold has been reached and what, if any, changes should be made to the level of price controls during the 2025-2030 period. This will be on the same basis as for other interim determinations. For clarity, this right will only apply where we formally initiate the cost change process interim determination mechanism.

We do not need to formally initiate the interim determination cost change process mechanism to make end-of-period adjustments and will not do so. If a company disagrees with the size of the end-of-period adjustments that we agree to make, it will be able to raise this as part of an appeal in relation to our final determination for the next price control, in the same way as for other end-of-period reconciliations.

5.2 Standard interim determination process

It is possible that companies could submit a claim for a cost change process interim determination in the same year as a standard interim determination application. We will use a similar approach and similar models for assessment, and we expect to use the same approach to the calculation of materiality (subject to the different materiality thresholds and the different approach to aggregation of individual items). However, items that are eligible for a cost change process interim determination are not eligible for a standard interim determination.

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A1 Cyber Security

This appendix sets out the process for cost change claims relating to cyber security.

A1.1 Scope

This eligible item covers increases in costs reasonably attributable to:

- A change in guidance from the Cabinet Office or other body of competent jurisdiction about the level of threat that the company needs to take into account;
- a new or changed legal requirement that applies to the company in its capacity as a water undertaker or a sewerage undertaker;
- any new or changed enactment or secondary legislation that applies to a contractor (or similar managed service provider) acting on behalf of the company in its capacity as a water undertaker or sewerage undertaker.

It applies to all water and sewerage companies and water only companies.

A1.2 Application

As part of their submissions, companies should provide evidence on the need for the investment, the best option for customers, cost efficiency and customer protection. The evidence supporting these criteria should be sufficient and convincing.

Companies should ensure claims meet the triviality threshold and meet the criteria set out in the definition of this Eligible Item in a Condition B appendix.

Companies should also provide formal support from the designated competent authority under the Network and Information Systems (NIS) Regulations 2018 (or successor legislation). This is currently the DWI for water related costs.[8] We note that the Cyber Security and Resilience (Network Information Systems) Bill has been introduced into parliament and we may update future versions of this guidance to reflect what is enacted.

We expect companies to submit claims for additional costs if they are asking for either an in-period or end-of-period adjustments. This must be clearly stated in their submission. Our default position is that we will make adjustments at the end of the period. Companies must explain in their submission why they need any in-period adjustment they are requesting and

[8] The DWI acts on behalf of the Secretary of State and the Welsh Ministers.

must demonstrate they need in-period adjustments (for example through submission of an updated financial model).

Companies must submit:

- a document covering the above aspects (which is consistent with the PR24 cost adjustment claim assessment criteria);[9]
- the information set out in tables 3 and 4 below; and
- a completed cost change process data table.

Table 3 Cyber – trigger table

Trigger type	Please explain the nature of the trigger e.g. legislation, guidance, change in threat level.
Description of change	Please provide a narrative on what changed and why it is material.
Source / authority	Please provide the source of the trigger e.g. NCSC, Cabinet Office, DSIT.
Relevant scheme or control	Please provide details of the affected scheme or area of company cyber controls, including scheme name or control domain e.g. IT / OT boundary, identity access management.
Legal instrument issued	Has a legal instrument been issued? If applicable, please specify the formal legal driver / instrument type e.g. Act, Regulation, Direction.
References and notes	Please include citations and hyperlinks to source documents and / or internal tracking notes.

Table 4 Cyber – delivery overview table

Scheme	Please provide the name of the scheme or programme.
Area	Please provide information on the business area affected e.g. OT, cloud, MSP interface.
Delivery requirement	Please set out what is being delivered for the claimed costs and what the scheme must achieve e.g. NCSC CAF outcome.
Target date	What is the intended completion or key milestone date (YYYY-MM-DD)?
Current status	Not started / In Progress / Complete / Delayed
Funding requested (£m, 2022-23 prices)	Total funding request
Cost assurance method used	Please explain how costs were validated.
Trigger source / reference	Please provide a reference or hyperlink to the original trigger.

[9] See page 155 section A1, the Enhancement and cost adjustment claim assessment criteria in PR24_final_methodology_Appendix_9_Setting_Expenditure_Allowances.pdf (December 2022).

A1.2.1 In-period adjustments

If a company makes a submission for an in-period adjustment, it must put forward evidence that additional in-period revenue is necessary. In line with the requirements set out in section 3.1 companies should:

- include an assessment of the bill impact of the proposed investments, supported by relevant customer bills testing;
- provide evidence of the impact of the proposed costs on key financial metrics using the final determination financial model; and
- provide a commentary accompanying their cost change process applications that covers:
    - the financial position of the notional company;
    - the likelihood of getting investment to deliver solutions without in-period adjustments; and
    - progress against delivery of existing programmes and against totex allowances.

Companies can submit an updated financial model to help demonstrate that they need an in-period adjustment.

A1.3 Assurance

For cyber security claims, assurance should be carried out in line the requirements for enhancement and cost adjustment claims in the PR24 business plans[10].

A1.4 PCDs

For in-period and end-of-period submissions, companies must include an assured proposed price control deliverable (PCD) for each cyber security application. These should be based on the cyber security PCD we published with our final determinations[11]

[10] Section A1 in Appendix 9 Enhancement and cost adjustment claims (December 2022)
[11] Section 8.5 PR24-final-determinations-Price-control-deliverables-appendix-REDACTED.pdf (May 2025)

A2 PFAS

This appendix sets out the process for cost change claims relating to PFAS.

A2.1 Scope

This eligible items covers increases in costs to ensure the safety of drinking water with respect to PFAS where investigations have been carried out and new schemes are required by the DWI through a legal instrument (a legal notice, enforcement order or formal undertaking) or the company has demonstrated to the reasonable satisfaction of the DWI that a scheme at an additional treatment works is required (which we expect to be evidenced through DWI Acknowledged Actions). We will continue to work with the DWI to assess any submissions linked to this eligible item.

It applies to all water and sewerage companies and water only companies.

A2.2 Application

As part of their submission, companies should provide evidence on the need for the investment, the best option for customers, cost efficiency and customer protection. The evidence supporting these criteria should be sufficient and convincing.

Companies should ensure claims meet the triviality threshold and are accompanied by a site-specific notice, other relevant legal instrument (e.g. enforcement order, undertaking) or evidence of support (e.g. acknowledged action) from the DWI.

Companies should also provide any relevant further supporting evidence relating to the specific scheme/ site as listed in the cost change process data table. This includes any concurrent water quality risks which will impact on the function/ operation of the new asset, where they have been factored into the cost estimates.

We expect companies to submit claims for additional costs if they are asking for either an in-period or an end-of-period adjustments. This must be clearly stated in their submission. Our default position is that we will make adjustments at the end of the period.

Companies must submit:

- a document covering the above aspects (which is consistent with the PR24 cost adjustment claim assessment criteria); [12] and
- a completed cost change process data table.

A2.2.1 In-period adjustments

If a company makes a submission for an in-period adjustment, it must put forward evidence that additional in-period revenue is necessary. In line with the requirements set out in section 3.1 companies should:

- include an assessment of the bill impact of the proposed investments, supported by relevant customer bills testing;
- provide evidence of the impact of the proposed costs on key financial metrics using the final determination financial model; and
- provide a commentary accompanying their cost change process applications that covers:
    - the financial position of the notional company;
    - the likelihood of getting investment to deliver solutions without in-period adjustments; and
    - progress against delivery of existing programmes and against totex allowances.

Companies can submit an updated financial model to help demonstrate that they need an in-period adjustment.

A2.3 Assurance

For PFAS claims, assurance should be carried out in line the requirements for [enhancement and cost adjustment claims] in the PR24 business plans[13].

[12] See page 155 section A1, the Enhancement and cost adjustment claim assessment criteria in PR24_final_methodology_Appendix_9_Setting_Expenditure_Allowances.pdf (December 2022).
[13] Section A1 in Appendix 9 Enhancement and cost adjustment claims (December 2022)

A2.4 PCDs

For in-period and end-of-period submissions, companies must include an assured proposed price control deliverable (PCD) for each PFAS application. These should be based on the water quality PCD - Raw Water Deterioration that we published with our final determinations[14].

[14] Section 7.2 PR24-final-determinations-Price-control-deliverables-appendix-REDACTED.pdf (May 2025)

A3 Asset health

This appendix sets out the process for cost change claims relating to asset health.

A3.1 Scope

This eligible item covers increases in expenditure allowances due to identified sector-wide asset condition issues that need to, and can, be addressed before the next price control period (starting on 1 April 2030). It applies to:

- network storage (service reservoirs; contact tanks at water treatment works; water towers; and other network storage such as break pressure tanks);
- boreholes;
- civils at water treatment works (rapid gravity filters);
- civils at wastewater treatment works (primary and secondary settlement tanks, activated sludge tanks, and trickle filters); and
- gravity sewers.

Where required, we will provide allowances for additional capital maintenance investments for the priority assets, such as refurbishment or replacement of assets, to improve their condition and long-term resilience. This investment must be above and beyond what companies are already funded to deliver with PR24 base expenditure allowances.

A3.1 Application

Companies should submit investment proposals that:

- set out the proposed interventions to improve the health of the priority asset(s) (as listed above);
- provide sufficient and convincing evidence that it has an asset health issue(s) that needs to, and can, be addressed in the 2025-2030 period[15];
- set out evidence of optioneering and associated cost benefit analysis;
- set out evidence of efficient unit costs and associated methodology;
- set out proposed price control deliverables;
- set out evidence of how the proposed investment fits into the company's long term asset class strategy;

[15] We will provide flexibility when applying non-delivery PCD clawback in line with our policy in the forthcoming PCD decision document.

- demonstrate that it is on track to deliver against its PCDs as set out in our final determination;
- demonstrate efficient investment of base expenditure allowances historically; and
- demonstrate that the proposed investment is above and beyond what companies should be delivering with PR24 base expenditure allowances.

We will only consider the need for additional allowances where we consider that, across England and Wales, the general condition of assets is such that additional works to maintain or replace those assets is required to secure the resilience of water supply systems or sewerage systems.

For asset health we expect companies to submit claims for additional costs if they are asking for either an in-period or end-of-period adjustments. This must be clearly stated in their submission. Our default position for these cost areas is that we will make adjustments at the end of the period.

Companies must submit:

- a document covering the above aspects; and
- a completed cost change process data table.

A3.1.1 In-period adjustments

If a company makes a submission for an in-period adjustment, it must put forward evidence that additional in-period revenue is necessary. In line with the requirements set out in section 3.1 companies should:

- include an assessment of the bill impact of the proposed investments, supported by relevant customer bills testing;
- provide evidence of the impact of the proposed costs on key financial metrics using the final determination financial model; and
- provide a commentary accompanying their cost change process applications that covers:
    - the financial position of the notional company;
    - the likelihood of getting investment to deliver solutions without in-period adjustments; and
    - progress against delivery of existing programmes and against totex allowances.

Companies can submit an updated financial model to help demonstrate that they need an in-period adjustment.

A3.2 Assurance

For asset health claims, assurance should be carried out in line the requirements for enhancement and cost adjustment claims in the PR24 business plans.[16]

A3.3 PCDs

For in-period and end-of-period submissions, companies must propose their own bespoke PCDs based on the proposed asset health investment within their cost change submission. These should be consistent with the guidance issued on PCDs at PR24 and in our final determination.[17]

A3.4 Assessment

Our assessment will be informed by:

- the collection of sector wide asset health and condition data;
- data on historical investment for the priority assets; and
- evidence provided by companies in their investment proposals to help us understand the extent to which historical base expenditure allowances have been spent appropriately and efficiently, and the need for a step up in investment going forward.

We are currently in the process of developing an assessment framework which we intend to publish. This will set out our evidential expectations, and support companies with their submissions.

If we find evidence that there is a sector wide asset condition issue that needs to, and can be, addressed ahead of PR29, we will, if appropriate, provide additional base expenditure allowances to companies to increase their rate of investment to improve asset condition. We encourage companies to provide evidence of company and scheme specific circumstances that is considered to be driving the need for investment. We will consider this evidence alongside the sector wide data to inform our view on whether additional allowances are required during the PR24 period.

[16] Section A1 in Appendix 9 Enhancement and cost adjustment claims (December 2022)
[17] 9.-PR24-final-determinations-Expenditure-allowances.pdf, p306-315 and 9.6-PR24-final-determinations-Price-control-deliverables-appendix_Redacted-1.pdf

A3.5 Further developments

We plan to consult on expanding the list of priority assets ahead of the next price review. This would require additional licence modifications. The scope of our proposals will be informed by companies' 2025 asset prioritisation exercise and we will continue engaging with companies to finalise the expanded list of assets. We would require the collection of robust and comparable asset condition data during 2026 for any additional assets.

Companies will be able to submit asset health claims from 2026 based on the existing definition of priority assets. And, subject to consultation, we expect companies to be able to submit claims relating to the broader range of assets from 2027.

For asset health, we do not expect the cost change process to be the only mechanism for companies to access funding, if it is necessary. We expect that different assets, and potentially companies, may require different routes to access funding depending on the scale and timing of required investment. We will continue to work with the sector to find the most appropriate solution. For example, we are also considering whether accelerating AMP9 capital maintenance expenditure would be more appropriate for certain asset types depending on the scale of the work involved.

A4 Havant Thicket reservoir

This appendix sets out the process for cost change claims relating to the Havant Thicket reservoir project (or 'Havant Thicket').

A4.1 Scope

This cost area covers changes in the charges payable from Southern Water to Portsmouth Water following the second Havant Thicket cost adjustment mechanism process (CAM2). The changes in costs will be due to:

- the costs associated with the alignment works needed to integrate the Havant Thicket reservoir with Southern Water's Hampshire Water Transfer and Water Recycling Project (in line with changes to the designation of Havant Thicket Activities)[18]; and
- unexpected ground issues (specifically, shear planes and related sand formations) uncovered during excavation.

It applies to Southern Water only.

A4.2 Application

We will trigger the cost change process once Portsmouth Water has submitted its CAM2 request and Southern Water has submitted a cost change claim.

Southern Water must complete:

- A completed cost change process data table.

Separately, as part of the CAM2 process, Portsmouth Water must complete:

- A submission as per the 'Havant Thicket Cost Adjustment Mechanism 2 – 'minimum information requirements' and 'Data Tables' sent to Portsmouth Water in December 2024 and any updates thereof.

[18] We provide further detail in Update to Havant Thicket Activities and statement of reasons for changes (October 2024).

Southern Water must submit a claim for Havant Thicket if it wants either an in-period or an end-of-period adjustment. The default position is that we will make adjustments at the end of the period.

A4.2.1 In-period adjustments

If Southern Water makes a submission for an in-period adjustment, it must put forward evidence that additional in-period revenue is necessary. In line with the requirements set out in section 3.1 Southern Water should:

- include an assessment of the bill impact of the proposed investments, supported by relevant customer bills testing;
- provide evidence of the impact of the proposed costs on key financial metrics using the final determination financial model; and
- provide a commentary accompanying its cost change process applications that covers:
    - the financial position of the notional company;
    - the likelihood of getting investment to deliver solutions without in-period adjustments; and
    - progress against delivery of existing programmes and against totex allowances.

Southern Water can submit an updated financial model to help demonstrate that they need an in-period adjustment.

A4.3 Assessment

For the costs associated with Havant Thicket, we will assess any cost changes requested, working alongside our specialist advisors. We will also assess threshold calculations, the need for any in-period adjustments or requested uncertainty mechanisms and the revenue and RCV impacts of the cost adjustments.

A4.4 Assurance

For Havant Thicket, we expect independent assurance to have been completed as part of the cost adjustment mechanism submission.

A4.5 PCDs

In line with our PR24 final determinations, we do not expect Southern Water to submit any PCDs for Havant Thicket cost change process claims.

A4.6 Timeline

We expect Portsmouth Water to submit its CAM2 submission in March 2026. Southern Water will be able to submit its cost change submission once this has been submitted by Portsmouth Water. If Southern Water submits no later than 1 May 2026 we will consider whether it will be eligible for in-period revenue changes from April 2027.

A5 Large schemes gated process

This appendix sets out the process for cost change claims relating to the large schemes gated process.

A5.1 Scope

This eligible item covers increases in costs, beyond those allowed for in our final determinations, associated with schemes in our 'large schemes gated process'. This covers schemes which are above £100m capex and where we have concerns around scope, cost, deliverability, complexity, or schemes involve novel elements or complex technologies.

These eligible items apply to Anglian Water, Northumbrian Water, Southern Water, Severn Trent Water, Thames Water and United Utilities.

A5.2 Application

Companies need to provide a suitable quality Submission 2 under the large scheme gated process.

We have asked companies to indicate in October 2025, for each scheme in the large scheme gated process, whether they will be in a position to complete the gated process in 2026, 2027 or 2028. This will allow us to approve funding for schemes to progress at the most suitable time. For companies that indicate they will complete the gated process in 2026, they must submit their Submission 2 of the large scheme gated process between 1 March and 1 May 2026. Those completing in 2027 must submit between 1 March 2027 and 1 May 2027 and similarly for those completing in 2028.

We encourage companies to submit early in the submission window in the relevant year to allow us more opportunity to provide feedback. But companies will need to exercise judgement on when is the optimum time for them to submit.

For large gated schemes we expect companies to submit claims for additional costs if they are asking for either an in-period or an end-of-period adjustments. This must be clearly stated in their submission. Our default position for these cost areas is that we will make adjustments at the end of the period.

We have set out in PR24 Large Scheme gated approach final guidance[19] what we expect Submission 2 to cover.

The company must also submit a completed cost change process data table.

A5.2.1 In-period adjustments

If a company makes a submission for an in-period adjustment, it must put forward evidence that additional in-period revenue is necessary. In line with the requirements set out in section 3.1 companies should:

- include an assessment of the bill impact of the proposed investments, supported by relevant customer bills testing;
- provide evidence of the impact of the proposed costs on key financial metrics using the final determination financial model; and
- provide a commentary accompanying their cost change process applications that covers:
    - the financial position of the notional company;
    - the likelihood of getting investment to deliver solutions without in-period adjustments; and
    - progress against delivery of existing programmes and against totex allowances.

Companies can submit an updated financial model to help demonstrate that they need an in-period adjustment.

A5.3 Assurance

For large gated schemes, assurance should be undertaken in line with the requirements set out for the delivery of enhancement schemes in the PR24 final determinations[20].

[19] PR24-Large-Schemes-Approach-Guidance.pdf (August 2025)
[20] PR24 final determinations: Expenditure allowances - assurance requirements for delivery of enhancement schemes appendix.

A5.4 PCDs

For in-period and end-of-period submissions, companies must include an assured proposed price control deliverable (PCD) for each large gated scheme application.

For large gated schemes, companies will have already set out draft PCDs in their Submission 1 as part of the large scheme gated process. These should be consistent with the PCDs we published for similar types of expenditure in our final determinations.[21] Companies must submit updated PCDs as part of their cost change process submission, reflecting any feedback Ofwat provided as part of the large scheme gated process.

[21] We set out our approach to designing PCDs in section 4.7.2 of PR24 final determinations: Expenditure allowances (December 2024). Further details are set out in PR24 final determinations: Price control deliverables appendix (February 2025).

A6 Growth

This appendix sets out the process for cost change claims relating to growth.

Ensuring there is sufficient treatment and network capacity to connect new housing and businesses is critical to supporting economic growth. The scale and location of population, housing and business demand growth is uncertain. At PR24 we set growth allowances based on company forecasts and built in flexibility for companies to reallocate expenditure allowances where growth differs from company plans. We also included the delivery of headroom in water resource planning allowances to recognise that forecasting the future is uncertain. However, since PR24 business plan submissions, new demand has emerged from data centres, and companies are developing plans to respond to the Government target to build 1.5 million new homes over the next 5 years. Following industry engagement, we are allowing companies to submit proposals for additional enhancement allowances to support investment linked to demand growth.

A6.1 Scope

This eligible item covers increases in enhancement expenditure to support additional population, household and business demand growth. Proposals must cover one of the following areas:

- **Growth at sewage treatment works** – investments aimed at increasing the capacity or efficiency of existing sewage treatment facilities to accommodate rising demand from new housing developments, commercial premises, and industrial activities. Enhancements may include upgrading treatment technologies, expanding physical infrastructure, or improving resilience to ensure compliance with environmental standards under increased load.
- **Water and wastewater network reinforcement** – Investment related to the provision or upgrading of network assets (both above and below ground) such as water mains, sewers, tanks, service reservoirs, water towers and pumping stations to provide for new customers with no net deterioration of existing levels of service.
- **Growth at sludge treatment centres** – investment on sludge treatment and disposal assets, including associated biogas treatment, to provide additional capacity to accommodate demand growth. Increases in sewage treatment capacity that may be funded through the cost change process can result in higher volumes of sludge, necessitating further bioresources capacity. Companies receive a long term efficient allowance to support this growth through two mechanisms: (i) bioresources base cost models, which include historical enhancement expenditure related to growth; and (ii) the average revenue control, which adjusts allowed revenue in line with the volume of sludge produced. Where additional treatment or disposal capacity is needed beyond these allowances, companies may submit investment proposals. The proposals must

be net of the benefit received over at least 25 years calculated on (i) the implicit allowance from the base cost models, and (ii) expected benefits from future cost savings or revenue generated by the new investment.

- **Water resources options** – this includes demand and supply side measures to increase the availability and efficiency of water supply in response to increased demand growth. Examples include deploying smart meters to improve demand management and leakage detection, expanding water treatment works to increase output, water transfers and trades, third party options, and developing alternative water sources such as water reuse schemes.

It applies to all water and sewerage companies and water only companies.

A6.2 Application

Companies must submit an investment proposal which sets out the need for additional investment to support population, household or business demand growth in one of the four areas outlined in section A6.1. They must provide sufficient and convincing evidence that the investment is above and beyond what was allowed at PR24, either due to higher-than-expected AMP8 growth, or to accelerate AMP9 growth investment that can be delivered more efficiently and effectively in AMP8.

For investments to facilitate higher than expected AMP8 growth, companies must demonstrate that forecast / outturn population, household and business demand growth over the 2025-30 period is higher than what was forecast at the time the company developed its PR24 draft determination representation.

For investments intended to accelerate AMP 9 growth investment, companies must demonstrate why it is more efficient and effective to do so in AMP8.

The company must also demonstrate:

- it is on track to deliver on AMP8 commitments, with clear references to delivery plans;
- how its proposed investment is accommodated within its statutory plans (WRMPs and DWMPs), and how it has, or will, utilise the statutory planning process to notify of any resulting changes to its plan (e.g. WRMP annual review);
- it has engaged all relevant regulators and government bodies (e.g. Defra, EA, DWI) on the drivers and interventions required, as a result of the growth change;
- the proposed additional investment is deliverable alongside its current AMP8 commitments;
- there is sufficient supply chain and/or internal capacity to deliver the additional workload;
- the proposed investment is not to address non-compliance with existing permits.

Companies must submit:

- a document covering the above aspects[22]; and
- a completed cost change process data table.

Currently we can only consider growth submissions for end-of-period adjustments. We intend to consult on allowing companies to submit claims for in-period adjustments for growth expenditure. As part of this consultation, we will consider how companies can demonstrate their claims are material (an expectation we set out when we wrote to the industry in August 2025)[7]. This will include us considering whether it is appropriate to apply a triviality threshold for growth expenditure.

A6.2.1 In-period adjustments

If a company makes a submission for an in-period adjustment, it must put forward evidence that additional in-period revenue is necessary. In line with the requirements set out in section 3.1 companies should:

- include an assessment of the bill impact of the proposed investments, supported by relevant customer bills testing;
- provide evidence of the impact of the proposed costs on key financial metrics using the final determination financial model; and
- provide a commentary accompanying their cost change process applications that covers:
    - the financial position of the notional company;
    - the likelihood of getting investment to deliver solutions without in-period adjustments; and
    - progress against delivery of existing programmes and against totex allowances.

Companies can submit an updated financial model to help demonstrate that they need an in-period adjustment.

[22] See page 155 section A1, the Enhancement and cost adjustment claim assessment criteria in PR24_final_methodology_Appendix_9_Setting_Expenditure_Allowances.pdf (December 2022).

A6.3 Assurance

For growth claims, assurance should be carried out in line the requirements for enhancement and cost adjustment claims in the PR24 business plans[23].

A6.4 PCDs

For growth, companies must propose their own bespoke PCDs based on the proposed investment within their cost change submission. These should be consistent with the PCDs we published for similar types of expenditure in our final determinations[24].

A6.5 Future developments

We are proposing to expand the cost change mechanism to also allow companies to make in-period claims for growth expenditure. We have seen some evidence that additional growth costs may be significant and we want to ensure we have appropriate mechanisms to allow companies to deliver these critical schemes if they are necessary. This will require further licence changes, which we plan to consult on in 2026. We expect the changes to be in place for companies to submit claims from the 2027 submission window. This timing will allow us to consider companies' progress against existing allowances before confirming any additional in-period revenue.

We will also continue to develop our guidance for growth and intend to issue further technical guidance.

[23] Section A1 in Appendix 9 Enhancement and cost adjustment claims (December 2022)
[24] PR24-final-determinations-Price-control-deliverables-appendix-REDACTED.pdf

A7 Major Projects development costs

This appendix sets out the process for cost change claims relating to major projects development costs.

A7.1 Scope

This eligible item covers material increases in project development costs during the 2025-30 period. We recognise that when developing large and complex major projects, there are circumstances, some of them bespoke, which could cause costs to rise. We have therefore set out below a **non-exhaustive list of events** which could lead to companies making an application to the cost change process for an in-period cost adjustment.

- Companies gaining clarity of the cost of development activities needed to deliver projects where we set a contingent allowance in our PR24 final determinations.[25]
- Costs for core development activities or early pre-construction activities, including land and enabling works or competitive delivery development activities, which:
    - have materially exceeded the allowance provided in the final determinations as a result of changes in scope and design or market disruption/supply chain constraints;
    - were not provided for but that need to be undertaken early to ensure certainty for the development of the project, for example, early land acquisition;
    - are driven by the need to bring forward expenditure to de-risk the programme or accelerate delivery as a result of new evidence of need; or
    - are driven by the materialisation of high impact/low probability risks, for example, unsuccessful planning applications.
- Changes in the partnership arrangements of a major project which require a material proportion of allowances to be transferred.
- Introduction of new projects into the pipeline.
- Rebalancing of costs transferred via the portfolio approach if circumstances change.

[25] Contingent funding allowances were only set for Thames Water.

A7.2 Engagement and consideration of other major projects mechanisms

The development of major projects is subject to either the RAPID gated process, the competitive delivery processes or both. These processes do not have set timings which typically align to the financial years of the price control period.

Given this **we expect companies to engage with us as early as possible** if they identify a need to submit a case for additional expenditure. This will ensure that any decisions are made in line with the cost change process timeline, and that all appropriate mechanisms for cost changes have been explored. This will include consideration of the portfolio approach, as well as the existing established process for logging up expenditure to be adjusted at the end of the period.

In the first instance we expect companies to manage any changes to their expenditure via the portfolio approach or the reprofiling of gate allowances, provided there is appropriate certainty in the available headroom across their programme. We know that projects are often subject to delays, which may result in a number of funded activities, or even entire gates, being deferred beyond the 2025–30 period. The timing of project expenditure is uncertain and we recognise that potential headroom in the portfolio is not definitive at an early stage. Any portfolio changes may impact other project partners, and we expect any portfolio reallocations to be made in consultation with those partners. The portfolio change may not be appropriate in many cases but should be considered and used where appropriate.

Secondly, we continue to allow the flexibility of expenditure being logged up (and down) at the end of the period using the major projects reconciliation model. We therefore also expect companies to consider if any necessary expenditure requests can be managed this way. The majority of projects are still in their early development phase, and we recognise there is still a lot of cost uncertainty. We therefore expect companies to consider whether a true up of allowances at the end of the period may be appropriate to protect the interests of customers.

As part of companies' initial engagement with us, we expect them to provide an updated forecast of development costs against the PR24 allowances, with supporting commentary setting out why costs have changed. The expenditure forecasts should be profiled against the gates and financial years. Companies should set this out in the 'major projects expenditure by AMP' templates, which accommodates for this information. All costs should be in 2022-23 prices. This information will help us to understand the evidence base and the appropriate route for any additional funding.

We intend to publish more general guidance on handling changes in development costs and the specific evidence required.

A7.3 Application

For a cost change process submission, companies must clearly set out the increase in development costs being sought against the specific development activities required to develop their major projects. We also expect companies to demonstrate why the cost change process is the most appropriate route for funding. This should reflect prior engagement with RAPID/Ofwat).

We only expect companies to access the cost change process for major projects development costs **if they require an in-period adjustment.** Claims will need to meet the materiality threshold of at least 2% of appointed business turnover as set out in Section 3.1.1. We will make all end of period adjustments through the major projects end of period reconciliation model.

For multi-party projects, it is important that each company submits its own application given the assessment that will need to be done to ensure the materiality threshold is met. However, we recognise that for many of these claims, the information will be the same and therefore we are happy for this to be consistent across applications. Companies should demonstrate agreement between all co-sponsors, even if not all companies are submitting claims (for example if an activity is being funded by a lead co-sponsor only).

We recognise the uncertainty associated with certain development activities, therefore companies may submit a cost range in their application. We also recognise that some costs or scheme details may be commercially sensitive. In these cases companies should highlight this in their submission and we will consider whether we need to make redactions in our published determinations.

As noted in above, companies should have agreement from RAPID or Ofwat before submitting a cost change process application. If we agree that the cost change process is the most appropriate mechanism for a company to access funding, then it will need to submit a cost change application between 1 March and 1 May.

In line with the requirements set out in section 3, companies must put forward evidence to support their in-period submission. Companies should:

- include an assessment of the bill impact of the proposed investments, supported by relevant customer bills testing;
- provide evidence of the impact of the proposed costs on key financial metrics using the final determination financial model.
- provide supporting commentary on the financial position of the notional company.

Companies can submit an updated financial model to support their claim.

In addition to this for major projects claims, companies should provide the following:

- A summary of prior engagement with RAPID or Ofwat. This should include evidence to demonstrate that increases in costs cannot be absorbed by other mechanisms (i.e. by reprofiling against gates or reallocating across the portfolio).
- Completed 'Expenditure by amp templates' reflecting the cost request. These can be copies of tables from previous submissions if there have been no subsequent changes.
- The cumulative value of any previously agreed end-of-period adjustments for major projects development costs if applicable.
- A completed cost change process data table to provide the information required for the cost change model.

A7.4 Assessment

For major projects development costs in some cases we will have already formally agreed, for example through the gated process, appropriate cost allowances. In these cases we expect to focus our assessment on elements such as the threshold calculations. We do not intend to undertake any further assessments of the efficiency of costs **unless there has been a change in the proposal**.

In line with the guidance and the amendments to Condition B we will not consider cost change claims that do not meet the materiality threshold. However, if we have agreed end-of-period adjustments over the first three years which together meet the materiality threshold, we can explore with companies whether these could be combined and submitted to the cost change process in year three. This is illustrated in table 5 below.

Table 5 Illustrative major projects scenario

Company X, materiality threshold = £10m	Cumulative end-of-period allowance agreed by Ofwat		
	Year 1	Year 2	Year 3
Project A	£2m	£7m	£10m

In year 3, the cumulative value of the claims meets the materiality threshold. At this point we could explore whether it would be appropriate for a company to submit an in-period adjustment request.

We recognise the strategic importance of these major projects and that it is important for companies to get early certainty of agreed costs to help projects be developed successfully. We will engage with companies throughout this process to ensure we are providing as much certainty as possible. We will discuss with companies any issues that may arise, until a formal decision is made by the first week in December as set out in Table 1.

A7.5 Assurance

For major projects, we expect the assurance of proposed costs to have been completed as part of prior engagement under the major projects processes. If there is a change in costs since initial agreement, we expect further assurance to be provided as part of a company's cost change application.

A7.6 PCDs

In line with our PR24 final determinations, PCDs are not applicable for the cost change process submissions for major projects development costs.

A8 Calculating the threshold values and adjustments to revenue and RCV

A8.1 Model Overview

The cost change process allows us to make adjustments for specific critical cost areas, if required, either within or at the end of the control period. The cost change model implements the changes resulting from this process.

Timing of Adjustment	Nature of Adjustment	Which model(s) is this model outputting to?	What is the price base of the output?	What PR24 revenue controls does it affect?	What allowed return on capital does the model use?
In-period and end-of-period	• Revenue and RCV	• Cost sharing reconciliation model • Major projects model • Havant Thicket model • RCV adjustment feeder model • Revenue adjustment feeder model • In-period adjustments model	• 2022-23 FYA CPIH deflated	• Water resources • Water network plus • Wastewater network plus • Bioresources	• Company specific real wholesale allowed return on capital

Each year, the model captures the additional allowances which can be recovered in each of the eligible cost areas and translates these into in adjustments for each price control. It calculates:

- end-of-period RCV and revenue adjustments for increased cost allowances that are recovered at the end of the period; and
- in-period revenue adjustments for increased cost allowances that are recovered before the end of the period.

The adjustments calculated by the model reflect:

- increased opex allowances;
- the impact of increased capex allowances on the RCV; and
- any additional equity allowance deemed necessary on financeability grounds.

A8.1.1 In-period adjustments

For in-period adjustments, the model considers whether:

- the **materiality** threshold of 2% of appointed business turnover in the relevant financial year is met;
- the company has **requested** in-period funding; and
- the cost area in question is **eligible** for in-period adjustments (growth claims are only currently only eligible for end-of-period adjustments).

The model feeds in-period revenue adjustments into the in-period adjustments model, which then calculates the adjustments to each price control each year. The total revenue adjustment then feeds into a bill estimator model that Ofwat will publish, to estimate the bill impact to household customers from the increased revenue recovery allowance. The revenue adjustment also feeds into the revenue forecasting incentive model.

A8.1.2 End-of-period adjustments

For end-of-period adjustments, the cost change model feeds increased cost allowances into the cost sharing reconciliation, major projects and Havant Thicket models, enabling cost baselines to be updated. The model also translates these additional allowances into end-of-period RCV and revenue adjustments for each price control and feeds these into the RCV and revenue adjustment feeder models. The Havant Thicket, cost sharing and major projects models also feed into the revenue adjustment feeder model. And the Havant Thicket and cost sharing models also feed into the RCV adjustment feeder model.

A8.2 Model Inputs

In addition to the data gathered from companies through the cost change data tables, the cost change model also includes the following inputs:

- model constants, including for example parameters setting the materiality threshold, and the proportion of non-PAYG totex that is subject to depreciation in the year of addition to the RCV;
- Ofwat's assessments of additional capex and opex allowances each year in 2022-23 prices, at eligible cost level (with the exception of individual large scheme level costs), and allocated to individual price controls;
- switches to apply either the company data on requested additional opex and capex or Ofwat's assessment of additional opex and capex allowances;
- PR24 final determination inputs including CPI(H), WACC and RCV run off rates;
- switches to set the cost areas for which the company has requested in-period adjustments;

- inputs required for the materiality assessment, including the discount rate, company and Ofwat figures for appointed business turnover for the claim year (in 2022-23 prices) and a switch to select between these;
- a switch to set the outcome of Ofwat's financeability assessment for in-period adjustments; and
- Ofwat's view of any additional equity issuance cost allowances required where applicable.

A8.3 Model outputs

Ofwat's view of additional material opex and capex allowances by control and year will be manually inputted into the financial model to assess financeability for in-period claims.

The cost change model will output data into the following price review models:

- the total additional expenditure allowed through the cost change process for each eligible cost area feeds into the cost sharing reconciliation, major projects and Havant Thicket models;
- the total end-of-period RCV adjustment for each price control feeds into RCV adjustment feeder model;
- the total end-of-period revenue adjustment for each price control feeds into the revenue adjustment feeder model; and
- the total in-period revenue adjustment for each price control each year feeds into the in-period adjustments model.

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

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