November 2025

Cost change process decision document

Ofwat

Decision on the PR24 cost change process and proposed licence modifications

About this document

This document sets out our final decision on our approach for the cost change process. The document includes:

- how the Water Services Regulation Authority (**Ofwat**) will implement the cost change process for key cost items;
- our decision to modify Condition B: Charges of the appointments (**licences**) of the 16 largest appointed water companies[1] in England and Wales; and
- our decision to modify Condition A: Interpretation and Construction of the licence of South East Water Limited.

We have updated our approach following industry engagement and consultation on our draft proposals. This document summarises responses to that consultation and sets out how we have taken account of them in making our decisions. We have published the responses we received to our consultation on our website. We have also published a Cost change process guidance note that sets out in more detail how we plan to implement the cost change process and what we expect companies' submissions to include.

The licence modifications were made under:

- section 12A of the Water Industry Act 1991 (**WIA91**) for Affinity Water Limited, Anglian Water Services Limited, Northumbrian Water Limited, Portsmouth Water Limited, Severn Trent Water Limited, South East Water Limited, South Staffordshire Water plc, Southern Water Services Limited, South West Water Limited, Sutton and East Surrey Water plc, Thames Water Utilities Limited, United Utilities Water Limited, Wessex Water Services Limited and Yorkshire Water Services Limited (water companies whose areas are wholly or mainly in England); and
- section 13 of the WIA91 for Dŵr Cymru Cyfyngedig and Hafren Dyfrdwy Cyfyngedig (water companies whose areas are wholly or mainly in Wales).

Update following the Independent Water Commission

Following the publication of the Independent Water Commission final report, the UK government has set out a new direction for the water sector with the formation of a new regulator in England. This marks an opportunity to reset the sector, so it delivers better outcomes for customers and the environment.

Ofwat will now work with the government and other regulators to form this new body in England, combining Ofwat with the Drinking Water Inspectorate and including elements of

[1] For the purpose of this document, a reference to a water company or a company means a company holding an appointment as a water undertaker and/or a sewerage undertaker under the Water Industry Act 1991.

the Environment Agency and Natural England. We will also continue to engage with the Welsh Government and contribute to discussions on the options for Wales.

Until these new arrangements are in place, we will keep working hard to drive water companies to improve performance and deliver maximum value for customers, communities, and the environment.

Summary

When we set out our final determinations we recognised that there was still significant uncertainty for some critical cost areas. We wanted to ensure bills didn't include unnecessary expenditure, while still allowing a funding route for these critical areas before the next price review. To address this, we committed to developing a process that would allow companies to access additional revenue in-period, where justified. This required changes to company licences. We consulted on our proposed licence modifications, and how we planned to implement this cost change process, from 8 July 2025 to 1 September 2025.

In general, stakeholders welcomed the cost change mechanism, but asked for it to be more flexible and for it to cover a broader definition of costs. In response, we have made a number of changes to our proposals. We also intend to make further changes. We set these out in full in this document, and summarise the most material ones here.

Given the continued uncertainty relating to these critical cost areas we agree that providing more flexibility would be beneficial. Companies can therefore submit claims in any cost area in any of three submission windows. So the process will be available in 2026, 2027 and 2028 for all cost areas. We have not made any further amendments to the annual timeline. Companies can submit claims between March and May and we intend to publish draft determinations in July, and final determinations in December. It is important that we have a process that allows enough time for us to properly assess claims and to allow for discussion with companies and other stakeholders throughout the process.

A number of respondents raised concerns that the asset health definition was not broad enough. We have reflected on this feedback and will continue work to allow us to consult on expanding the list of priority assets during the 2025-30 period. We will continue engaging with companies to finalise the expanded list of assets. For additional assets, we would require the collection of comparable data during 2026. It would allow us to accelerate asset health understanding across the asset base. Companies will be able to submit asset health claims from 2026 based on the existing definition of priority assets. And, subject to consultation, we also intend to allow companies to submit claims relating to a broader range of assets in 2027 and 2028.

In August 2025, we also invited companies to submit proposals for additional enhancement investment linked to demand growth in 2027, with revenue adjustments made at the end of the 2025-30 period[2]. Respondents welcomed the inclusion of growth in the cost change process but wanted it to be available in each year and for claims to be eligible for in-period adjustments. We want the sector to be ready to support economic growth and to meet the need for water and wastewater services. Companies will be able to submit growth claims for end-of period adjustments from 2026. We also intend to consult to allow companies to make claims for in-period adjustments for growth expenditure from 2027. This timing will allow us

[2] Supporting-economic-growth-reg-directors-letter-22Aug25_Redacted.pdf

enough time to assess if companies are on track to deliver AMP8 commitments before confirming any additional in-period revenue.

We are making the licence changes necessary to implement the cost change process to all companies' licences today. The changes will come into effect on 1 February 2026. This means all companies will be able to submit claims based on the existing scope from 2026. We will then consult on further licence modifications which would broaden the scope of the cost change process. We think the changes we have made, and the additional changes we plan to make, give companies the flexibility to respond to emerging challenges in these critical cost areas.

Contents

1. Introduction

1.1 Background

In December 2024, together with our 2024 price review (**PR24**) final determinations we published an appendix about in-period adjustments: [PR24 final determinations: In-period adjustments - Ofwat.]() In this document we said that for specific critical costs areas we would introduce an adjustment mechanism for price controls that would, if necessary, make it easier for companies to access additional revenue in-period. It would apply to eligible costs that are not already reflected in price controls, and would be in addition to end-of-period reconciliations.

These critical cost areas, not all of which are relevant to every company, are:

- schemes included in our large schemes gated process because of concerns around scope, cost, deliverability, complexity, or novel elements or complex technologies;
- additional schemes to ensure the safety of drinking water with respect to 'forever chemicals' (PFAS);
- cyber security;
- changes in certain charges payable by Southern Water to Portsmouth Water in relation the development of the Havant Thicket reservoir; and
- development costs for major projects.

We also said we would consider whether there were any sector-wide asset condition issues that need to, and can be, addressed in-period.

We set out our intention to make licence modifications to allow us to make adjustments to price controls in-period, even if the current materiality threshold for an interim determination is not met.

We consulted on these licence changes from 8 July 2025 to 1 September 2025.

In August 2025, we also invited companies to submit proposals for additional enhancement investment linked to demand growth in 2027, with revenue adjustments made at the end of the 2025-30 period[3]. We said companies could submit proposals through the cost change process submission window between March and May 2027.

[3] Supporting-economic-growth-reg-directors-letter-22Aug25_Redacted.pdf

1.2 Responding to stakeholder feedback

We have engaged with key stakeholders while developing these proposals. We held workshops and individual meetings as well as the formal consultation. We had responses from all companies, the Consumer Council for Water (CCW), Water UK and the DWI. Given the cross-cutting nature of our proposals we have considered feedback from a number of sources when finalising our position on the cost change process. These include:

- Responses to the cost change process consultation;
- Large scheme gated process consultation;
- Feedback on the growth letter;
- CMA provisional determinations.

This document sets out a summary of the responses and other feedback we received, how we have taken account of those representations and our final decisions. We have included the key themes raised in chapter 2, and have summarised more specific feedback, or points of clarification, in the table in annex 1.

Today we are publishing:

- **This decision document:** This document sets out how we taken account of the representations we have received, and the reasons for our decisions.
- **A guidance note:** Cost change process guidance note that sets out in more detail how we plan to implement the cost change process and what we expect companies' submissions to include.
- **Data tables:** Cost change process data tables and associated definitions that show the data companies will need to submit as part of the cost change process.
- **A model:** Cost Change Model v1.0 and Cost Change Model v1.0. A cost change process model, in both excel and OpenBox format, that shows how the outputs from the cost change process will feed into our financial modelling.
- **The licence modifications** we have made.

2. How we intend to implement the cost change process

We are introducing a cost change process for the period from 1 April 2025 to 31 March 2030 (**2025-30 period**). This process will give companies greater certainty about end-of-period adjustments and allow them to recover additional revenue in-period, if necessary. It applies to critical cost areas, and will minimise delays in delivery for these critical areas.

We set out the detail of how we will operate the cost change process in Cost change process guidance note. This section summarises responses to our consultation on the PR24 cost change process and proposed licence modifications and sets out how we have taken account of them in making our decisions. Section 3 explains the changes that are being made to licences, their effect, and the reasons why we decided to make them.

2.1 Eligible costs

2.1.1 What we said in our consultation

In our consultation we said that the costs that would be eligible for the cost change process would be:

- schemes included in our **large schemes gated process** because of concerns around scope, cost, deliverability, complexity, or novel elements or complex technologies;
- additional schemes to ensure the safety of drinking water with respect to 'forever chemicals' (**PFAS**);
- **cyber security**;
- changes in certain charges payable by Southern Water to Portsmouth Water in relation the development of the **Havant Thicket** reservoir;
- development costs for **major projects**; and
- additional expenditure to improve **asset health** for priority asset types.

We maintained the triviality threshold for PFAS and cyber security costs that we had set out in our PR24 final determinations. Our view of costs in each of these two cost areas has to meet this threshold for us to consider any adjustment through the cost change process. We said that we would like to hear from companies with PFAS schemes that we deferred in our final determinations, to find out if they do not expect to meet the triviality threshold for PFAS.

Following publication of our consultation, in August 2025 we also invited companies to submit proposals for end-of-period adjustments through the cost change process for additional enhancement investment linked to demand growth[4]. We said these claims must be material and relate to enhancement expenditure in the following areas:

- Growth at sewage treatment works;
- Network reinforcement; and
- Demand- and supply-side water resource options (e.g. smart metering, water treatment capacity increases).

2.1.2 Stakeholder representations on eligible costs

Fourteen respondents suggested that the cost change process should include more cost areas to introduce more flexibility ahead of the next price review.

In particular, ten companies and Water UK said that the **asset health** definition was too restrictive. The proposed definition was focussed on the priority asset categories identified through the prioritisation activity undertaken with the sector as part of our enhancing asset health understanding workstream.[5] Companies asked for the scope of eligible asset health items to be broadened to allow for company-specific risks and evolving priorities. They argued that a less prescriptive approach would better reflect long-term resilience needs and align with Independent Water Commission recommendations. Five stakeholders asked for clarity on the definition of 'sector-wide', and whether evidence of a sector-wide issue is required, even where a convincing case for a company issue exists.

Severn Trent Water, South West Water, Hafren Dyfrdwy, Yorkshire Water and Water UK said that including growth within the cost change process (as opposed to introducing a new mechanism) reduces complexity and provides transparency on the combined future bill impact. Six respondents suggested the list of eligible growth costs should be expanded to, for example, cover economic and housing growth, rises in tourism, industrial development and Artificial Intelligence (AI) related requirements. United Utilities said we should include third party investments to support growth and bioresources investments resulting from additional growth, to avoid delays to investment as current plans do not fully reflect expected usage (e.g. by data centres) over the next few years.

United Utilities was supportive of the **triviality threshold** for eligible PFAS and cyber security claims. Thames Water, South Staffs Water and the Drinking Water Inspectorate were concerned that the threshold level did not reflect a trivial project, and that it could restrict access to essential funding for delivering additional key obligations. No company with

[4] Supporting-economic-growth-reg-directors-letter-22Aug25_Redacted.pdf
[5] We provide further detail https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/webinars-and-workshops/enhancing-asset-health-working-group-2/ and in our update paper Enhancing-asset-health-understanding-update-paper-May-2025.pdf, p11-16.

deferred PFAS schemes said that they did not expect to be able to meet the triviality threshold.

As part of its provisional determinations for Northumbrian Water, Southern Water and South East Water, the Competition and Markets Authority (**CMA**) proposed to add four **additional schemes to the large schemes gated process**.[6] These schemes were not included in the licence modifications we consulted on.

2.1.3 Our final decision

We have considered respondents' arguments to broaden the scope of eligible costs relating to **asset health**. As part of our roadmap to improve asset health understanding during 2025-30, we are currently collecting data on asset condition, expenditure and workload relating to an agreed set of priority assets. These assets are critical to service delivery and influence performance. Companies have also told us these assets have known or indicated asset health challenges. This data collection will improve understanding of sector wide asset health, and support our assessment of potential claims through the cost change process.

We do not consider it appropriate to broaden the definition to include all assets in order to capture the full range of company-specific risks. Such an approach would not improve sector-level understanding of asset health and would weaken our ability to make meaningful comparisons between companies. Consistent and comparable asset health data across all companies is essential to determine whether issues are sector-wide or isolated to specific companies. Without this, there is an increased risk that customers may pay twice for investment, once through base allowances and again through enhancement funding, because we would be unable to assess whether poor asset condition stems from sector-wide factors, company-specific exogenous factors, or ineffective asset management.

Instead we will continue work to enable consultation on expanding the list of priority assets during the 2025-30 period. The scope of this expansion will be informed by companies' 2025 asset prioritisation exercises, and we will continue engaging with companies to finalise the expanded list of assets. For additional assets, we would require the collection of comparable data during 2026. Further licence modifications would be necessary to implement changes to price controls during the 2025-30 period in relation to these assets.

Companies will be able to submit asset health claims from 2026 based on the existing definition of priority assets. And we intend to consult to allow companies to submit claims relating to a broader range of assets in 2027 and 2028.

[6] The provisional decision is summarised in Table 5.2 on page 10 of Water PR24 References Provisional Determinations Volume 2: Enhancement costs (CMA, 9 October 2025).

We want the sector to be ready to support **economic growth** and to meet the need for water and wastewater services. This means making sure companies can deliver sufficient treatment and network capacity to connect new housing and businesses. We are therefore including growth within the cost change process. The growth enhancement proposals must support additional population, household and business demand growth. And they must relate to investment in growth at sewage treatment works; network reinforcement; or demand and supply-side water resources options (e.g. smart metering and increases to treatment works capacities). Furthermore, after taking into account feedback from stakeholders, we have included bioresources investments resulting from additional growth within scope. We also 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.

We are retaining the triviality threshold for eligible PFAS and Cyber costs. Our view of costs in each of these two cost areas has to meet this threshold for us to consider any adjustment through the cost change process. We acknowledge the DWI, South Staffs and Thames Waters' concerns that setting any threshold could prove to be a barrier for investment. However, the threshold does not apply to individual schemes (companies can combine multiple schemes within a category to form a cost change claim) and no company with deferred PFAS schemes told us that that it expects to not be able to meet the triviality threshold. We therefore maintain our final determination position on the grounds that this encourages companies to manage small scale risks in-period. However, if we become aware of new evidence that the triviality threshold is not appropriate, we will consider whether we need to review our approach.

While we recognise that the nature and scope of schemes included in the large schemes gated process may change as planning and preparatory work proceeds, we have not changed the definitions of the relevant Eligible Items we proposed. The definition of each scheme explicitly says that it is "subject to any changes agreed by Ofwat" and we consider that this provision is sufficient to allow us to agree any necessary changes when there is more certainty.

If the CMA adds schemes to the large schemes gated process in its final determinations, we intend to consult on a licence modification for the relevant companies so that, if appropriate, changes to price controls could be made during the 2025-30 period in relation to those schemes.

[7] Supporting-economic-growth-reg-directors-letter-22Aug25_Redacted.pdf

2.2 Annual timeline

2.2.1 What we said in our consultation

After considering the early feedback we received from companies, we proposed a timeline with a submission window between 1 March and 1 May in each relevant year.

Table 1: Annual timeline for cost change process

Companies submit formal cost change process applications	Between 1 March to 1 May. No applications will be accepted after the 1 May.
Ofwat assesses application and decides: • **whether company has met the applicable thresholds to trigger the cost change process; and** • **if it requires an in-period adjustment to price controls.**	No later than 15 August[8]
Ofwat consults on draft decisions	Late summer
Ofwat publishes final decisions	By 15 December[9]
In-period revenue adjustments implemented	From April in the following year

This timeline would allow companies to:

- submit claims in early March if they have certainty and want more time to engage with us before we make a decision on whether to trigger the cost change process;
- submit claims up until 1 May if they need longer to firm up their proposals; and
- align their cost change submissions with their delivery plans where relevant, which are also due to be submitted on 1 May.

2.2.2 Stakeholder representations on the annual timeline

Three companies welcomed the changes to the proposed timeline, reflecting early industry feedback, in particular the introduction of the submission window.

Affinity Water, Northumbrian Water, South Staffs Water and Yorkshire Water said that the time for assessment and consultation is too long, but Wessex Water broadly supported the timeline and noted the importance of a consultation period. Southern Water requested that the submission window was extended through to July. Portsmouth Water proposed removing the timetable in favour of a more flexible, risk-based approach, and Thames Water argued that this rigid approach would significantly impact timely delivery of the major projects that

[8] 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.
[9] 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.

are currently in a critical development stage and that faster decision making is required. The Drinking Water Inspectorate raised concerns in meetings after the submission of its response that the process would take too long.

South West Water, Hafren Dyfrdwy, Severn Trent Water and Dŵr Cymru asked that we published final determination in November (not December), alongside the ODI determinations. This would allow more time for charges setting, which must be completed by January.

CCW raised concerns that the process could be overly technical and therefore exclude customer voices. It maintains that the process should include consulting stakeholders on proposed changes to company allowances to demonstrate how the cost changes will contribute to the delivery of customer supported outcomes.

2.2.3 Our final decision

We have not made any further amendments to the timeline. It is important that we have a process that allows enough time for us to properly assess claims and to allow for queries and discussion with companies and other stakeholders throughout the process. We are also conscious that multiple companies may be accessing the process for multiple cost items each year and that making comparisons may form part of our assessment in some areas. We encourage companies to submit claims as early as possible within the submission window to allow maximum time for engagement. For major projects, we encourage companies to engage with their RAPID engagement lead as soon as they identify they might have additional development costs and to discuss the implications for their project timelines.

We have previously consulted on the ODI determinations timeline. The issues raised are not new and we have previously set out that we think the timetable will allow companies to set charges in good time. Given these two processes both consider in-period adjustments to price controls, it is important that our approach is coordinated across the two workstreams, and aligning final decision dates is part of this. The formal deadline for our final decisions for both the cost change and in-period ODI determination processes will be 15 December, but we will aim to publish our decisions during the first week of December.

2.3 Initial submissions

2.3.1 What we said in our consultation

For each cost claim we expected companies to provide, as a minimum:

- assured cost data in the relevant data table;

- an assured proposed price control deliverable (**PCD**) for PFAS, cyber security, asset health and large gated scheme applications; and
- a narrative commentary explaining the above and setting out whether the company is requesting an in-period adjustment to price controls.

We set out more detail in the draft guidance note we published with our consultation. For cyber security, PFAS, Havant Thicket and large gated schemes we expected companies to submit claims for additional costs regardless of whether they were asking for in-period or end-of-period adjustments. For major projects development costs, we only expected companies to access the cost change process if they required an in-period adjustment.

2.3.2 Stakeholder representations on initial submissions

South West Water and United Utilities requested clarification on the level of assurance needed for a cost change submission. CCW suggested there should be clear assurance standards including independent audit of proposed cost changes, a 'value for money' test in decision making and a clawback mechanism if actual costs later prove lower than forecast.

The Drinking Water Inspectorate set out how and when it expected companies to engage with itself about cyber, PFAS and asset health schemes related to drinking water quality.

South West Water, Dŵr Cymru and Affinity Water welcomed the possibility of accelerated funding as another potential funding route for asset health expenditure. Anglian Water asked for clarity on other mechanisms, including whether there will be an accelerated funding route for asset health. Water UK suggest we should avoid introducing a bespoke process and use the cost change mechanism as the route for accelerated funding.

CCW is concerned about bill volatility and affordability pressures at a time when households are already struggling.

2.3.3 Our final decision

For clarity we will expect all claims to include:

- assured cost data in the relevant data table;
- an assured proposed price control deliverable (**PCD**) for PFAS, cyber security, asset health and large gated scheme applications; and
- a narrative commentary explaining the above and setting out whether the company is requesting an in-period adjustment to price controls and the estimated bill impact of the proposals.

We set out further detail in the guidance note.

We think it is important that companies have considered the bill impacts of their proposals and how these might be received by their customers. This is particularly important given our proposals to expand the scope of the cost change process further. We are therefore requesting that companies provide us with the overall bill impact of their claims, as well as setting out the proposed bill impacts in the context of their latest customer bill testing.

To ensure increases in bills are no higher than they need to be, it is important that companies provide high-quality, assured evidence. Claims should not include costs that would have been avoided by prudent management action. For cyber security, PFAS, asset health and growth, assurance should be carried out in line with the requirements for enhancement and cost adjustment claims in the PR24 business plans. For large gated schemes, assurance should be undertaken in line with the requirements set out in PR24 final determinations: Expenditure allowances – assurance requirements for delivery of enhancement schemes appendix. For major projects, we expect the assurance to have been completed as part of prior engagement under the RAPID gated or competitive delivery processes. For Havant Thicket, we expect independent assurance to have been completed as part of the cost adjustment mechanism. We would not normally expect further external assurance for changes resulting from the query process after initial submission.

For cyber security, PFAS, Havant Thicket, asset health and large gated schemes we maintain our position that companies should submit claims for additional costs regardless of whether they are asking for in-period or end-of-period adjustments. This position will also apply to growth. If companies do not submit claims under the cost change process, we would not normally expect them to be able to recover them at the next price review, although we note that any additional costs incurred will be subject to the usual cost sharing rates.

For major projects development costs, we also only expect companies to access the cost change process if they require an in-period adjustment. They should have agreed this with Ofwat in advance of submitting a claim. This is because we already have an existing established process for logging up major projects' expenditure at the end of the price control period.

2.4 Our cost change process decisions

2.4.1 What we said in our consultation

We would publish our final decisions by the 15 December each year. This would set out our view of:

- the allowed costs for each eligible cost area;
- the calculated triviality and materiality for each cost area (if appropriate);
- 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.

We said we would commit to making additions to RCV at the next price review and that we would make these as a midnight adjustment.

Any in-period revenue adjustments would reflect:

- any necessary pay as you go expenditure;
- allowed return on any committed additions to RCV, based on the allowed return in your determination; and
- run-off on any committed additions to RCV over the average useful life of the relevant asset.

Any cost allowances we agreed as part of the cost change process would be added to our final determination cost allowances for the purpose of calculating cost sharing and the reporting of total expenditure out/underperformance during the period.

2.4.2 Stakeholder representations on our decisions

Seven companies and Water UK said we should consider making in-period adjustments to the RCV for cost change allowances. They said that it would:

- allow accurate annual reporting of gearing levels;
- assist efficient financing;
- be consistent with the 2021 DPC interim determination process for Anglian Water; and
- improve companies' financial position with no customer cost (consistent with the reasoning for midnight adjustments).

Dŵr Cymru, Anglian Water and Northumbrian Water instead asked for formal recognition of shadow RCV to support rating agents assessments.

When calculating in-period revenue allowances, Severn Trent Water and Hafren Dyfrdwy said we should use the CMA allowed return for all companies. Severn Trent Water, Hafren Dyfrdwy and South West Water also said we should update the allowed return to reflect the fact that all additional debt will be new debt.

2.4.3 Our final decision

For each cost area, our assessment will be based on the relevant element of our approach for our PR24 final determinations. For example for enhancement costs we will consider the need for the investment, the best option for customers, cost efficiency and customer protection.

We will not take account of any costs to the extent that they would have been avoided by prudent management action.

On RCV, we are maintaining our consultation position. 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. This is because:

- we have seen that rating agencies will take account of such a commitment; and
- the cost change process is only one factor that could change overall RCV over the 2025-30 period, and as some factors are not certain until the end of the period, we do not think it is appropriate to update only one factor.

This is consistent with the process adopted for the 2023 cost adjustment mechanism decision for Havant Thicket;[10] and how we dealt with logging up of accepted cost claims under past regulatory approaches.

We recognise that this approach will impact on reported regulatory gearing. 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 would also expect to take account of committed RCV adjustments when we assess financial resilience as part of our Monitoring Financial Resilience classifications. We will apply reconciliation adjustments to the RCV on 31 March 2030 as part of our PR29 midnight adjustments.

When calculating the revenue adjustments, we are proposing to maintain our consultation position which is to use the allowed return applied in each companies' determination. For most companies this will be the allowed return Ofwat set in its final determination. For companies that appealed to the CMA it will be the allowed return set by the CMA in their final decisions. This is because:

- this is the allowed return that would have applied had the costs been included in our final determination, or as part of the CMA's redetermination; and
- we apply a sector approach to our estimation of the proportions of new and embedded debt in our calculation of the allowed cost of debt. Applying a different WACC assuming all new debt for additional expenditure would lead to bespoke allowed returns for each company and is unlikely to reflect each company's actual refinancing and investment needs; and this is consistent with the approach we took for the Green Economic recovery in the 2020-25 period and for transitional expenditure and previous in-period determinations.

[10] See Appendix 1 to Havant Thicket – Cost Adjustment: Final Decision (Ofwat, January 2023).

2.5 Appeal routes

2.5.1 What we said in our consultation

Once we have triggered the cost change process in a year, a company will have the right to ask the CMA to redetermine our decision on what, if any, changes should be made to the level of price controls in-period. This would be on the same basis as for other interim determinations under the current regulatory approach.

The draft guidance note we published with our consultation also explained that if a company disagreed with the size of the end-of-period adjustments that we agreed to make at the next price review, it would be able to raise the issue as part of an appeal in relation to our final determination for the next price control period.

2.5.2 Stakeholder representations on appeal routes

Wessex Water asked that the appeals process covered all decisions relating to application, both before and after the cost change process has been formally triggered. This would include the ability to appeal Ofwat's application of the triviality threshold for PFAS and cyber security. Thames Water wanted the ability to appeal end-of-period adjustments before the next price review. This is because it considers that if a company wanted to appeal the decision it would have to take the risk on delivering investment based on being successful in a future appeals process or decide not to deliver the investment.

2.5.3 Our final decision

We maintain our consultation position. We still think the appeal process we proposed that allows companies to request a CMA redetermination each year if they disagree with the in-period adjustments is reasonable and proportionate. We recognise that such decisions could involve higher amounts, and less straightforward decisions than in-period ODI determinations (for which there is no appeal process, even though they can also change price controls in-period). We note that the Independent Water Commission has recommended that the nature of the CMA dispute process in relation to price controls should change from redeterminations to a standard appeal procedure, in line with other sectors[11]. But we do not think it is appropriate to change the nature of the appeal process at this time, in advance of any broader changes to CMA references that may be introduced for the sector.

We do not consider that it would be proportionate to introduce a formal appeal route for PFAS and cyber security claims that do not meet the triviality threshold, as by definition these are unlikely to involve significant costs. If a claim is rejected, a company may be able to resubmit

[11] See Recommendation 24 in the Independent Water Commission Final Report

the following year if there is new information or additional expenditure requirements have materialised.

Companies could raise the size of end-of-period adjustments (or the lack of any adjustments where the triviality threshold for PFAS and cyber security is not met) in any appeal following the next price review. This is already the case for other end-of-period adjustments and reconciliation mechanisms. We do not think that it is reasonable or proportionate to introduce an additional in-period appeal process for these decisions.

2.6 Submission years

2.6.1 What we said in our consultation

We set out that for PFAS, cyber security and large gated schemes costs, the cost change process would be available for submissions in 2026, 2027 and 2028. Submissions made in 2026 or 2027 would be eligible for in-period adjustments (if they meet the relevant criteria). Submissions made in 2028 would only be eligible for end-of-period adjustments at the next price review.

The cost change process would be available for asset health in 2026 and 2027 but not 2028. We did not consider it was feasible for companies to deliver large capital maintenance investments in one year.

For major projects, we proposed the cost change process would be available for submissions in 2026, 2027 and 2028. We said we would also consider whether adjustments agreed in 2028 needed to be fully or partly reflected in changes to the level of 2029-30 price controls or could be reflected in the price controls for the next period.

For Havant Thicket reservoir, we proposed the process will be available in 2026, 2027 or 2028. We expected the cost change submission to be made in 2026 or 2027 but if the submission is delayed until 2028, we would also consider whether adjustments agreed in 2028 needed to be fully or partly reflected in changes to the level of 2029-30 price controls or could be reflected in price controls for the next period.

In August 2025 we also said that companies could submit claims for growth expenditure through the cost change process. We said they could submit claims in 2027 only and that these claims would only be eligible for end-of-period adjustments at the next price review.

2.6.2 Stakeholder representations on submission years

Affinity Water, Wessex Water and Northumbrian Water supported the proposed submission dates. But Portsmouth Water, United Utilities and Yorkshire Water said that there should be no restrictions on which years specific claims could be made.

Nine companies requested access to the cost change process for asset health in 2028, considering that the position in the consultation is unduly restrictive and limits the ability for asset health issues to be addressed in a timely way.

Six companies and Water UK requested additional submission opportunities for growth claims - in 2026 and 2028 as well as 2027. They argued that the need for new capacity can happen at any time and limiting the process to a single window risks delaying investment. Anglian Water also requested flexibility to seek accelerated AMP9 investment for growth in 2028.

Wessex Water disagreed that submissions made in 2028 should only be eligible for end-of-period adjustments at the next price review. It considers that revenue adjustments in 2029-30 would minimise the scope of changes required through any end-of-period reconciliation. Southern Water also argued that if its Havant Thicket reservoir submission was delayed until 2028 then the adjustment should still be fully reflected in changes to the 2029-30 price controls.

Two companies proposed expanding the cost change process into 2029. Anglian Water suggested this for major projects, to mitigate against cost risks emerging at different times on these schemes. And South Staffs Water suggested that the window for claims should be extended given the uncertainty facing the sector on the timing and scope of the PR29 price review.

United Utilities and Severn Trent Water proposed expanding the cost change process beyond AMP 8, making it a permanent process. They argued that this would increase the flexibility of the regulatory framework and could help manage the transition between the existing price review process and the approach following the Independent Water Commission report.

2.6.3 Our final decision

We have reflected on the feedback provided in response to the consultation. Given the continued uncertainty relating to these critical cost areas we agree that providing more flexibility would be beneficial. It would also make the process simpler to understand. We have therefore updated the process, so that companies can submit claims in any cost area in any of three submission windows:

- March – May 2026;

- March – May 2027; and
- March – May 2028.

Because decisions made in 2028 will be close to the determination of price controls for the period from 1 April 2030 at the next price review, we consider that a company would need to make a strong case that it needed additional revenue in-period that close to a price review, clearly demonstrating how it has considered and mitigated potential impacts on customer bill volatility.

We expect companies to only submit claims in each cost area once in the period as this will give them the best chance of meeting the triviality threshold (for PFAS and cyber security) and the materiality threshold, but we recognise that multiple claims may be justified in some circumstances. For example, for cyber security multiple claims could be justified 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.

Table 2: Cost change process dates

Submission date	March-May 2026	March – May 2027	March – May 2028
Decision published	• December 2026	• December 2027	• December 2028
In-period revenue adjustments made to these charging years (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 not accept cost change submissions in 2029. The process would significantly overlap with PR29 process, and revenue adjustments could not in any case be made before the first year of the next price control period. For major projects development costs, any cost changes required in the last year of the AMP8 period will be managed through the major projects end-of-period reconciliation only, and therefore continues to capture the progress of individual projects.

We are also not committing now to extend the cost change process beyond AMP8. We think that any such changes in relation to the period from 1 April 2030 should be considered as part of the development of the methodology for the next price review, especially given the reforms that the UK and Welsh governments have announced for the water sector.

2.7 Eligibility for in-period adjustments

2.7.1 What we said in our consultation

If a company requests an in-period adjustment, it should provide evidence to demonstrate that it is necessary. If one or more eligible claims is above the materiality threshold we will consider the evidence provided and assess whether we need to make any adjustments in-period and, if so, what changes to the level of price controls we should make.

We proposed that the materiality threshold would be a net present value of at least 2% of the turnover of the regulated business. We would apply the threshold to each eligible cost area individually.

When making our assessment of whether an in-period adjustment is necessary, we would consider:

- the financial position of the notional company;
- any in-period and end-of-period changes that we have agreed as part of the cost change process in previous years;
- the likelihood of investment to deliver solutions without in-period adjustments; and
- progress against delivery of existing programmes and/or against totex allowances.

The materiality threshold only determines whether a claim is eligible for an in-period adjustment. A company can still access the cost change process if none of its claims reach the materiality threshold – we would make any required adjustments at the end of the period.

In August 2025 we said that we didn't expect to allow in-period adjustment for growth as part of the cost change process.

2.7.2 Stakeholder representations on eligibility of in-period adjustments

Respondents broadly supported the ability for companies to receive revenue for critical cost areas ahead of the next price review.

Five companies and Water UK suggested that growth expenditure should also be eligible for in-period revenue adjustments. They argued that this would be consistent with the other eligible costs that form part of the cost change process and that this approach would minimise the risks of delaying investment, especially where growth schemes are significant.

Materiality Threshold

Hafren Dyfrdwy, Portsmouth Water and Thames Water supported the proposed materiality threshold, although Thames Water did not agree there should be a threshold for cyber security expenditure because it considered that significant and material cyber security events could occur that do not meet the materiality threshold. South West Water said that schemes within a cost category should be aggregated before being assessed against the materiality threshold. And United Utilities, Wessex Water, Yorkshire Water and Water UK suggested that we should assess materiality at an aggregate level, rather than at an individual level for each claim area. Water UK also suggested we could use a risk-based materiality threshold.

Wessex Water, Anglian Water, Northumbrian Water and Yorkshire Water suggested that the 2% threshold should be based on relevant service turnover (water or wastewater) rather than appointed business turnover to be consistent with the triviality threshold and to ensure water only companies are treated the same as water and sewerage companies. South Staffs Water suggested there should be no materiality threshold at all, and the Drinking Water Inspectorate said there should be no materiality threshold for cyber security costs.

Grounds for in-period adjustments

Portsmouth Water and Severn Trent Water argued that in-period funding should be the default position if claims meet the materiality threshold.

United Utilities asked for clarification on how financeability would be assessed. And South West Water and Thames Water said we should consider the position of the actual, not the notional company when we assess whether an in-period adjustment is appropriate.

A number of companies said that progress against existing allowances or delivery targets should not be taken into account when determining whether in-period allowances are appropriate. Wessex Water suggested that this approach may reduce incentives to deliver efficiencies if any efficient underspend meant we would be less likely to agree in-period adjustments. Anglian Water, Hafren Dyfrdwy, Portsmouth Water, Severn Trent and United Utilities raised this in relation to growth expenditure, saying that there is limited headroom and less risk of unused allowances in AMP8 as a result of the PCD framework. Anglian Water highlighted this in relation to asset health expenditure, concerned that there needs to be an appropriate balance between delivery of AMP8 commitments and delivery of additional investment.

2.7.3 Our final decision

The default position for any claim will be an end-of-period adjustment, and companies will have to make the case if they consider they need an in-period adjustment. We are maintaining our position that in-period adjustments to price controls will only be considered where companies specifically request an in-period adjustment when submitting claims for the eligible cost areas. We consider this is the best approach to minimise unnecessary bill volatility for customers.

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 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 for in-period adjustments from the 2027 submission window. This timing will allow us enough time to assess if companies are on track to deliver AMP8 commitments before confirming any additional in-period revenue.

Materiality

We are maintaining our position that a claim in relation to a cost area needs to meet the materiality threshold (a net present value of at least 2% of the turnover of the regulated business) to be eligible for an in-period adjustment.

The materiality threshold is significantly lower than that for a standard interim determination. In addition, the materiality threshold only applies in relation to in-period adjustments and eligible claims that do not meet the materiality threshold will still be eligible for end-of-period adjustments at the next price review. Applying the threshold at an appointed business level recognises the relative impact of an individual item at a company level for both water only and water and sewerage companies. It is also consistent with the approach we take when determining the materiality threshold for a standard interim determination.

We plan to assess materiality for each eligible cost area separately.[12] So, for example, we would assess a PFAS claim made up of a number of PFAS schemes (as long as they all meet the definition and triggers set out in Condition B) against the materiality threshold. We do not consider it appropriate for companies to combine claims for different eligible cost areas to meet the materiality threshold. We consider that a materiality threshold for each eligible cost area is appropriate for considering in-period changes to price limits (and therefore customer bills) because companies should have sufficient financial flexibility in their structures to accommodate some additional costs in-period, with a reconciliation at the next price review.

Grounds for in-period adjustments

If a company requests an in-period adjustment, and we consider that costs meet the materiality threshold, we will then consider whether an in-period revenue adjustment is appropriate or necessary. We think it is appropriate to consider each case on its merits because we need to balance the objectives of securing that companies can finance their

[12] Each Eligible Item will be a separate cost area, so each named large scheme in the gated process is a cost area, and the major projects portfolio combined is a cost area.

functions and raise the necessary finance efficiently and protecting the interests of customers, particularly by avoiding unnecessary bill volatility. We assess financeability based on the notional company to ensure customers aren't penalised for inefficient decisions made by companies.

Companies should have sufficient financial flexibility in their structures to accommodate some additional costs in-period. We will therefore only provide in-period funding where companies can evidence this is required to support financeability and they are generally on track with delivery more broadly. We do not think it is appropriate to require customers to provide companies with additional revenue if they are materially behind in delivering the investment that customers are already funding.

2.8 Designation of notified items

2.8.1 What we said in our consultation

We designated four of the cost areas as notified items at final determinations. This provided protection for companies by allowing for in-period changes to price controls as part of a standard interim determination. We did not designate major projects development costs as a notified item because we included upfront contingency funding for these projects in our final determinations in addition to development allowances and an end-of-period reconciliation at PR29. We did not identify asset health as a notified item as we had not completed our work to identify the key asset groups.

The licence modification we proposed excluded items covered by the cost change process (including the notified items for cyber security, PFAS, schemes in the large scheme gated process and Havant Thicket) from the scope of standard interim determinations.

2.8.2 Stakeholder representations on the designation of notified items

Four companies wanted to maintain the notified items alongside the cost change process.

Ten companies and Water UK requested that we also included costs associated with sludge spreading in the cost change process. Our final determinations included a notified item for increases in costs reasonably attributable to any new or changed legal requirements, or statutory guidance or directions to environmental regulators, in relation to the application of fertiliser derived from sludge to agricultural land. Respondents highlighted that the impact of changes to legislation and guidance on individual companies is uncertain and is dependent on company specific factors such as storage capacity, farmer acceptance, and soil quality. Companies think it is possible that the changes may not meet the standard interim determination materiality threshold of 10% of appointed business turnover.

Thames Water requested changes to the materiality threshold for a standard interim determination (to 2% or 10% of bioresources turnover), if bioresources was not included as part of the cost change process. Welsh Water suggested there was a need to review the standard interim determination provision, considering that it does not reflect the totex framework.

2.8.3 Our final decision

We have decided that it is appropriate for the licence modification we are making to exclude items covered by the cost change process (including the notified items for cyber security, PFAS, schemes in the large scheme gated process and Havant Thicket reservoir) from the scope of standard interim determinations. This is consistent with our proposal. Now that we have made licence modifications to allow for cost change process interim determinations, the relevant notified items are no longer needed to allow for in-period changes to price controls in relation to the relevant costs. The cost change process makes it easier for companies to access additional funding in-period in relation to these cost areas, if necessary. We also want to avoid overlaps between the cost change process and standard interim determinations.

We do not think that it is appropriate or necessary to re-open our December 2024 final determination decisions about a notified item in relation to sludge spreading (bioresources). This was not included in our consultation. We originally proposed a notified item so that companies would have the same level of protection whether any changes in legal requirements in relation to sludge spreading on land apply directly or indirectly to them. Changes in legal requirements that apply directly to a water company in its capacity as a sewerage undertaker would qualify for a standard interim determination because they would be a relevant change of circumstance (RCC), as defined in Condition B. After considering responses to our draft determination consultation, the final notified item wording also included the impact of relevant new or changed statutory guidance or directions to the Environment Agency or Natural Resources Wales. This was because we recognised that Ministerial guidance or directions could impact on the operation of the legal regime and that Defra was undertaking a review of existing statutory guidance to the Environment Agency. However, it was not among the cost areas we said would be included in what is now called the cost change process and, unlike the cost areas that are included, no end-of-period reconciliation was included as part of the final determination package.

The Defra statutory guidance[13] was updated recently, although it remains too early for the sector to assess the effects on sludge management operations. So far, companies have not provided additional evidence of a notable change in circumstances or increased costs compared to those that were known when we set price controls for the 2025-30 period in December 2024.

[13] Enforcing the Farming Rules for Water - GOV.UK, DEFRA, June 2025 (updated)

The standard interim determination mechanism was also not the subject of this consultation, and, especially given that we considered it as part of the development of our PR24 methodology,[14] we do not consider that it is appropriate to make changes for the 2025-30 period. Companies and other stakeholders will have the opportunity to make representations about the interim determination framework for the next price control period during the development of the methodology for the 2029 price review (PR29).

2.9 Approach for disputing companies

2.9.1 What we said in our consultation

Six companies asked for our PR24 final determinations to be referred to the Competition and Markets Authority (CMA) for redetermination. We said we would consider whether it is appropriate for us to make the cost change licence modifications for the companies that are in the process of a CMA redetermination. This position recognised that the CMA may make different decisions about these cost areas and uncertainty mechanisms which might require different licence modifications for which we would need a new consultation. We also said that we could consider the timeline and scope of the references when deciding when to make licence modifications for the disputing companies

2.9.2 Stakeholder feedback on the approach for disputing companies

Three disputing companies, Thames Water, Anglian Water and Wessex Water, requested that the cost change process is in place for disputing companies for 2026 submissions. Thames Water also noted that if it was not in place it would make it challenging to meet the gated process deadlines for the relevant large schemes.

The CMA provisional determinations were published in October 2025. These proposed to add four further schemes into the large schemes gated process.

2.9.3 Our final decision

Having considered the CMA's provisional determinations, we think it is appropriate to make the licence changes for disputing companies at the same time as for other companies. The CMA has not made significantly different decisions about uncertainty mechanisms, and has recognised the cost change process exists and can provide a route for funding in relation to eligible cost areas.

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[14] See, for example, section 3 (Uncertainty mechanisms) of [PR24 Final Methodology – Appendix 10 Aligning risk and return - Ofwat] (December 2022).

The additional schemes the CMA proposes should be part of the large schemes gated process (and therefore eligible for the cost change process) are not covered by the licence modifications we have made. If, in its final determinations, the CMA concludes that schemes should be added to the large schemes gated process, then we will consult on further licence modifications for the company or companies concerned to add relevant Eligible Items.

3. Our decision on licence modifications, the reasons for our decision and the effect of the modifications

After considering the responses we received, we decided to make the licence modifications we proposed in our consultation on the PR24 cost change process and proposed licence modifications with some limited wording changes, as explained below. The licence modifications will take effect on 1 February 2026.

In this section we explain the changes that are being made to licences, their effect and the reasons why we decided to make them. We have separately published the text of the licence modifications we have made for each company.

3.1 Interim determinations relating to the PR24 cost change process

We have made licence modifications to include a new cost change process interim determination mechanism in Condition B. This is in addition to the existing standard, and substantial effect, interim determination mechanisms and, for some companies, a Direct Procurement for Customers (**DPC**) interim determination mechanism.

The new mechanism allows Ofwat to **initiate an interim determination** in 2026, 2027 or 2028 (by sending a notice to a company no later than 15 August) in relation to one or more specified "Eligible Items". The **Eligible Items** that could be specified in a notice for each individual company are defined in an appendix to Condition B of that company's licence inserted as part of the modifications we have made. In summary, these are:

- increases in costs in relation to **cyber security** that are reasonably attributable to new or changed legal requirements or official changes in the level of threat that water companies need to take into account (all 16 companies);
- increases in costs reasonably attributable to new requirements to carry out works to ensure the safety of drinking water with respect to per- and poly fluoroalkyl substances (**PFAS**) (all 16 companies);
- increases in costs, beyond those already allowed for, in relation to identified sector-wide asset condition issues that need to, and can be, substantially addressed before the next price control period (**asset health**)[15]. This applies to water 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 only (all 16 companies);

[15] Substantial progress means a company has started work and has spent at least 70% of the allowed expenditure for the delayed output, as set out in our PCD consultation p2

- increases in costs, beyond those already allowed for, that are reasonably attributable to each scheme included in our **large scheme gated process**[16] (six companies[17]);
- increases in **major project development costs**, beyond those already allowed for, that we agree should be considered as part of this Eligible Item (all 16 companies); and
- any changes in the charges payable by Southern Water to Portsmouth Water as a result of decisions on the second **Havant Thicket** cost adjustment mechanism (CAM2) to allow for the alignment works needed to integrate the Havant Thicket reservoir with Southern Water's Hampshire Water Transfer and Water Recycling Project, in addition to unexpected ground issues uncovered during excavation (Southern Water Services Limited).

Interim determinations can change the level of price controls between price reviews. No changes to price controls in relation to an Eligible Item will be possible unless the net present value of the financial impact (calculated in the same way as materiality for a standard interim determination) is at least equal to two percent of the most recent reported turnover of a company's regulated business. If this **materiality threshold** is met in relation to one or more of the Eligible Items specified in the notice initiating the interim determination then we will need to decide what, if any, change to the level of price controls for the remainder of the 2025-30 period we should make as a consequence.[18] Our decision will be made after having had **regard to all the relevant circumstances and in accordance with the duties** set out in section 2 of the Water Industry Act 1991. We also set out relevant factors we will consider in our [cost change process guidance note].

The definition of "Interim Determination" in Condition B is amended to include determinations under the new cost change interim determination process. This will have the effect of giving companies 2 months from the date on which Ofwat gives notice of such a determination to require it to be **referred to the CMA for redetermination**, in the same way as for other interim determinations.

Items covered by the cost change interim determination process (including most of the items that we designated as Notified Items as part of our PR24 final determinations[19]) will be **excluded from the scope of items that can be considered under the existing standard interim determination process**. This avoids the possibility of any overlap between these two interim determination mechanisms.[20]

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[16] Guidance on our proposed approach to scrutiny for large schemes during the 2025-30 period was published on 1 August [PR24 large schemes approach consultation - Ofwat] (August 2025).
[17] The six companies are Anglian Water Services Limited, Northumbrian Water Limited, Severn Trent Water Limited, Southern Water Services Limited, Thames Water Utilities Limited and United Utilities Water Limited.
[18] Unlike a standard interim determination, changes to the level of price controls before the next price review will not be automatic if materiality is met.
[19] Notified Items relate to specific issues, the costs for which we have notified a company we have not allowed for, either in full or in part, when setting price controls in our final determinations.
[20] We have not made any specific modifications to deal with any overlap between the new cost change interim determination process and the specific DPC interim determination mechanism (for those companies that have it). However, no account would be taken of any costs, receipts or savings that are associated with a formally designated DPC Delivered Project when calculating materiality for the new cost change interim determination

We have made these licence modifications to make it easier for companies to access additional revenue in-period, if necessary, for critical areas of investment where the PR24 price control framework includes an end-of-period reconciliation for the full efficient costs. The areas of investment covered by the new mechanism are areas where costs were still uncertain when we set our PR24 final determinations but are critical to safety, long-term service delivery and/or resilience. Even though there will be a reconciliation at the end of the period, we recognise that there may be instances in the 2025-30 period where companies need to access additional revenue earlier (in-period). We also recognise that this may be the case even if the materiality threshold for a standard interim determination is not met in relation to those Eligible Items for which there are currently Notified Items (cyber security, PFAS, the large scheme gated process and Havant Thicket).[21]

We consider that a one-off process for the 2025-30 period is appropriate to deal with the specific PR24 context, including the historically large size of the enhancement programme and the extent of uncertainty in relation to these critical areas of investment.

A materiality threshold of two percent of turnover is similar to both the triviality test that is applied before individual items are taken into account in a standard interim determination and the DPC interim determination process that most companies already have in their licences.[22] It is also significantly lower than the threshold for a standard interim determination which will make it easier for companies to access revenue in-period for these critical cost areas. We therefore consider that the two percent threshold is an appropriate threshold to trigger consideration of whether any changes should be made to the level of price controls before the next price review for the eligible cost areas.

The deadline of 15 December for Ofwat to make a cost change process interim determination is consistent with the existing deadline for standard and DPC interim determinations, as well as with the new deadline we have introduced for in-period ODI determinations (see section 3.2 below). It strikes an appropriate balance between giving companies certainty that price control changes will be known in sufficient time to fix charges for the following charging year (beginning on 1 April) and ensuring that Ofwat has sufficient time to scrutinise evidence and make decisions. We will aim to make determinations earlier than 15 December where possible. We set out more detail in our cost change process guidance note.

process because that is the basis on which materiality for a standard interim determination is calculated for those companies whose licences include the DPC licence provisions.

[21] For standard interim determinations, the materiality threshold is reached if the net present value of the financial impact of all eligible items (after excluding trivial costs) is at least equal to ten percent of the most recent reported turnover of a company's regulated business.

[22] To be considered non-trivial for a standard interim determination, each individual item must be in net present value terms equal to at least two percent of relevant service turnover or (in the case of water and sewerage companies), if an item does not relate exclusively to either the water or wastewater service, two percent of combined water and wastewater turnover. Because of the nature of the circumstances (DPC Events) that the bespoke DPC interim determination process covers, the materiality threshold is the lesser of £10 million or two percent of regulated business turnover.

A 15 August deadline for Ofwat to initiate the cost change process interim determination process is consistent with the deadline in Part 3A of Condition B for a company to initiate the in-period ODI determination process. It will allow time for consideration of company submissions, as well as appropriate engagement and consultation. In practice, we plan to send the necessary notices to companies in July. We set out more detail in our cost change process guidance note.

The wording of the licence modifications we have made differs from the wording set out in our consultation on the PR24 cost change process and proposed licence modifications in two respects:

- (For all 16 companies) Additional wording has been added to the PFAS Eligible Item to make clear that new requirements introduced by the **variation** on or after 20 December 2024 of an existing notice under the regulation 28(4) of the relevant Water Supply (Water Quality) Regulations will fall within the scope of the PFAS Eligible Item, in the same way as requirements in **a new notice** given on or after 20 December 2024. The relevant part of PFAS Eligible Item says (new text underlined):

  "(iii) the works are required by a new notice given on or after 20 December 2024 under regulation 28(4) of the Water Supply (Water Quality) Regulations [2016] ***OR*** [2018][23] <u>or a notice given under regulation 28(4) of those Regulations that has been varied on or after 20 December 2024</u>, or"

- (Northumbrian Water Limited only) The name for the proposed "Lowestoft reuse scheme" Eligible Item has been changed to “Lowestoft Advanced Water Recycling Scheme” to be consistent with the updated project name.

3.2 Changes to the deadline for in-period ODI determinations

Under Part 3A of Condition B we can adjust water companies' price controls to reflect financial outcome delivery incentives (**ODIs**) associated with certain service targets (known as performance commitments).[24] The licence modifications that we have made change the deadline by which Condition B says that such determinations must be made to no later than 15 December (instead of 15 November) in the year before any adjustment to a price control would take effect.

In our PR24 final determinations, [25] we maintained our proposal of 15 December as the latest possible date of publication, but with a view to publishing by 6 December, following

[23] The reference to the "2018" Regulations is included in the licence modification for Dŵr Cymru Cyfyngedig and Hafren Dyfrdwy Cyfyngedig and the reference to the "2016" Regulations is included in the licence modifications for all other companies.
[24] See In-period ODI determinations - Ofwat.
[25] See pages 58-59 of PR24 final determinations: Delivering outcomes for customers and the environment - Ofwat (December 2024).

consultation as part of our PR24 draft determinations[26]. A number of companies believed this date was manageable, and it will allow us more time to assess company submissions. While we understand companies' concerns with the later publication deadline of 15 December, it is vital that Ofwat has sufficient time to scrutinise company performance data, given the sums of money available at PR24. This is the reason why we have made licence modifications to implement the change in the deadline from 15 November to 15 December.

3.3 Changes to Condition A of South East Water's licence

With effect from 21 June 2024, the licences of South East Water Limited and five water and sewerage companies were amended to enable the companies to deliver projects under the DPC regime, introduced by Ofwat as part of the 2019 price review.[27] Among other changes, the 2024 modifications amended Condition B to introduce a specific DPC interim determination mechanism and made a consequential modification to the definition of a "Reference Notice" in Condition A.

The DPC amendments were generic but needed to be adapted for South East Water Limited to reflect the different paragraph numbering in its Condition B compared to the five water and sewerage companies. While the amendments to Condition B were adapted, the consequential modification to the definition of a "Reference Notice" in Condition A of South East Water Limited's licence was not adapted. The definition therefore did not cross-refer to the right paragraphs of Condition B.

The licence modifications we have now made for South East Water correct the error so that the definition of a "Reference Notice" in Condition A cross-refers (correctly) to a notice given to Ofwat under paragraphs 10, 13 or 14A of Condition B.

[26] See pages 35-36 of PR24 draft determinations: Delivering outcomes for customers and the environment - Ofwat (July 2024).
[27] See Direct Procurement for Customers – Ofwat's reasons for modifying the conditions of appointment of six water companies (April 2024).

4. Next steps

In line with our final decision, we are implementing the cost change process for the 2025-30 period. The licence modifications we have made for the 16 companies will take effect on 1 February 2026. This allows companies to submit claims from March 2026.

As set out earlier in this document we are also planning to consult on further licence modifications which would broaden the scope of the cost change process. Our current proposal is that these consultations will cover:

- Any additional schemes that need to be added to the large scheme gated process as a result of the CMA's final determinations. Depending on the timing of the CMA's final decisions it may be possible to consult and make these modifications in time for submissions in 2026.
- Expanding the scope of the priority assets covered in the asset health cost area. We will continue engaging with companies to finalise the expanded list of assets. We would require the collection of comparable data during 2026 for any additional assets and, subject to consultation, expect that licence modifications could be in place in time for submissions in 2027.
- Making growth expenditure eligible for in-period adjustments. We expect any licence changes could be in place for submissions in 2027.

For the avoidance of doubt, even without these further consultations, in 2026 companies can submit:

- end-of-period adjustment claims for growth; and
- in-period or end-of-period adjustment asset health claims for the current list of priority assets.

A1 Consultation Feedback

Feedback Area	Issue Raised	Raised by	Our position
Cyber	Company requested the cost change process to cover retrospective expenditure for costs incurred during AMP7.	South Staffs Water	The PR24 cost change process is specifically intended to deal with increases in costs in the period from 1 April 2025 in relation to specific cost areas. It cannot be used to re-open decisions in relation to previous price control periods.
Cyber	Companies requested confirmation that the requirements of CAF v4 are within scope of the cost change process.	United Utilities, Severn Trent Water, Hafren Dyfrdwy	The triggers for cyber costs to be eligible are a new or changed legal requirement, or an official change in threat level that water companies need to take into account.
Cyber	Companies wanted clarity on whether the future inclusion of wastewater under NIS-R CAF was in scope of the cost change process	Severn Trent Water, Hafren Dyfrdwy	The definition refers to new or changed legal requirements that apply to a water company in its capacity as a "relevant undertaker", which means a water undertaker or sewerage undertaker. Relevant new legal requirements that apply sewerage undertakers will therefore be within the scope of the cost change process.
PFAS	Companies requested clarity on whether changes to existing enforcement notices were in scope of the cost change process.	Severn Trent Water, Hafren Dyfrdwy, Wessex Water	We have updated the licence modification wording to make clear that changes to regulation 28 notices that are made on or after 20 December 2024 are within the scope of the cost change process.
PFAS	Companies wanted clarity on whether unfinished investigations could be used to trigger the cost change process, and whether DWI support would be required.	Severn Trent Water, Hafren Dyfrdwy	PFAS schemes need to be supported by the DWI to be eligible for the cost change process. The definition allows this support to be provided by an acknowledged action in relation to additional treatment works as well as more formal legal instruments. The DWI may provide this support before the investigation is complete if a risk has been identified part-way through, therefore potentially triggering the cost change process prior to an investigation being finished.
PFAS	Company proposed expanding the scope to support a site-specific notice or other legal instrument relating to PFAS.	Thames Water	The cost change process allows companies to submit PFAS claims based on site specific notices.
PFAS	Company proposed including the impact of non-regulatory and non-legislative requirements to manage the impact of PFAS in sludge changes that will	Thames Water	We are not updating the scope of the PFAS eligible cost to include requirements to manage the impact of PFAS within sludge. There is a notified item in relation to sludge spreading (bioresources)

	restrict spreading of sludge on land.		
Major Projects	Company requested clarity on multi-party cases, particularly whether each party needs to submit a claim.	Affinity Water	We have provided additional guidance in the relevant appendix in the change process guidance note outlining our expectations for how cost changes should be managed in multi-party projects, including the specific circumstances where mutual agreement is required.
Major Projects	Company requested clarity on whether a change in DPC project designation would be dealt with through the cost change process or the DPC interim determination process	South West Water	We confirm that we expect changes to the designation of DPC projects (and other DPC Events) to be dealt with through the DPC interim determination process rather than the cost change process.
Major Projects	Companies requested clarity on whether we will make an assessment of efficient costs under the cost change process.	Anglian Water, Thames Water, United Utilities	We are not proposing to undertake an assessment of efficient costs again if companies have engaged with us previously on this through the RAPID gated process and there has been agreement with the evidence provided. However, if there have been significant changes since this engagement, or companies have not engaged with us beforehand, we are likely to undertake a more detailed assessment of the proposed cost changes.
Major Projects	Company requested further clarification and guidance on the level of evidence required for in-period adjustments.	South West Water	Further guidance has been provided in the relevant appendix in the change process guidance note.
Major Projects	The company requested a bespoke mechanism for the development stage of major projects that allows recovery of costs for certain external factors (such as the consenting process and inflation of construction costs) at different stages of development.	Thames Water	We acknowledge that companies may not have fully accurate costs at the time of submission. We are happy for companies to submit cost ranges in their initial submissions.
Major Projects	Company requested clarity on the portfolio approach in terms of what standards must be met to demonstrate that the increase cannot reasonably be absorbed within the overall portfolio.	Yorkshire Water	Further information has been provided in the relevant appendix in the change process guidance note.
Havant Thicket Reservoir	Company requested an extended application window to July to align with APR submissions.	Southern Water, Portsmouth Water	Previously, Southern Water was required to wait for our CAM2 decision before submitting a cost change request. To allow for possible delays in Portsmouth Water's CAM2 submission, we will now permit Southern Water to submit its

			request alongside Portsmouth Water's submission.
Havant Thicket Reservoir	Company requested the ability to submit a claim for Havant Thicket in 2028, and still be eligible for an in-period adjustment.	Southern Water	The company can submit a cost change claim for Havant Thicket in 2028. As with all claims the company will need to make the case for an in-period adjustment.
Large Gated Schemes	Proposed that Ofwat recognise that cost risks on these large scheme will emerge at different points which may not align with the cost change application windows, and therefore allow companies to submit 'accumulated' claims retrospectively during the later years of the AMP.	Anglian Water	It is not the intention of the large gated schemes process and the cost change process to allow annual true-ups but to allow for uncertainty on scope/costs to be addressed before we set an enhancement allowance. Once the allowance is set, there are other mechanisms within our regulatory framework that deal with uncertainty, including cost sharing and real price effect true-ups for labour, materials, plant and equipment.
Large Gated Schemes	Company confirmed it will submit three claims for Windermere and requested that the costs are aggregated for the purpose of materiality.	United Utilities	We will assess the materiality of each year's claim. Each submission can trigger the cost change process. We will assess materiality based on the costs requested in that submission.
Large Gated Schemes	Company requested that the Lowestoft Reuse scheme name is updated to "Lowestoft Advanced Water Recycling Scheme" to match the current project name.	Northumbrian Water	We have amended this in the licence modification.
Large Gated Schemes	Company raised a concern that it would not be able to replace Lowestoft with a more efficient schemes if this was appropriate.	Northumbrian Water	The definition of each large gated scheme in the licence modifications says that it is "subject to any changes agreed by Ofwat". We expect companies to liaise with us if an alternative scheme is being proposed and, subject to the agreement of changes, any alternative scheme would be eligible for the cost change process.
Asset Health	Companies asked for clarification on Ofwat's assessment approach.	Anglian Water, Yorkshire Water, Northumbrian Water, South Staffs	These topics will be covered in our roadmap assessment guidance. We are aiming to publish this in December 2025, building on the work undertaken with the sector during recent months.
Asset Health	Companies asked for further clarity on the definition of "sector wide". They wanted clarity on whether cost change adjustments would only be granted if a sector wide issue is found, regardless of whether there is a convincing case at a company level.	Affinity Water, Yorkshire Water, Wessex Water	Sector-wide refers to asset health issues that are not isolated to a single company but are observed across multiple or all companies. Collecting sector-wide information helps to assess whether there is a systemic asset health issue, or whether there are specific issues for individual companies. It also helps to assess whether there is evidence of historic underinvestment by an individual company, which helps to reduce the risk of customers paying twice for investment.

			Where an issue does appear to be linked to an individual company, we encourage the company to put forward robust evidence of what is driving this issue, and why it is unique to the company. We will assess this evidence when determining whether an adjustment to allowances is needed.
Asset Health	Company requested further clarification on the requirements for a 2026 submission, suggesting it will be difficult to have the required evidence.	Yorkshire Water	Companies are not required to submit investment proposals in 2026. Where companies have concerns about meeting the evidential bar in 2026, there is the option to access the cost change process in subsequent years. Further guidance on our assessment framework will be published in December 2025.
Asset Health	Companies asked Ofwat to remove the requirement to complete work three months after the end of AMP8.	United Utilities, Yorkshire Water	We will align our approach with the outcomes of the PCD consultation.
Asset Health	Company asked for clarification on whether the asset health cost adjustment claims will operate on an opt-in basis (which is consistent with the PR24 final determinations).	South West Water	Our response will be covered in our roadmap assessment guidance. We are aiming to publish this in December 2025.
Asset Health	Company requested that we reviewed the network storage definition to ensure it is aligned with previous discussions.	Affinity Water	The definition of network storage is consistent with the definition used in the enhancing asset health workstream. For avoidance of doubt this definition is treated water storage assets, which includes: service reservoirs; contact tanks at water treatment works; water towers; and other network storage such as break pressure tanks.
Assurance	Companies requested further guidance on the assurance required including the appropriate assurance for any changes to submissions as a result of queries, and any subsequent monitoring of the cost changes.	United Utilities, South West Water	We have clarified the assurance requirements for each cost area within the cost change process guidance note. We would not expect further external assurance to be required for changes after initial submission resulting from the query process.
Cost Assessment	Company requested clarification on whether we will take outperformance into account in assessing allowed costs for new cost change obligations	Affinity Water	We provide detail or our approach to assessment in the cost change process guidance note.
Impact on performance commitments	Company suggested that Ofwat may need to consider the impact of successful cost adjustments on existing performance commitments.	Affinity Water	We will consider evidence provided by the company as part of their cost change submission.

Following IWC recommendations	Company proposed setting out the scope of the cost change mechanism in a subsidiary document (outside the licence) to make it more flexible.	Portsmouth Water	The cost change process and, in particular, the possibility of in-period changes to price controls is only being proposed for certain specific critical cost areas. Defining these cost areas in Condition B will provide greater certainty for companies and avoid the need for an unnecessary two stage process of making a licence modification and then subsequently defining the cost areas.
Following IWC recommendations	Companies suggested that the cost change process could reflect the IWC's recommendation to report expenditure based on base opex, base capex and enhancement capex.	Hafren Dyfrdwy, Severn Trent Water	It is unclear to what extent the government will accept the IWC recommendations. The cost change process is a PR24 tool and our proposals are based on the breakdown of costs we used at PR24. We also expect most cost change claims to be capital expenditure.
Data tables	Companies suggested extending the data tables to capture the full opex data set required to calculate materiality.	Dŵr Cymru, United Utilities, Yorkshire Water	We have extended the data tables to include 15 years of opex (and retained 5 years of capex).
Data tables	Company suggested including data on revenue in the data tables, and updating them to automatically calculate materiality.	United Utilities	We have added revenue to the data tables. We have updated the model to calculate materiality rather than adding this to the data tables.
Data tables	Company requested changes to the data proforma for Major Projects to include gate references, and clarification over model interactions.	Anglian Water	We have added gate references into the data table. We will be publishing further information on the interaction with the major projects model in the final reconciliation rulebook.
Data tables	Company proposed amendments to the data proforma for PFAS, suggesting amendments to include more data on water quality factors.	United Utilities	We have made suggested changes to the PFAS data table.
Technical assessment	Similar to PR24, schemes should be submitted to the Drinking Water Inspectorate for consideration of support, where they are within their regulatory remit.	DWI	We have set out how we expect companies to engage with the DWI in the guidance note. DWI will also publish guidance on their cost change process timeline.
Model	Companies asked us to simplify and streamline the model.	Dŵr Cymru, Anglian Water, United Utilities	We have restructured the model and simplified it where possible. We have included further guidance, including a flow chart.
Model	Company asked for a mapping export file linking data tables to model inputs.	United Utilities	We have published an inputs log detailing the source of each input, instead of a mapping file.
Model	Companies proposed a number of technical amendments to the model.	Anglian Water, United Utilities	The model has been updated. We have set out the changes in the model change log.
Model	Company wanted to understand how	United Utilities	Companies will need to make the case for additional revenue in-period. One

	financeability impacts of in-period revenue adjustments will be assessed, given companies are not required to submit an updated PR24 financial model.		way they can do this is by providing an updated financial 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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