



Alastair Cochran  
Interim Co-CEO and Chief Financial Officer

Andrew Chesworth  
Interim Senior Director, Sector Performance Directorate  
Ofwat

**By email**

18 October 2023

Dear Andy

**Draft determination of Thames Water's in-period outcome delivery incentives for 2022/23**

Thames Water welcomes the opportunity to respond to Ofwat's draft determination of our in-period outcome delivery incentives ("ODIs") for 2022/23 published on 26 September 2023.

We note that Ofwat has confirmed Thames Water's 2022/23 ODI performance as that reported in our Annual Performance Report published in July 2023. However, we disagree with Ofwat's draft determination in relation to retaining a marginal tax rate of 25% on ODI payments as it will have a material adverse impact on the customers we serve.

We have set out our detailed response in the document accompanying this letter. It sets out the reasons why we believe Ofwat's draft determination is not in the best interests of customers and the rationale for the application of either a zero marginal tax rate for the gross-up of Thames Water's ODI payments in AMP7 or the established precedent that any tax gross-up applied to the ODI payments is limited to the tax allowance funded by customers in AMP7.

In addition, our response clarifies how Thames Water's efficient management of its tax affairs over several AMPs delivers benefits to customers as the routine restriction of capital allowances claims by the company in order to utilise tax losses from other group companies has minimised tax allowances, thereby reducing customer bills.

We hope that this response is helpful in your consideration of the final in-period determination relating to our performance in 2022/23. We would welcome further discussion with Ofwat on this important topic ahead of the publication of the final in-period determination in mid-November.

Yours sincerely



Alastair Cochran  
Interim Co-CEO and Chief Financial Officer