

Accelerated Gate One Assessment – summary of process and criteria Version 2

September 2020

Introduction

At PR19 Ofwat announced a development fund for strategic water resource solutions linked to gates to ensure efficient delivery and to protect customers.

The industry is expected to collaborate effectively and efficiently to develop solutions that are ‘construction ready’ for the 2025-2030 period.

- Ofwat had concerns about consistency of assumptions and inputs and transparency of decision-making across the south-east regions' company plans. It raised it in its consultation responses to company draft water resource management plans.
- Ofwat intervened as it was not clear that companies had considered regional solutions to meet regional needs. These solutions may be better value for customers and the environment in the long term.
- The funding allowance provides companies with the ability and certainty to accelerate, investigate and develop projects, and engage with third parties to produce a suite of robust and deliverable solutions.
- The initial list of identified solutions is larger than may be needed by the 2030s. This has the benefit of building confidence in the solution portfolio.
- Keeping options open allows for flexible planning later in the process reducing the risk of selecting a preferred solution too early and with no contingency if issues arise in design and delivery.

The strategic solutions will pass through a gated process where decisions are made on delivery penalties and solution progression.

- The gated process will ensure that companies complete the activities expected for the additional funding.
- It allows a programme-level approach with a cross-comparison of solutions at regular intervals to identify the optimum portfolio for customers and the country.
- It protects customers against inefficient and unnecessary spend, or from funding solutions that are deemed sub-optimal for activities that would normally be covered by base allowances.
- The details of gate allowances, activities and delivery incentives are described in [PR19 final determinations: strategic regional water resources solutions appendix](#).
- The role of RAPID in the gated process is to provide advice and recommendations to Ofwat (and other constituent regulators) to enable them to make decisions.

Timelines for the gated process

The gated process is designed to achieve the aims of development funding (accelerated and robust evidence for strategic solutions) whilst aligning with Water Resource Management Plans (WRMP) and regional plan timetables.

Gate	Standard gate submission dates	Accelerated gate submission dates
Gate 1	5 July 2021	28 September 2020
Gate 2	October 2022 (aligned with draft WRMP24 consultation)	27 September 2021
Gate 3	Summer 2023 (aligned with final WRMP24)	June 2022
Gate 4	Summer 2024	April 2023
Gate 5 (if required)	Winter 2025	Autumn 2024

Gate deliverables are similar to those for submission into WRMPs (and business plans) and create evidence sufficient for planning permission application on a more structured and accelerated timetable.

New strategic solutions may enter the structured funding process (following governance process) up to gate three – most likely to be at gate two. These may be identified as part of the regional water resource plans or company level plans.

Assessment process for accelerated gate one

Accelerated gate one submission deadline is 28th September 2020

Information should be submitted via the dedicated and secure submission portal using the accelerated gate one submission template. The template has been developed with solution owners.

- The template captures the information and data expected for the accelerated gate one assessment.
- Companies will be expected to publish their submissions, redacting confidential information as appropriate.

Assessment criteria and incentives have been developed by RAPID in consultation with solution owners.

Their purpose is to:

- Ensure that solution owners have made progress expected by gate one and have used funds efficiently.
- Balance objectivity and discretion: progress and quality of work done is important – but so are clear plans to remedy any deficiencies by gate two.

At gate one, we recognise that solutions may be at different development points. **We need confidence that solution owners will achieve alignment by gate two.**

RAPID will refine the submission template and assessment process for the standard gate one submissions in light of lessons learned through this accelerated gate.

Purpose of assessment

Outcomes

1. Determine whether the solution continues to progress through the gated process and continues to be funded.
2. Where a solution doesn't progress, determine the size of the reconciliation adjustment.
3. Determine the size of delivery incentive, based on the completeness and quality of submission.

Applying delivery incentives

We expect submissions to meet deadline – any delay will be factored into the assessment of quality and progress

We assess quality and progress against FD expectations

Maximum penalty of 30% of company's TOTAL gate funding – not just the solution failing to meet expectations

At gate one, we may suspend the penalty subject to satisfactory remediation of deficiencies by gate two

Continuation of solutions

At gate one we don't expect to reject any solution unless shown not to be viable

We expect an evidence-based assessment of future viability as part of submission

We will make recommendations based on evidence provided and views from stakeholders

Outputs delivered as required and on time

Quality of outputs

Expenditure incurred vs allowance

Efficiency of expenditure incurred

Assessment of delivery progress

- Output assessment needs to consider work completed in relation to that expected (as set out in the FD) and any impact on timing
- Quality measurement will assess characteristics of the submission and consider the impact of any plan to remedy deficiencies

- Expenditure assessment considers incurred expenditure on the valid gate and activities and outputs (including costs against the allowance)
- Efficiency of expenditure incurred will need to take into account evidence of cost benchmarking presented by companies

- Spending up to agreed maximum allowance allowed
- Unspent or inefficient spend returned to customers
- Any need for penalty and size decided by Ofwat with advice from RAPID
- Determine if further funding should be provided to allow solutions to progress – the focus is on eliminating solutions that are demonstrated to be unsuitable, no longer require further development funding or will not benefit from the structured gate process.

The submission will be assessed for progress and quality.

- Progress is assessed based on the degree of completion.
- Quality is assessed as confidence in the information provided:
 - Data certainty (suitable for the gate outcome)
 - Consistency with other solutions in the programme
 - Insights generated from regional and third party engagement, external assurance, role of Board assurance, and whether rework is required for the information to be used for decision making, will also be considered.
- We expect submissions to meet deadline – any delay will be factored into the assessment of quality and progress; late submission will attract a penalty as set out in the final determination.

Financial incentives can be applied to ensure that companies with more than one solution are putting appropriate management effort and resource into all solutions.

- We may exercise discretion in the final reconciliation at PR24 to not impose the full gate one penalty, if the company can demonstrate that its deficiencies were remedied as planned prior to the gate two submission.
- This potential deferment of penalty is to maintain the focus on desired outcomes and give companies the opportunity to rectify shortcomings.

Gate one assessment criteria – WHAT we will assess

No	Assessment criteria	Assessment challenge
1	Solution design	<ul style="list-style-type: none"> Is the solution, and all sub-options under consideration, sufficiently well described to allow the assessment to proceed? What evidence is there of solution development and is this sufficient for the development to progress? Are the benefits the project will bring in terms of water resources clearly articulated and defined?
2	Evaluation of costs and benefits	<ul style="list-style-type: none"> To what extent do the costs for the project delivery and operation represent evidenced, efficient costs? Are all the non-water resource benefits, societal and environmental, costed and/or evaluated as appropriate?
3	Risk and programme management	<ul style="list-style-type: none"> Does the submission clearly demonstrate that the delivery of the solution is on track? Does the programme plan set out key milestones; clear identification of any changes, delays and mitigation measures? To what extent are water quality and environmental risks assessed and evaluated? Are assessments carried out using monitoring and methods agreed with regulators? What evidence is there that regulatory barriers/ opportunities have been considered? Are areas of uncertainty identified and how well developed are the proposals to manage the uncertainty? How well have the parties evidenced that expenditure to date has been efficient? (funds spent vs allowance)
4	Consistency and context	<ul style="list-style-type: none"> How well has the solution been placed in context of company/regional/national plans? To what extent are data and methods of analysis consistent with those recommended / agreed / used in regional plans and other solutions? How well are dependencies identified and issues managed? What evidence is there of engagement with stakeholders and to what extent is the engagement robust and representative? Is a clear recommendation made for the solution to proceed/stop and what evidence is this recommendation based on?
5	Assurance and board engagement	<ul style="list-style-type: none"> What is the strength of evidence in terms of internal assurance and 3rd party assurance evidence? To what extent is evidence provided of continued Board engagement? Is it clear that the Board endorse the solution and its continuation?

Assessing progress and quality— what does it mean for incentives?

Progress is assessed broadly on a continuum recognising this is not a simple tick box exercise

Quality assessment is based on the degree of rework required. The principles in the table below will be applied to each of the 5 assessment criteria outlined on slide 11 to determine the quality and the degree of rework needed:

Quality Element assessed	Poor quality	Meets expectations	
Assurance	Lack of / partial assurance, assurance lacks independence	Limited assurance, questions around assurance independence	Clear robust independent assurance
Board	Lack of / partial Board assurance statement	Limited Board assurance statement	Strong Board assurance statement
Reliability	Incomplete analysis including unreliable data and uncertain assumptions	Questions around reliability of data and unclear what assumptions are being made	Complete analysis with reliable data or clear explanation of where analysis has used assumptions
Consistency	Inconsistent information with joint sponsoring companies and/or regional plans	Questions around consistency of information with joint sponsoring companies and/or regional plans	Consistent information with joint sponsoring companies and regional plans

Rework	Substantial rework of large parts of the submission	Some rework of parts of the submission	Very limited or no rework of submission required
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Meets expectations

- Submitted on time and to an acceptable quality to support the solution proposers' decision to continue or stop progressing the solution.
- Could also include submissions with minor issues but where there is compelling justification and/or explanation.

Falls short of meeting expectations in some areas

- Incomplete or insufficient evidence to give confidence that companies decisions are robust.
- Key aspects incomplete or poor quality; limited engagement with key stakeholders. Other aspects may be complete and sufficient quality.

Falls short of meeting expectation in many areas

- Significant gaps and quality issues – ie, late submission; gaps in material information to support company's decisions or demonstrate key aspects such as efficiency etc.

Unacceptable

- Submission of such poor quality and/or progress that it's not possible to assess.

Apportioning delivery incentives

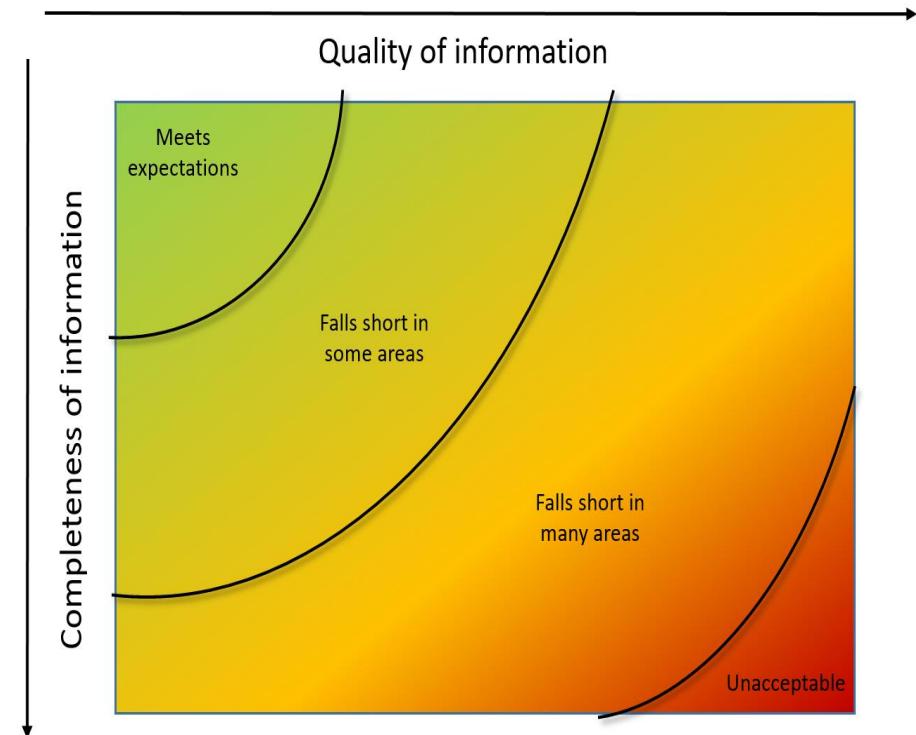
The gated process carries a potential maximum penalty of 30% of the total gate funding.

Penalties will be determined on a case by case basis taking into account:

- the level of completeness of the submission
- the overall quality of the submission
- the evidence and justification provided where aspects of the submission fall short of expectations
- the impact on the decisions and delivery of solutions, including the extent to which deficiencies adversely impact customers.

The level of penalties will take account of maturity differences and the extent to which companies have set out plans to redress shortfalls.

Penalties will be applied through the PR24 reconciliation mechanism.



Indicative framework

Gate one assessment process



We expect this process to take up to four months. This is on a no-surprises basis with the submission content at the gate start date consistent with findings shared with RAPID during the gate one activity period. The four month window may increase in the event of inconsistent submissions.

Milestones	Timing
Accelerated gate one submission deadline	28 September 2020, 6pm
Queries' process	29 September - 19 October 2020
Draft recommendations published for representations	18 November 2020
Representations close	15 December 2020
Final decisions published	28 January 2021
Lesson learnt and improvements prior to standard gate one.	By end of March 2021

A short query process will run for two weeks based on the approach used for the price review.

Its purpose is to allow us to seek clarification on aspects of submissions in order to:

- help us reach decisions on solution progression, or
- clarify where in your submission we can find the relevant information

The query process is not an opportunity for sponsors to supplement their original submission with additional material. We will carry out our assessment on the basis of the submission that you have made, and your answers to our queries.

Queries will be sent to the nominated lead contact for each submission and answers to queries should be submitted via the submission portal.

You will have two working days to respond to any query we raise. The final date on which we will raise a query is 6 pm on Thursday 15 October 2020 and any queries raised on this date must be responded to by 6 pm on Monday 19 October 2020.

New solutions should be submitted in the standard submission template (version 7 published in June 2020).

In addition, we require a separate supporting note containing information to answer the following questions:

- Is there value in accelerating the solution's development to be 'construction ready' for the 2025-2030 period?
- Does the solution need additional enhancement funding for investigations and development?
- Does the solution need the additional regulatory support and oversight provided by the Ofwat gated process and RAPID?
- Does the solution provide a similar or better cost / water resource benefit ratio compared to current solutions?

The decision about whether a solution should be added to the programme will be made by Ofwat (alongside the other decisions that Ofwat will make at the gate) on RAPID's recommendation. The evidence the company provides will be tested against the above criteria questions.

Activities required by gate one are as described in PR19 final determinations: strategic regional water resources solutions appendix, page 40 except for one change relating to environmental assessment, where the wording has been changed from

‘Initial option-level Strategic Environmental Assessment and Habitat Risks Assessments, including consideration of in-combination effects and identification of environmental risks that need mitigating through the solution design and costing’

to

“Initial option-level environmental assessments that meet local requirements and comply with Strategic Environmental Assessment and Habitats Regulations Assessments requirements, including consideration of in-combination effects and identification of environmental risks that need mitigating through the solution design and costing.”

This is to reflect that there is no requirement for Strategic Environmental Assessment (SEA) at option level, and that the environmental assessments required for each option should consider the SEA objectives to be used at later assessment stages, and be agreed with the Environment Agency and Natural England.