

Regulators' Alliance for Progressing  
Infrastructure Development

June 2021



# Strategic regional water resource solutions: guidance for 2021



## About this document

This document relates to the gated process for strategic regional water resource solutions. It provides guidance for submissions received in 2021 and their assessment – that is, for the standard gate one (July 2021) and the accelerated gate two (September 2021).

‘PR19 final determinations: Strategic regional water resource solutions’<sup>1</sup> presents the details of gate allowances, activities at each gate and delivery incentives. The activities that should be completed prior to each gate are further detailed in a submission template for each gate. Solution owners should use these templates to present the progress made by each gate and the evidence to support it and should use this document as guidance to the overall process for gates taking place in 2021.

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<sup>1</sup> <https://www.ofwat.gov.uk/publication/pr19-final-determinations-strategic-regional-water-resource-solutions-appendix>

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# 1. Introduction

## 1.1 Background

At PR19 Ofwat announced a £469 million ring-fenced development fund for companies to investigate and develop strategic water resource solutions that benefit customers, protect and enhance the environment and benefit wider society. This funding provides companies with the ability and certainty to accelerate the development of solutions to be ‘construction ready’ for the 2025–2030 period; it encourages joint working, enables additional analysis where required and provides outputs with greater certainty than would be available without it.

Delivery of these solutions is subject to a formal gated process where decisions are made on delivery penalties and solution funding progression. The details of gate allowances, activities at each gate and delivery incentives are described in more detail in ‘PR19 final determinations: Strategic regional water resource solutions’<sup>2</sup>.

The Regulator’s Alliance for Progressing Infrastructure Development (RAPID) supports and oversees the development of the solutions that benefit from this funding. RAPID’s role in the gated process (working with the partner regulators and Natural Resources Wales) is to assess the progress made in development of each solution and to provide advice and recommendations to Ofwat to enable Ofwat to make decisions on continued ring-fenced funding for solution progression.

## 1.2 Purpose of the gated process

The purpose of the gated process is to ensure at each gate that:

- companies are progressing strategic water resource solutions that have been allocated funding at PR19;
- costs incurred in doing so are efficient; and
- solutions merit continued investigation and development during the period 2020 to 2025.

The process is intended to support companies in progressing the investigation and development of solutions more quickly to the ‘construction ready’ state. The majority of the activity for gate one and gate two would have been undertaken for inclusion of solutions

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<sup>2</sup> <https://www.ofwat.gov.uk/publication/pr19-final-determinations-strategic-regional-water-resource-solutions-appendix>

within water resources management plans and business plans regardless of this additional funding.

The gated process also allows a programme-level approach and a cross-comparison of solutions at regular intervals.

The gated process includes customer protection to ensure that funding is returned for non-delivery and if solutions are no longer suitable to progress.

## 2. Gated process for solutions funded in PR19

### 2.1 Process

Owner(s) of each solution make a submission that documents the progress made on the gate activities in order to be construction ready for the 2025–2030 period. The submission is in an agreed template that captures and summarises in a concise format the information and data expected at the gate. The requirements are similar to those used in water resource management plans (WRMPs) and business plans, and create evidence sufficient for progressing the solution on a more structured and accelerated timetable. The templates for each gate are developed with solution owners and published on RAPID’s web page.

Submission is via a secure portal where solution owners upload documentation as well as answers to any follow up queries from assessors.

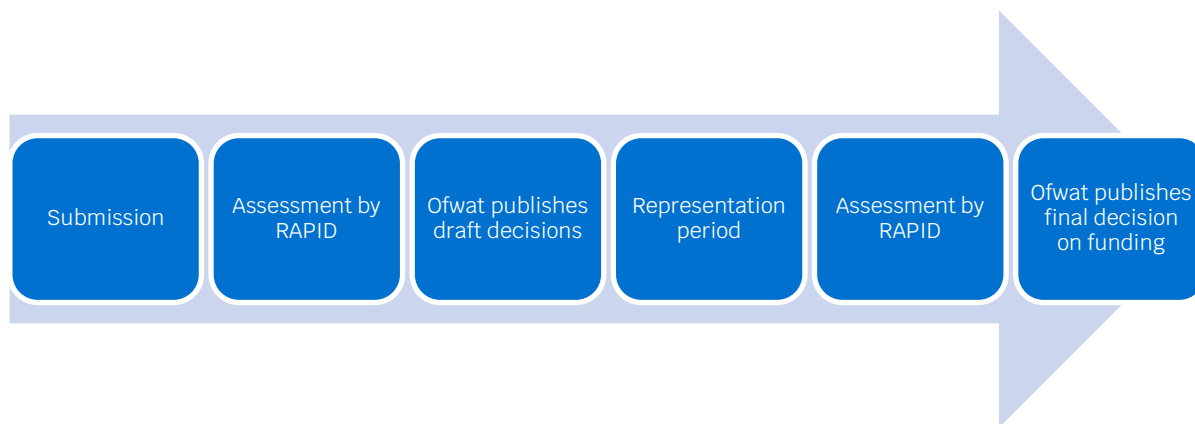
RAPID (working with the partner regulators) undertakes the assessment of submissions and makes recommendations to Ofwat for each of the solutions assessed. Ofwat then considers these recommendations and publishes its draft decisions for representations. The representation period is a minimum of three weeks.

At the end of the representation period RAPID reviews all representations and makes further recommendations to Ofwat. Ofwat considers the representations received and RAPID’s recommendations before reaching a final decision, which it publishes.

The above stages are illustrated in Figure 2.1. The whole process takes around four months and the timetables are included in section 3. This is on a “no-surprises” basis where the submission content at the gate is consistent with findings shared with RAPID and its partner regulators during the period preceding the gate. The four month window may increase in the event of inconsistent submissions or a large volume of new information. We will allow efficient costs incurred by companies progressing a solution that does not pass the gate while they are waiting for a decision. We will consider such costs as part of the end of period reconciliation mechanism.

New proposed strategic solutions may enter the structured funding process. This is covered in section 6 of this guidance.

**Figure 2.1 Stages of the gated process**



## 2.2 Expectations of transparency

Solution owners are expected to publish their submissions including submission template, cover letter if it includes information forming part of the submission and annexes / appendices, at the same time as submitting them to RAPID. Query responses should be published by the date on which Ofwat publishes its draft decisions.

The submission template and cover letter should be unredacted (other than in respect of personal information). Information may be redacted from annexes / appendices, for example if it is commercially sensitive, but we expect companies to provide its stakeholders and RAPID with strong, robust reasons for why it has been redacted that are specific to the information concerned.

We expect that at all times, companies will seek to be transparent with their customers and stakeholders and will respond to any requests for further information in accordance with their obligations under the Environmental Information Regulations 2004

RAPID is subject to both the Environmental Information Regulations and the Freedom of Information Act 2000 and will need to consider any requests for information in accordance with our obligations. If we receive a request for information, we will consult with solution owners at the time of the request and will take full account of their views, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

## 3. Timetable

### 3.1 General timetable

There are two tracks in the gated process: standard and accelerated. The timing of submissions for standard gates is aligned with WRMPs and regional plan timetables. The accelerated gate timings are for solutions that are most likely to provide Southern Water with additional supplies by end 2027.

Gate	Standard gate submission dates	Accelerated gate submission dates
Gate one	5 July 2021	28 September 2020
Gate two	31 October 2022	27 September 2021
Gate three	Summer 2023	June 2022
Gate four	Summer 2024	April 2023
Gate five	Winter 2025	Autumn 2024

### 3.2 Detailed timetable for 2021 submissions

The timetables below are indicative. The progress of the assessment – and the publication of draft and final decisions – will depend on the volume and complexity of documents submitted for the review and the volume and complexity of representations received. Any changes to the publication dates will be clearly communicated to the relevant stakeholders and published on RAPID’s web page.

Milestone	Standard gate one	Accelerated gate two
Submission deadline	6pm, 5 July 2021	6pm, 27 September 2021
Last query raised	6 pm, 5 August 2021	6 pm, 20 October 2021
Response to last query	6pm, 9 August 2021	6pm, 22 October 2021
Draft decisions published for representations	10am, 14 September 2021	10am, 23 November 2021
Representations close	8 October 2021	21 December 2021
Final decisions published	10am, 16 November 2021	10am, 27 January 2022
Review of lesson learnt and documents published for the next gate	13 December 2021	25 February 2022



## 4. Assessment

### 4.1 Purpose and basis for the assessment

The assessment is made on the basis of evidence presented in the submission. All information you wish to be taken into account must be referenced in your submission. The assessment of each solution determines:

- whether the solution (and which of its options) should progress through the gated process and continue to use the development allowance to support this;
- whether sufficient work has been carried out on a solution and the evidence provided in the submission is of sufficient quality to demonstrate that; and if not, what remedial actions are required to get solutions back on track.
- the level of delivery incentive penalty, if appropriate, that should apply in the light of the quality and completeness of the evidence. Note that for gate one, we will determine what proportion of the penalty can be mitigated by delivering the remediation actions;
- whether expenditure has been allocated to the solution in line with the PR19 final determination and the submission has evidenced that it has been incurred efficiently. We will set out what proportion of expenditure is allowable, where there is evidence that the expenditure has been allocated incorrectly or has been inefficiently incurred<sup>3</sup>;
- whether there should be any change to solution partnering arrangements; and
- confirmation of subsequent gate activities for the solution.

At gate one, solutions are expected to be developed to a standard suitable for submitting into draft regional plans or draft WRMPs. This stage of the programme is focused on eliminating solutions such as those causing significant damage to the environment where that damage cannot be mitigated, are demonstrated to be unsuitable, no longer require further development funding or will not benefit from the structured gate process.

At gate two, solutions should be developed to a standard suitable for submitting into final regional plans or final WRMPs. This stage of the programme aims to further enhance the funding portfolio based on refined and consistent costs and benefits. This is the key stage at which suboptimal solutions and options are eliminated and viable solutions and options are carried forward to a pre-planning stage.

Solution owners are expected to make recommendations for which solution(s) and option(s) should progress beyond the gate, based on the outcome of the assessments completed by that stage. RAPID will endorse or challenge this recommendation based on the strength of evidence presented.

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<sup>3</sup> Incorrectly allocated expenditure will be treated as core totex and subject to normal sharing arrangements.

- The assessment is made on the basis of progress made against expectations set out in the final determination (and reflected in the relevant submission template) and the quality of the work completed.

General process assessment and decisions will also be made on:

- whether new or alternative solution and/or options should enter the gated process (if presented);
- what activities are required for the next gate; and
- the penalty incentive mechanism to be applied for subsequent gates.

## 4.2 Quality assessment criteria

The following criteria will be used for the assessment of the quality of submissions:

No	Assessment criteria	Key considerations	What does good look like?
1	Robustness	<ul style="list-style-type: none"> <li>• Strength of evidence</li> <li>• Completeness</li> </ul>	<ul style="list-style-type: none"> <li>• Appropriate evidence is presented to support assertions</li> <li>• Non-evidenced assertions are presented as uncertainties</li> <li>• The evidence and submission is complete for its stage</li> <li>• Where evidence is not complete, there is a clear and realistic plan to address gaps</li> </ul>
2	Consistency	<ul style="list-style-type: none"> <li>• Methodologies, guidance and policy</li> <li>• Other relevant plans and solutions</li> </ul>	<ul style="list-style-type: none"> <li>• Consistent with national legislation, policy, guidance and agreed methodologies. (Including Wales specific requirements where solutions are within or affecting Wales)</li> <li>• Consistent with other relevant plans and solutions</li> <li>• Any changes and deviations are well justified and supported with evidence</li> </ul>
3	Uncertainty	<ul style="list-style-type: none"> <li>• Risk management / mitigation plan</li> <li>• Delivery risks</li> </ul>	<ul style="list-style-type: none"> <li>• Appropriate understanding of certainty for stage</li> <li>• The range and impacts of the uncertainties are presented</li> <li>• Plan in place to quantify and manage/mitigate uncertainties</li> </ul>

We will assess work done on each activity against the three assessment criteria as detailed in the table above. We will use these criteria to assess whether the submission meets expectations, falls short of expectations in some or many areas, or is unacceptable.

The quality assessment will also take into account the confidence provided by the Board assurance statement.

At standard gate one, we are seeking an assurance statement from the Board of each solution owner, in its own words, that addresses the following points:

- it supports the recommendations for solution and/ or option progression made in this submission;
- it is satisfied that progress on solution is commensurate with the solution being "construction-ready" for 2025-2030;
- it is satisfied that the work carried out to date is of sufficient scope, detail and quality as would be expected of a large infrastructure scheme of this nature at this stage; and
- it is satisfied that expenditure has been incurred on activities that are appropriate for gate one and is efficient.

The assurance statement(s) should clearly set out the evidence, information and external and/or internal assurance that the Board has considered in providing assurance on each of the points.

At accelerated gate two we are seeking assurance from the Board of each solution owner, in its own words, for each solution that:

- it supports the recommendations for solution progression made in this submission;
- it is satisfied that progress on solution is commensurate with the solution being in place and operating by the end of 2027;
- it is satisfied that the work carried out to date is of sufficient scope, detail and quality to support delivery of the solution by the end of 2027;
- it is satisfied that expenditure has been incurred on activities that are appropriate for gate two, and is efficient.

We are also seeking assurance from the Board of Southern Water regarding the Board's oversight of Southern Water's obligations under the section 20 agreement and that one or more solutions will be in place and operating by the end of 2027, the volume of which will be such that Southern Water no longer requires drought orders from the River Itchen and the Candover boreholes and only requires a drought order or permit from the River Test in extreme drought events (1 in 500 year drought severity) as provided for in the section 20 agreement. This aspect of assurance is not specific to any one solution and so has not been included in the accelerated gate two template.

### 4.3 Submission categories

The submissions will be assessed into the following categories:

Category	Description
<b>Meets expectation</b>	Submissions that document that the expected activities have been completed to an acceptable quality to support the solution owners' recommendation to continue or stop progressing the solution. This category could also include submissions with minor issues but where there is compelling justification and/or explanation. Submitted on time.

<b>Falls short of meeting expectations in some areas</b>	Submissions with incomplete or insufficient evidence to give full confidence that the solution owners' recommendations are robust; where some aspects are incomplete or poor quality. Other aspects may be complete and of sufficient quality. Submitted on time.
<b>Falls short of meeting expectation in many areas</b>	Submissions with significant gaps and quality issues - for example, with gaps in material information to support solution owners' recommendations such that there is only limited confidence that solution owners' recommendations are robust; and/or late submission.
<b>Unacceptable</b>	Submission of such poor quality and/or progress made that it's not possible to assess.

## 4.4 Delivery incentives

Delivery incentives are described in detail in the PR19 final determination<sup>2</sup>. A maximum penalty of 30% of company's total efficient gate funding (not just the funding of the solution failing to meet expectations) can be applied to the standard gate one and the accelerated gate two solutions that have not made adequate progress, are of inadequate quality, or miss the submission deadline. The reason for applying the penalty to a company's total efficient gate spend is to ensure that companies with more than one solution are putting appropriate management effort and resource into all solutions and not favouring particular ones over the wider portfolio.

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

- the level of completeness and the overall quality of the work carried out in investigating and developing the solution based on the evidence summarised in the submission;
- the evidence and justification provided where aspects of the work carried out falls short of expectations; and
- 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 at gate one and the extent to which solution owners have set out plans to redress shortfalls. Penalties will be applied through the PR24 reconciliation mechanism, as described in 'PR19 final determinations: Strategic water resource solutions'<sup>2</sup>.

### 4.4.1 Gate one delivery incentives and remediation

We recognise that solutions may be at different development points at gate one, and we need confidence that solution owners will achieve alignment by gate two. For this reason we may exercise discretion in the final reconciliation at PR24 to not impose the full gate one penalty, if the solution owners can demonstrate that any deficiencies identified in gate one assessment were remedied in full prior to the gate two submission deadline.

Any exercise of this discretion will be linked to completion of remediation of all actions identified as necessary as a result of shortfalls in submissions. Decisions may also include recommendations, which are issues where additional information or clarification could improve the quality of future submissions.

#### **4.4.2 Gate two delivery incentives**

At gate two, we expect all solutions to achieve sufficient alignment in their development to support multi-solution decision making. For this reason, there will be no opportunity to remediate deficiencies identified at the assessment in order to defer penalties.

### **4.5 Efficiency of expenditure**

The activities that need to be carried out in order to investigate and develop a solution to gate one are listed in Annex 2 to the 'PR19 final determinations: Strategic regional water resource solutions', which also includes an indicative list of activities for gate two. The majority of the activities for gates one and two would have been undertaken by companies for inclusion in water resource management plans and business plans regardless of this additional development funding. The relatively low development allowance for gates one and two reflects this.

Solution owners should discuss with RAPID any change in activities planned in advance, including activities that are considered not needed, and those that may be required but were not included in the list of indicative activities for gates two to four. Any agreed change in the activities to be undertaken will be confirmed in writing by RAPID.

The expenditure assessment considers expenditure incurred on the valid gate activities and outputs and considers costs against the allowance. Incurred costs for the gate activity should be presented in the 2017-18 price base and provided aligned to the agreed gate activities. The breakdown of costs should be presented against activities agreed to be undertaken by gate one or accelerated gate two. These should be further broken down if any cost line is greater than £0.5 million in value. The assessment takes into account the evidence of cost benchmarking presented as part of the submission as well as relevance, timeliness, completeness and quality. Any inefficient spend on valid gate activities will be returned to customers. Expenditure is allowed up to the agreed maximum allowance. Incorrectly allocated expenditure will be treated as core totex and subject to normal sharing arrangements.

## 4.6 Solution progression

We expect solution owners to make recommendations for which solution(s) and option(s) should progress through a gate and continue to receive funding for their investigation and development. These recommendations should be made on the basis of the outcome of solution owners' investigations and assessments to date both as part of the gated process and taking into account other relevant information such as draft regional and water resource management plans. Clear reasons should be given for recommendations with supporting evidence clearly identified.

### 4.6.1 Gate one

At gate one 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. We expect solutions to progress unless shown not to be viable or there is another showstopper, which cannot be mitigated.

### 4.6.2 Accelerated gate two

The focus at accelerated gate two is to ensure progress of solutions that are aligned to any available strategic plans for water resources management (including plans in draft) and meet criteria that test the need for accelerated development and regulatory oversight and support.

In assessing the solution sponsors' recommendation to progress or not progress in the gated process we will consider the following:

- Is the solution in a preferred or alternative programme in relevant regional plan or WRMP (where applicable) to be operable by end 2027?
- Do regulators have any significant concerns with the solution's inclusion or non-inclusion in a WRMP or regional plan with any aspects that may impact its selection, to a level that they have (or intend to) represent on it when consulted?
- Is there value in accelerating the solution's development to meet Southern Water's urgent requirement to address the supply deficit in its Hampshire area?
- Does the solution need continued enhancement funding for investigations and development to progress?
- Does the solution need the continued 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 other solutions?
- Does the solution have the potential to provide similar or better value (environmental, social and economic value – aligned with the Water Resources Planning Guideline) compared to other solutions?

- Does a regulator or regulators have “showstopper” type concerns that have not been addressed through the strategic planning processes taking into account proposed mitigation?

## 5. Queries process

There will be a short query process 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 made and answers received 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.

Solution owners will have two working days to respond to any query we raise. The final dates on which we will raise a query and dates by which they must be responded to are:

	<b>Standard gate one</b>	<b>Accelerated gate two</b>
Last query raised	6 pm, 5 August 2021	6 pm, 20 October 2021
Response to last query	6pm, 9 August 2021	6pm, 22 October 2021



## 6. New solutions

### 6.1 Introduction

New solutions that have the potential to play a significant role in long-term resilience and can benefit more than one company or sector should be identified through the regional plan and the WRMP process. Many of these will then be progressed through the regional planning and WRMP process. It is not expected that all future water resources solutions will follow the RAPID strategic water resource solutions structured development process.

We welcome proposals for any new strategic solutions that will help to increase the resilience of our water supply, enhance ecosystem resilience and benefit society, for example, reducing the abstraction pressures on chalk streams and rivers, making best use of water resources in the north and solutions that will provide a benefit to Wales are just some of the issues we would like to explore.

Those proposing new solutions should engage early with regulators before significant work is undertaken on a new proposal. This engagement should include discussions to scope out what investigations, monitoring and evidence are required before submission at gates. This is important as the later a solution enters the gated process the greater the level of evidence required will be (in line with the indicative gate activities specified in the final determination).

Engagement should include the Environment Agency, Natural Resources Wales (if appropriate), the Drinking Water Inspectorate, Natural England and Ofwat. However, you may also need to engage with other regulators such as Historic England/Cadw, the Forestry Commission or Ofgem for example. Defra and Welsh Government expectations will also need to be taken into consideration where relevant.

Where a new solution impacts on another company's water resource position or options or on another sector, we expect the solution to be submitted as a joint proposal. Where this is not the case, the proposer should explain how feedback from engagement has been taken into account.

### 6.2 General principles

- We will allow solution owners to submit evidence to justify inclusion of new solutions in the process at each gate, up to gate three (October 2023). We would prefer new solutions entering at gate 1 to be submitted in accordance with the standard gate timetable, but we will seek to accommodate requests for a later, bespoke submission date where solution owners are unable to meet the standard gate timetable. Solutions entering at gate 2 must enter to the same timeline as standard gate 2 submissions. The earlier the

solutions enter the RAPID programme, the easier it will be for a new solution to be incorporated and more benefits gained from its acceleration.

- The development allowance can be used, with Ofwat agreement, on alternative proposed solutions. New solutions can be identified by companies which already have a solution in the portfolio but also by those that are currently not funded through this programme.
- We expect that gate activity deliverables up to the point of substitution will be available for the transferring-in solution to allow us to make a decision about whether this is a suitable use of funds.
- The development allowance for strategic regional water resources solutions is set to the maximum of £469 million for 2020-25. Therefore, any solution and/or partner substitutions and potential additions will be considered within this limit.
- Any work completed before a solution enters the programme will be covered out of companies' base costs and will not be part of the Ofwat end of period reconciliation process.

### 6.3 Criteria questions

New solutions should be submitted in the standard submission template for the relevant gate. 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?
- Does the solution have the potential to provide similar or better value (environmental, social and economic value – aligned with the Water Resources Planning Guideline) compared to current solutions?

## 6.4 Timeline

When	What's required	Lead responsibility
As early as possible but at least 4 months prior to the gate / agreed submission date	Conversation with RAPID to highlight any proposed new solution(s) that are likely to be presented for inclusion in the programme.	Water companies (and region if appropriate)
3 months prior to the gate / agreed submission date	Basic written summary of the solution (similar level of information required for a feasible scheme in a WRMP using the solution overview format and including answers to the questions above).	Water companies (and region if appropriate)
2 months prior to the gate / agreed submission date	Written confirmation that the solution will be submitted at the gate or date as agreed with RAPID. Further discussion with RAPID on the proposed solution (based on information submitted) and confirmation of next steps.	Water companies (and region if appropriate)
Gate / agreed submission gate	Submit information using standard templates. Re-submission of basic summary (and answers to the questions in this note) if there are any changes.	Water companies
Gate / agreed timetable	Follow gate process and recommendation criteria	RAPID and Ofwat
Close of gate process / agreed timetable	Confirm solution acceptability and funding decision (for PR24). Letter identifying any additional information required prior to next gate.	Ofwat


## 6.5 Ofwat decision process

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) taking into account RAPID's recommendation. The evidence the solution owners provide will be tested against the appropriate gate requirements and the criteria questions set out above.

The reconciliation mechanism enables the reallocation of funding for changes in solutions or solution partners, up to gate three. This reconciliation includes the potential to reallocate funding to solutions and solution partners that were not identified at the time of the final determination.

## 7. Flexibility

The gated process is intended to ensure that strategic water resource solutions progress at pace and make an efficient use of the development funding; it is not intended to create additional requirements. To maintain the focus on acceleration and efficiency we are open to considering flexibility in the timing of assessments and decisions. This could include, for example, staggering the standard gate submission dates or making some decisions outside of gate assessment windows – for example, dealing with showstoppers that emerge long before the gate submission. We will consider suggestions put forward by solution owners on a case-by-case basis. Any assessment would follow the same process as has been outlined in this guidance.



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