April 2023

Guidance for Appointees delivering DPC projects: response to comments received

Contents

1. About this document

In September 2022 we consulted on draft guidance for Appointees delivering large infrastructure projects via Ofwat's Direct Procurement for Customers (DPC) initiative.[1] The draft guidance sets out Ofwat's regulatory and commercial expectations for Appointees developing DPC projects. It also set out principles for how Appointees should assess value for money (VfM) for DPC compared to the in-house counterfactual.

We received 14 responses from Appointees and from other interested stakeholders. A workshop was held on 12 January 2023 with representatives from Appointees. We have carefully considered all the responses received to the consultation and from the workshop and have now finalised the Guidance for Appointees delivering DPC projects which is published alongside this document.

This document provides an overview of the main comments received by category and sets out where we have made changes to the policy approach and to the final guidance. Appendix A to this response document provides a more detailed breakdown of the comments received and our response.

2. Comments received by category

2.1 The status and scope of the guidance

There were several questions about whether the guidance was mandatory for Appointees and whether it will apply to multi-party projects and to projects delivered under the Specified Infrastructure Projects Regulations[2] (SIPR).

We have amended the guidance to make it clear that Appointees can depart from the guidance but must justify that departure. We have also clarified that if there is a lead Appointee on a multi-party project (as we expect), the guidance

[1] Ofwat, 'Draft guidance for Appointees delivering DPC projects', September 2022
[2] Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013

will apply. The guidance will not apply to projects being delivered under SIPR, although it may be useful for the development of such projects.

2.2 The Ofwat process

There were a lot of comments in support of a more standardised process, including standardised template documents. We consider that this guidance is an initial step towards greater standardisation but we do not consider that further standardisation is appropriate until more projects reach financial close. At that stage we will have a more project examples to draw from in developing greater standardisation.

There were questions about how early in the process a project should be designated for delivery as a DPC project and if early designation could reduce flexibility if the scope of the project changed prior to procurement, or if the project was later brought in-house.

We have clarified that designation should take place after Stage 2 but before Stage 3 of our approval process. With the consent of the Appointee, a designation can also be amended if the scope changes.

There were requests for greater alignment between the DPC process; the RAPID process; PR24; and the process for approving Water Resource Management Plans.

We have amended the guidance to ensure the various processes are as aligned as possible.

2.3 Value for money (VfM) assessment

The draft guidance set out our expectations for how Appointees assess VfM across the different development stages of DPC. This re-confirmed our previous view that we expected a VfM assessment at each stage of the process including with business plan submissions at PR24.

Feedback to the consultation on our draft guidance (including at the workshop with Appointees) raised concerns about the requirement for Appointees to submit VfM assessments as part of PR24 business plans and in the early stages of the DPC process. Appointees were concerned that VfM assessments in the early stages relied heavily on modelling assumptions that were not informed by market engagement, and therefore increased costs without adding any value to the process. Appointees noted that they did not have the internal capabilities to do the modelling and had to outsource the work to consultants, increasing the cost of the project.

We have reflected on stakeholders' feedback and as a result we no longer require Appointees to submit VfM assessments during the early stages of the DPC process including as part of PR24 business plans.

For RAPID projects, we no longer require VfM assessments at all. This is because the projects are of an order of scale or uniqueness that mean they are less suited to in-house delivery, and we accept that delivery via a competitive delivery model will deliver VfM.

Please refer to section 5 of the DPC Guidance where we set out details about the updated requirements for Appointees on VfM.

2.4 Special administration

There were concerns about the risk for Competitively Appointed Providers (CAPs) if an Appointee is placed under special administration. We have included more information on how the special administration regime is likely to apply as we consider that this information is useful for potential CAP investors.

2.5 Developing the market for DPC

At the workshop with Appointees, there was a general view that Appointees and Ofwat will need to work together to share best practice, learn from earlier projects and find ways to make the process of delivering DPC projects as efficient as possible. We agree with Appointee's views on this. The desire to share learnings and improve the efficiency of the DPC process has been a strong driver for the development of the DPC Guidance and the more streamlined approach to the DPC process. We will continue to keep the DPC Guidance and DPC process under review as the current pathfinder projects develop and reach financial close, and new projects enter the process.

Given the pipeline of RAPID projects, we are working with RAPID on engagement with the market (both investors and the supply chain).

Appendix A: Breakdown of responses to 'Draft Guidance for Appointees delivering DPC project' consultation September 2022

This appendix sets out a summary of responses and issues raised by stakeholders to the [Draft Guidance for Appointees delivering DPC project] consultation published September 2022 (the **Draft DPC Guidance**) and our response to the matters raised. The document groups the consultation responses by area, and the common themes raised by stakeholders. We have structured this appendix to follow the structure and order of the Draft DPC Guidance. Where appropriate we direct stakeholders to the applicable section of the published Guidance for Appointees delivering DPC projects (the **DPC Guidance**) where we have clarified or amended the guidance in response to a stakeholder response.

DPC by default

Response or issue raised by stakeholder	Our response
Stakeholders raised a number of queries about the PR24 approach to DPC by default for relevant schemes. Concerns were raised around schemes where the VfM was marginal. Clarifications were also sought about projects at or around the £200m threshold and how Ofwat would decide which of those projects should be delivered by DPC. There were also questions about the split of costs (including pre procurement costs) i.e., which Appointee costs can be recovered at a price control and which Appointee costs can be recovered via the Allowed Revenue Direction.	We have addressed concerns relating to marginal decisions in the PR24 final methodology. Please refer to [PR24 Final Methodology Appendix 5 Direct Procurement for Customers]. The guidance confirms that Appointees will be allowed their efficient costs for running a DPC procurement process and managing the CAP when we set totex allowances for PR24; and that the Appointee's costs of the project, primarily development costs, will be recoverable as part of a Price Review.

Applicability of the DPC Guidance

Response or issues raised by stakeholders	Our response
There was a question about whether the guidance will apply to DPC projects which are being assessed for DPC but have not yet been designated.	The guidance confirms that it applies to all projects not yet designated.

Does the guidance apply for SIPR?	No. The guidance was not drafted with SIPR in mind but we expect the guidance will be helpful in informing discussions on what elements should apply.
Will guidance be updated if SIPR test changed?	No. If the threshold test in SIPR changes, Ofwat will update its statutory guidance on specification.
How does the guidance apply to multi-party projects?	The guidance was not specifically drafted for multi-party projects however, the RAPID consultation from December 2021 sets out that there is likely to be a lead appointee in the development of a DPC and that they would contract with the CAP. Therefore, the guidance is likely to be a good starting point for multi-party projects and should be applied unless obviously inapplicable. We have included a paragraph to this effect in the guidance. See answer above if a multi-party project is delivered under SIPR.

Role of the Independent Technical Adviser (ITA)

Response or issues raised by stakeholders	**Our response**
Stakeholders raised a number of questions seeking clarification of the role of the ITA including who would be responsible for appointing the ITA and for paying the cost of the ITA; why there needs to be a duty of care to Ofwat; and whether a generic scope of work and/or appointment would be proposed.	We have clarified the drafting in the DPC Guidance to set out more clearly the role of the ITA and how it will work. Licence Condition U establishes the requirement for the appointment of an ITA and sets out the Appointee's responsibilities in respect of the ITA. The role of the ITA is designed to protect customers over the whole life of a DPC project. Ofwat requires this role to obtain assurance around the costs and delivery of a DPC project both during the construction programme and to operate over the life of the DPC project. The role will be project specific and we expect the scope and appointment to vary from project to project. Please refer to section 2.3 and section 4.4 of the DPC Guidance which provides further detail on the ITA.

Designation

Response or issues raised by stakeholders	Our response
Stakeholders raised a number of questions around the timing of the designation of DPC projects. Concerns were raised that the proposal to designate at Stage 2 is too early as the design of the project will not be complete. Stakeholders also asked about the role of Appointee board assurance as part of the process of designation.	We have confirmed that our intention is to designate the project after Stage 2 and in advance of Stage 3. The exact point of designation will be considered on a case-by-case basis. However, we expect a DPC project should be capable of being designated post stage 2 submissions. If any changes to the scope of the DPC project are required later, then amendments can be made. Designation Notices may be revoked or amended by Ofwat. Revocation and/or amendment of the designation requires the Appointee's consent. Please refer to section 2.4 and section 3.2 of the DPC Guidance for further detail on how designation works and the likely timing of the designation. For RAPID projects, the DPC Guidance confirms that we intend to designate between gate 2 and well in advance of gate 4 submissions. We will provide further guidance through the RAPID gated process.

Allowed Revenue Direction (ARD)

Response or issue raised by stakeholders	Our response
Stakeholders raised questions about the ARD seeking clarification around the level of detail included in the template ARD; and the process to develop a project specific ARD.	We have prepared a template ARD to assist stakeholders have a better understanding of the structure of the ARD and the areas of the CAP Agreement that will be relevant to the preparation of a project specific ARD. The project specific ARD will be driven by the commercial structure of the DPC project and the proposed payment arrangements set out in the CAP Agreement. Please refer to section 2.5 and Appendix 2 of the DPC Guidance.

Early termination payments

Response or issue raised by stakeholder	Our response
Stakeholders raised several questions and issues arising from the termination arrangements set out in the draft guidance. Stakeholders were seeking clarification around the mechanism to quantify the disallowance to early termination payments; including where the appointee had acted in good faith; further clarification on the approach to recovery of payments at future price reviews; how disputes would be dealt with and ensuring investor confidence in the payment of termination payments.	We have updated sections 2.2, 2.5 and Appendix 4 of the DPC Guidance to make sure that the language is clear and concise. The 20% disallowance is not fixed, and the amount will be agreed on a project specific basis with reference to the circumstances at the time. Appointees will not be penalised if they act in accordance with the standards of a reasonable undertaker. An early termination payment will not be subject to an efficiency challenge in the Price Review. If no disallowance is made, the full nominal sum will be paid, subject to the Price Review methodology at the time Decisions on whether to disallow a percentage of an early termination payment will be made in the context of a Price Review or Interim Determination and accordingly, will be subject to appeal to the CMA as part of a wider appeal of those processes. CAPs will have contractual entitlement to full early termination payment, irrespective of whether Ofwat disallows a proportion of the payment set out in the CAP Agreement.

DPC Process

Response or issue raised by stakeholder	Our response
Stakeholders raised a number of concerns with the DPC process and how it aligned with other processes. These included: • concerns about duplication with the RAPID process and other statutory planning processes (e.g., Water Resource Management Plans); • the DPC process and our decision making is not aligned with that in the HMT Green book.	Please refer to section 3.2 where we clarify how the DPC process aligns with the RAPID process and statutory planning processes in the preliminary stages of the DPC process. Further guidance on alignment will be provided through the RAPID gated guidance. Regarding HMT's five-case model, we continue to use it as a guide for Appointees to follow. Our streamlined process should reduce costs for companies and does not require the Appointees to submit the full five cases to us. It targets our review on the areas of highest importance and relies on Board assurance in other areas. Our regulatory decision making is also aligned with the process in the HMT Green book with decisions at DPC stages 1, 3 and 4 aligning with the Strategic Outline Case, Outline Business Case, and Full Business Case.
A number of responses sought more detailed information on: • what is required in terms of submissions at each stage of the process, • what criteria we will use to assess submissions; • the timing of our approvals process at each stage	Please refer to section 3.2 of the DPC Guidance for further detail on information requirements and timing of approvals. We will assess each submission on quality and completeness of the proposals and alignment with our guidance. Where an Appointee proposes departing from our guidance, we will expect to see a well-evidenced rationale for the departure and why the proposed alternative approach will deliver better value for money for customers. The purpose of our guidance is to enable Appointees to submit an acceptable submission first time. Therefore, we expect engagement with Appointees in advance of submissions.
A response notes the need to avoid duplication with the WRMP process and says that it is not clear what is required for the DPC Stage 1 assessment.	We confirm in our updated guidance document that our expectation is: • the need for a project will be established by Price Reviews, RAPID, and statutory processes such as WRMP, WINEP etc; and • the stage 1 information requirements are likely to be met through business plan submissions at Price Reviews, and where

They ask whether a Stage 1 assessment is needed a) for all schemes, and b) for only schemes that are not in the WRMP and WINEP programmes?	appropriate the RAPID gate 2 submission. If stage 1 information requirements are not met through one of these routes, or there are material changes to a proposed project, a separate stage 1 submission will be required.
Stakeholders raised concerns around the Stage 4 approvals process and the uncertainty it creates for bidders. Stakeholders would like further assurance from Ofwat on how the approval will work in practice to minimise delays.	Please refer to section 3.2 of the guidance which confirms the time limit within which we will seek to approve the stage 4 submission. For us to be able to meet that time limit, it is vital Appointees engage with us throughout the procurement process on issues and changes to the commercial model and risk allocation. Please also refer to section 5.4 where we set out how we are minded to approach assessing best value at stage 4 and the criteria we are proposing to consider when we take our stage 4 decision.
Several stakeholders noted concerns about the regulatory burden associated with the approval process – in particularly the complexity associated with delivering DPC and the impact on cost and time to deliver projects and the ability for Appointees to engage skilled staff to develop DPC projects. Stakeholders also questioned how the additional costs of DPC, including the costs of the ITA role are reflected in VfM assessment. One stakeholder also noted that funding to develop projects for DPC was different between RAPID and non-RAPID schemes.	We consider our new DPC process represents a significant reduction in t requirements on Appointees. For example, we have reduced the number of submissions and have reduced the extent of the information we are requiring from Appointees at each stage. In addition, we have sought to avoid duplication with other processes such as the Price Review and RAPID. We will keep our DPC process under review as the DPC model develops and more projects reach financial close. Regarding VfM assessments, please refer to section 5 of the guidance. We expect the additional costs of DPC to be reflected in the VfM assessment using our standard modelling assumptions. We will consider funding of development and procurement costs of future DPC projects when we set allowances at PR24. ITA costs will be recoverable from customers as part of the CAP's charges.
One stakeholder stated there should be an explicit reference to social and environmental value as part of Appointee's business cases and Ofwat's assessment process.	Please refer to section 3.2 of the guidance. The guidance says that Appointees must confirm at stage 3 how their approach to DPC meets key legal and regulatory requirements, including Ofwat's Public Value principles.

	Section 5.4 of our guidance also sets out the criteria we are proposing to use to consider whether best value has been delivered at stage 4 and this includes the consideration of wider benefits.

Risk allocation and balance of risk

Response or issue raised by stakeholder	Our response
Stakeholders raised several issues arising from the standard risk allocation set out in the DPC Guidance and the extent to which the general approach to risk allocation, the management of unquantifiable risks and other unknown project risks was the right one.	We have set out in the guidance a general approach to risk allocation which seeks to ensure that individual DPC projects are designed in a way that identifies and manages project risk in a practical and project specific way. The key principle is that risks should be held by the party best able to manage them. The standard risk allocation seeks to set out an approach which is reflective of UK project finance practice and is appropriate to DPC. The standard risk allocation is flexible to take account of the differences in individual DPC projects as they develop. Please see sections 4.2 and 4.3 of DPC Guidance for further detail on the approach to risk allocation and the proposed standard risk allocation.
Some stakeholders raised questions related to the fact that the risk allocation is high level, and that Appointees would benefit from more detailed guidance and standard form drafting and documents.	There is a very big range of project types and sizes that may be suitable for DPC. At this stage we believe that the approach of providing higher level guidance is appropriate. It may be beneficial as the DPC projects begin to move into procurement in greater numbers to look to produce more standardised templates. Please see sections 4.2 and 4.3 of DPC Guidance for further detail.

Commercial framework

Response or issue raised by stakeholder	Our response
One respondent asked whether the Infrastructure and Projects Authority route map must be followed? What evidence must be provided if Appointees deviate from guidance?	No, this guidance is referred to for reference and is not mandatory. Please refers to section 4.4 and 4.5 of DPC Guidance for further detail.
A number of stakeholders raised issues around the limitations of the market for contractors and financiers operating in the UK water sector and the need to put in place measures to try to attract the supply chain to ensure that projects can be delivered and in a competitive manner, including the payment of bid costs.	This was discussed at the workshop with Appointees, and we will consider whether there is more Ofwat can do to help facilitate the market.
Stakeholders asked for clarification on the approach to identifying the optimal duration for a DPC project and the approach to depreciation of assets.	The DPC Guidance expects CAP assets to depreciate over their useful lives. This means that assets may not be fully depreciated over the period of the CAP Agreement if this is significantly shorter than the useful life. This approach, to ensure generational fairness, is a key part of our regulatory approach. Future customers who get beneficial use of assets, across its useful economic life, should pay a fair share of the costs to deliver those assets. We would expect the duration of DPC projects to be in the region of 25 years with flexibility for longer durations e.g., 40 years + where that reflects the requirements of the DPC project, and it represents best value. An Appointee should consider the optimal duration for any DPC project and fix that prior to the commencement of the procurement process. Please refer to section 4.3 of the DPC Guidance for further details.
Stakeholders asked for clarification on the approach to managing the risk of cost overruns and the use of Target Cost contracts in DPC project.	Our standard risk allocation assumes that the Appointee, the CAP, and customers share the risk of cost overruns through the contracting model e.g., a Target Cost model. We recognise that market conditions and the complexity of the infrastructure being procured may mean that it is not possible to pass all that risk to the CAP

	and its subcontractors or there is a risk premium for doing so. For that reason, we expect an Appointee to consider cost incentivisation models such as a target price with incentives around an outturn price on completion. Appointees must demonstrate that the proposed model represents best value for customers. We would expect the Appointee and the CAP to pass down the agreed risk sharing on a DPC project to its subcontractors and incentivise the delivery of assets on budget. Please refer to sections 4.3, 4.4 and Appendix 4 of the DPC Guidance for further details.
Stakeholders asked for clarification on the circumstances in which an Appointee could step in and operate a DPC project. We were asked about the publication of DPC charges for customers on bills for customers. Ofwat's social and environmental guidance says that compliance with the guidance does not need to cost Appointees more and we were asked whether this aligns with our approach in the DPC guidance.	Please see section 4.3 and Appendix 5 of the DPC Guidance. We have not said that customer bills must separate CAP Charges from other charges. DPC Licence Condition B allows us to require Appointees to publish how their charges are compliant with the Allowed Revenue Direction. The DPC guidance requires Appointees to apply the social and environmental guidance in the context of DPC projects – it does not seek to change the social and environmental guidance. Please see section 4.3 of the DPC guidance which confirms that in accordance with Ofwat's public value principles the Appointee should consider, and should require the CAP to consider, whether there are ways of maximising social and environmental value in the way that the DPC project is delivered

Tender models

Response or issue raised by stakeholder	Our response
Several stakeholders raised questions about the tender models that can be used for DPC; whether the late model is the default model; how you build market testing feedback from suppliers into the process; how an early tender model might work in practice and whether a 2 stage tender process with the construction aspects of the project being tendered separately from the financing of a project would be permitted.	We recognise that there is scope to tender at different stages in the project lifecycle, and this gives rise to a range of possible tender models. We consider that all models have the potential to drive significant customer benefits, though each model would focus competitive pressure in different areas. Different project types may lend themselves better to different tender models, including separating the construction procurement from the financing. Appointees must identify the tender model best suited to the requirements of the DPC project. Appointees will be required to set out the justification for their choice of tender model and explain how it provides the best value for customers compared to other options. Please refer to section 4.3 of DPC Guidance As part of our Stage 1 assessment, we will consider whether the tender model proposed for each DPC project will deliver the best value for customers. The choice of tender model will influence the expected risk allocation in respect of development risks. We use the term development risk here, to mean the risks associated with developing the project (planning, design, purchase of land, etc.) Under a late tender model these development activities will be carried out by the Appointee, whereas under an early tender model some or all of them will be carried out by the CAP. The choice of tender model could have consequential impacts on expected risk allocation for a project. To date the DPC projects that have been developed have used the late and very late tender model. Please refer to **section 3** of the DPC Guidance which sets out Ofwat's approvals process.

Ownership of assets

Response or issue raised by stakeholder	Our response
Stakeholders asked for clarification on the expected ownership of DPC assets. We were also asked about the ability of funders to take security over DPC assets.	We expect that the land required for the delivery of the DPC project will be in the ownership or, where the land is needed temporarily for development purposes, control of the Appointee. In common with wider UK project finance projects, we would not expect the land ownership to be transferred to the CAP. The CAP Agreement will give the necessary rights to the CAP to access the land to build and then maintain and operate the assets. If it represents best value for customers other land ownership structures may be considered by Appointees. We expect most DPC projects to have project finance rather than property-based finance structures. This means that funders will require security over the CAP Charges rather than the DPC assets itself. Please see section 4.3 of the DPC Guidance.

Operations and maintenance (O&M)

Response or issue raised by stakeholder	Our response
Stakeholders raised a number of queries about O & M and the extent to which it should be included or excluded from the scope of a DPC project	We expect DPC projects, in most circumstances, to outsource to the CAP the operations and maintenance functions for the assets. The inclusion of these services will offer opportunities to secure innovation in the delivery of the services and to deliver value for money across the whole life of the CAP Agreement because the assets delivered remain the responsibility of the CAP not just during the construction phase but into operations. Please refer to section 4.4 of the DPC Guidance and the Technical Discreteness Consultation – Feb 23 which provides details on when O&M may be excluded.

Incentives

Response or issue raised by stakeholder	Our response
Several stakeholders raised questions about DPC project incentives; whether Ofwat is proposing a standard (or rigid) set of incentives; whether the incentives would in fact support delivery and not be an additional project cost.	We expect the incentives used by Appointees to vary across projects to reflect the size, complexity, assets being created, ongoing operations and maintenance, funding structures and the specific risk profile of each DPC project. Please refer to section 4.4 and Appendix 4 in the DPC Guidance which sets out some of the approaches to incentivisation that an Appointee might want to consider.
Stakeholders raised concern about the lack of incentives on the Appointee to support the CAP delivering the project, the absence of which could lead to sub-optimal outcomes. Stakeholders also suggested that the package of incentives be reviewed by Ofwat at stage 4.	We have clarified our expectations to see proposals for Appointee incentives at Stage 2 and 3 submissions and for the company to confirm at Stage 4 whether any changes to the incentives are required because of any changes to the commercial model/risk allocation. Please refer to section 3.2 of the DPC Guidance.

Value for money assessment (VfM)

Response	Our response
A stakeholder raised concerns that the value for money assessment appears to be of lower importance than in the original 2020 DPC guidance, particularly at Stage 4	The intention of the draft guidance was to provide greater clarity to Appointees and stakeholders on how we expect VfM to be assessed. Delivering best value for customers remains a key objective of DPC. Following a range of feedback on the approach to assessing VfM, we have reviewed how we assess best value at the different stages of the project, while also considering the wider factors that drive best value that are not easy to quantify, such as the price reveal benefit with customers benefitting upfront from market tested prices. The updated guidance reflects this review and sets out a proportionate and transparent approach to assessing best value. Please refer to section 5 for our updated guidance on VfM assessments.

Stakeholders raised concerns about the requirement for VfM early in the DPC process – i.e., before any market engagement is undertaken. Additionally, one stakeholder raised concerns that the market is unlikely to engage with projects where early VfM assessments show that DPC is unlikely to deliver VfM.	For both the reasons given, we no longer require VfM assessments to be submitted at stage 1 and stage 2 of the DPC process. We still consider a VfM assessment is required for stage 3, which we expect to be informed by our standard modelling assumptions as well as evidence that the Appointee has obtained through market engagement and evidence from recent transactions in the market. For RAPID projects, we are removing the requirement for a VfM assessment entirely, as we consider these projects are of an order of scale and complexity that mean they are less suited to in-house delivery and are likely to need bespoke price control arrangements. In addition, due to the unique and complex characteristics of the solutions e.g., the multiparty nature of the schemes, a relevant in-house counterfactual is not readily available.
Stakeholders queried how VfM of delivery via SIPR should be assessed compared to DPC and the in-house counterfactual.	The guidance is not intended to apply to SIPR. Where an Appointee considers a project is suitable for delivery under SIPR, we expect the Appointee to engage with us at an early stage on its assessment of suitability and how to consider VfM.
Stakeholders raised the importance of VfM assessment criteria being transparent to bidders – particularly the criteria we will use at stage 4 to assess whether to consent to an Appointee entering into a CAP agreement.	Refer to section 5 of the guidance for further detail on our expectations for VfM assessments including how we are considering assessing VfM at stage 4.
Appointees raised a range of detailed queries about the approach to assessing value for money including: • our expectation for the level of detailed modelling required at each DPC submission; • the areas likely to be subject to sensitivity testing; • why we are not allowing normalisation adjustments and not permitting additional efficiency assumptions to be applied to the in-house counterfactual.	Please refer to section 5 of our guidance document for more information on our approach to assessing VfM and which addresses many of the points raised. With respect to assumptions around asset condition at the end of the concession period, we do not expect a difference in asset condition/performance between the scenarios. With respect to regional benefits, the VfM assessment is primarily focussed on modelling the difference in Net Present Value of revenue (in real terms) to be

• Whether we expect any differences in asset condition at the end of the concession period between DPC and the in-house counterfactual • Whether the modelling should link to benefits at a regional level rather than an Appointee level. Guidance on areas that are expected to be subject to sensitivity testing	recovered from customers over the life of the asset under DPC and the in-house counterfactual. Where there are multicompany/regional schemes, we expect the VfM assessment to consider total costs and revenue for the scheme. Where Appointees consider there are wider benefits of delivery via DPC, we expect they would be articulated at a scheme level in their stage submission documents.

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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