

Insights

STANDARDISE THE ARCHITECTURE, NOT THE PROJECT

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Summary

In the second BCLP Insight in our three-part series exploring the evolving Direct Procurement for Customers (DPC) model for major water infrastructure, Freya Scott examines Ofwat's new Baseline CAP Agreement and considers how standardisation could reduce procurement costs, improve bid comparability and create a more predictable market.

As DPC moves from pathfinder transactions to a major programme of water infrastructure procurement, Ofwat has signalled that greater standardisation is on its way. The 2026 contractor roundtables confirmed broad support for more consistency across procurement processes, contracts, risk allocation and technical requirements.

Ofwat has now responded by publishing its Template CAP Agreement (Baseline) for DPC Projects on 16 September 2026, together with supporting guidance, with a further Target Cost template still to follow. The published Baseline CAPA offers an early indication of where Ofwat has landed: it standardises the architecture, not the project. In this BCLP Insight, the second in our DPC series, Freya Scott explores the pros and cons of standardisation.

What could standardisation achieve?

A common contractual framework could lower bid and advisory costs, shorten lender review and make projects easier to compare. Contractors, funders and investors would be able to focus on genuine project risks rather than interpreting new contractual language each time. The aim is a predictable starting point and a common commercial language, while leaving room for each project's characteristics to shape the final allocation.

A stable core

Ofwat's published Baseline CAPA addresses some of this directly. Areas such as document hierarchy, governance, reporting, change control, compensation-event procedures, dispute

escalation, and the basic machinery governing funder protections, termination and handback are set out in full in the template, with drafting notes marking where project-specific inputs are expected. The machinery itself does not need redesigning for every procurement.

For example, the events treated as compensation events do vary between projects, and the published Baseline CAPA reflects this directly: Schedule 6 sets out a standing list of compensation events, several bracketed for project-specific inclusion and expressly requiring confirmation from Ofwat before being added. What is standardised is the process for notifying and assessing a claim, including fixed notice periods and a required CE Notification copied to the Independent Technical Adviser, rather than the list of qualifying events itself. Similarly, the required handback condition will depend on the asset, but the procedure for inspections and rectification plans follows a consistent sequence. In each case, the template fixes the steps while leaving the substance to the project.

The case for keeping risk content project-specific

The programme includes reservoirs, transfer schemes, desalination facilities, water-recycling projects and treatment assets, and they do not carry identical risks. Performance requirements are one example: a treatment project will need defined input parameters, output standards and acceptance tests, and contractors may accept treatment risk where those parameters are clear and objectively measurable. By contrast, a reservoir project raises a different set of considerations centred on ground conditions, hydrology and long-term structural integrity, none of which lend themselves to a standardised output specification.

Other areas will need tailoring. Ground conditions and geotechnical risk vary significantly by site, and the appropriate allocation will depend on the extent of available survey data and the scope of any contractor site investigations. Consenting risk raises similar questions: the maturity of planning applications, the division of responsibility for discharging conditions and the extent of residual consenting risk at procurement stage will all differ, even where the principal consent is expected to be secured by Gate D under Ofwat's combined gated process. Interface arrangements, too, will need to reflect each project's particular configuration, including the boundaries between the CAP contractor's works and any assets retained or delivered by the water company.

Interfaces, completion testing, indexation, liability caps and security will similarly depend on procurement timing, construction duration, technical complexity and the financial strength of the parties. Consistent processes are valuable in each area, but the commercial terms themselves should not be forced into uniformity.

Distinct categories of standardisation

The Baseline CAPA and its planned guidance on compensation events, incentive mechanisms and bulk supply agreements suggest a move toward structured standardisation. One question worth

exploring is whether it would be useful to organise that standardisation into distinct categories.

A regulatory and customer-protection core

The Baseline CAPA addresses much of this directly. Provisions needed for regulatory coherence and customer protection, such as regulatory access, information rights, security obligations, change of control, expiry planning and alignment with the DPC licence conditions, are set out as standing clauses and schedules. The question now is how clearly the template signals which of its bracketed options and drafting notes are genuinely open to negotiation and which are intended to hold.

Presumptive commercial positions

Ofwat's planned guidance on compensation events, incentive and penalty mechanisms and bulk supply agreements points in this direction: establishing default commercial positions from which a project could depart where there is clear justification. The Baseline CAPA already offers some of this through its extensive drafting notes, which flag where a bracketed figure, threshold or optional clause is expected to be settled on a project-specific basis. The natural extension would be to apply the same approach to other recurring commercial questions: change in law, refinancing, dispute resolution, termination methodology and residual value.

Project modules

This is an area where the published guidance has not yet indicated a direction, but where there may be scope to go further. As discussed above, the programme spans a range of asset types with distinct technical and commercial profiles. Would it be useful to develop modules for recurring asset types, providing a consistent framework for matters such as performance testing and deductions, while leaving technical criteria and commercial values project-specific? Doing so could help capture learning across similar projects without assuming that every asset within a category is the same.

Competitive bid variables

Ofwat already recognises that different projects may require different tender models, and that it rests with the water company to identify the best model. A related question is whether the procurement documents could more explicitly define which elements are open to competitive proposals and explain how those variables will be evaluated. Without that clarity, innovation may make bids difficult to compare or obscure differences in risk allocation.

Managing departures from the standard

Now that the Baseline CAPA introduces default positions on many of these matters, the question is how departures are managed in practice. There is a case for each DPC procurement to show

bidders how the proposed agreement differs from the standard, with material departures accompanied by a short explanation of the reason, the resulting risk allocation and any consequences for financing or the Allowed Revenue Direction.

Departures need not be prohibited, some will be essential, but there is value in making them deliberate and transparent. Repeated departures across projects may also indicate that the standard position itself needs to evolve.

Could procurement be standardised as well as contracts?

Contract drafting is only one source of cost. Ofwat's roundtables also highlighted concerns about lengthy procurement periods and expensive tender processes. Market participants might benefit from a more predictable approach to procurement stages, dialogue, bid stipends and technical submissions. There is a case for differences to be driven by the needs of the project rather than the preferences of the procuring organisation or its advisers.

Final thoughts

Stable core provisions, presumptive commercial positions, project modules and defined bid variables, together with a transparent departures process, could help turn DPC into a genuinely repeatable programme without treating every project as the same.

However, a standard CAP Agreement alone will not create a standard DPC market. The construction contract interface, the role of the Independent Technical Adviser and the meaning of “back-to-back” alignment will all raise similar questions, which are explored in a forthcoming article.

Coming up next....

The third and final BCLP Insight in this series will consider whether a standard interface framework, together with a clearer and more consistent role for the Independent Technical Adviser, could make DPC projects easier to finance and replicate.

Related capabilities

- Commercial Construction

Meet the team



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