



Innovation Consultation  
Ofwat  
21 Bloomsbury Street  
London WC1B 3Hf

20<sup>th</sup> September 2019

Via e-mail

Dear Ofwat

**Re: Consultation – Ofwats emerging strategy – Driving transformational innovation in the sector**

I am writing to you on behalf of independent Water Networks Limited (“IWNL”), part of the BUUK Infrastructure Group of companies, in response to your consultation on Ofwats emerging strategy: Driving transformation innovation in the sector. I can confirm that this response is not confidential.

We welcome the recognition from Ofwat that there needs to be further focus on developing the regulatory framework to drive innovation to benefit customers in the longer term. We agree with Ofwat that any funding for innovation should deliver a positive return to customers in the long term but the risk of developing innovative technology, processes and services in the short term should be shared between companies and customers. We also support Ofwat that any innovation funding should be aimed at driving better co-ordination across the water and wastewater sector including supply chains. However, we believe that all licenced water companies (and other sector participants) should have equal access to future innovation frameworks to ensure that innovation is given the widest possible focus and driven at a commercial pace of change.

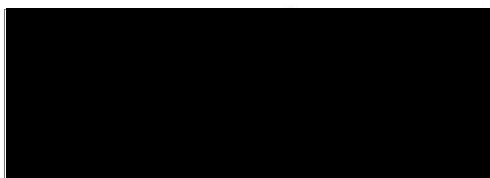
We welcome the development of Ofwats proposals in recognition of the key role regulation can play in supporting innovation in driving sustainable development for current and future generations. We believe that the case for implementing further customer funded interventions can be further enhanced if the important lessons from other sectors can be incorporated in the future water and wastewater regulatory frameworks. For example:

- Setting clear strategic objectives that companies can measure their success against has worked well in the energy sector;

- The prioritisation, within the telecoms sector, of allowing the development of different approaches to the roll out of faster broad band leading to faster implementation of new technologies;
- Ofgem's recognition that direct third party involvement in energy innovation is crucial for ensuring objective and independent research;
- Independent oversight of an innovation competition.

We have provided more detailed answers to Ofwats consultation questions in Appendix 1. We look forward to working with Ofwat and incumbent water companies to develop an appropriate innovation regulatory framework that maximises the development of innovative approaches and driving transformational change. Therefore, please do not hesitate to contact us if you have any further questions.

Kind regards



Keith Hutton  
Regulation Director (Heat, Fibre and Water)  
BUUK Infrastructure

Synergy House  
23 Woolpit Business Park  
Woolpit  
Bury St Edmonds  
Suffolk  
IP30 9UP

Mobile - [REDACTED]

## Appendix 1

*Q:1 What are the main barriers to innovation in the sector and why?*

Currently, incumbent waste and water companies do not have sufficient incentive to develop innovative approaches for the long term. The nature of a five-year price control review process means that time scales for companies to gain sufficient returns for risky innovation are insufficient. Further, waste and water companies under the current incentive programme are not encouraged to take long term risks to improve their businesses.

However, it is not the water regulatory framework alone that acts as a barrier to innovation. Waste and water companies' culture is predominately risk adverse and not subject to the challenges of a competitive market. Owners and senior management need explicit incentivisation and the ability to keep sufficient rewards to ensure continued innovation.

*Q:2 Do you think that the financial support cited in section three is required to stimulate innovation in the sector? If so, what do you believe is the appropriate amount of funding and why?*

It is difficult to provide a specific comment on the scale of the financial support required in the water sector to encourage innovation. We agree that there needs to be a balance applied to the size of the fund that recognises the capability of the sector to develop innovative proposals in a five-year price control period against the imperative need for innovation to address the wider sector issues on climate change and aging infrastructure.

We believe that the innovation framework, to maximise its potential benefits, should enable direct access for the widest possible group of participants. There remains a concern that just applying the innovation proposals to the 17 largest regulated water companies in England and Wales will limit the scope of the projects proposed. As per the recent changes to the Energy innovation framework other stakeholders and supply chains should be able to compete directly for funding.

*Q:3 Do you agree that our proposed draft principles for additional financial support will effectively safeguard the interests of customers?*

We agree with Ofwat that there needs to be a clearly defined set of principles for access to any additional financial support to promote innovation. The principles outlined on page 12 provide a good starting point but also need to be expanded to provide clarity on the priority of objectives of the scheme. Ofwat will need to maintain oversight of the funding allocation mechanism to ensure that customers are sufficiently represented in the selection of projects. We agree that Ofwat should put additional safeguards in place, particularly for clawback of funding where certain criteria are not met.

*Q:4 What are your views on the collectively funded innovation competition model which we describe in section three? What other key considerations*

*not highlighted should we take into account in designing/ implementing the competition?*

No further comments.

*Q:5 What are your views on the end-of-period innovation roll-out reward we describe in section three? What other key considerations not highlighted (e.g. whether it should be collectively funded or individually funded) should we take into account in designing/ implementing the reward?*

We remain unconvinced that a discretionary end-of-period innovation roll out reward will provide sufficient incentive to companies to make the required leap in the application of innovation within their organisation. Any reward that is set as part of the PR24 process is likely to be eclipsed as a result of the size and complexity of the overall settlement. A directly funded annual innovation competition is much more likely to drive companies to provide direct incentivisation within period to make changes.

*Q:6 What other potential alternative mechanisms for funding/ rewarding innovation not discussed do you think we should be considering? Which financial support mechanism or combination of mechanisms should we introduce and why? What would be an appropriate split of available funding/ reward?*

No further comments.

*Q:7 Do you think the potential industry activities discussed in section four could help drive innovation? Are there other activities not identified which you think the industry should be considering?*

We agree that further co-ordination of sector activity could improve further the promotion and adoption of innovation. We would support the appointment of an independent body to support the further encouragement of a joined up approach and collaboration with stakeholders. We remain concerned that the incumbent water companies, without independent governance, would not move at a pace or address the widest potential scope and interpretation of innovation.

*Q:8 Do you think the proposals in section five will help drive innovation? Are there other activities not identified which you think Ofwat should be considering?*

No further comments.