



Innovation Consultation

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Dear Sir or Madam

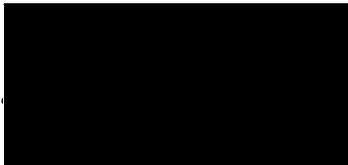
PRT Response to Ofwat's Consultation on "Driving transformational innovation in the sector"

Thank you for the opportunity to respond to the above consultation, which was published on 12 July 2019.

We welcome the lead Ofwat have taken on the general issue of innovation. Our detailed response to your 8 questions is attached to this cover letter.

If you wish to discuss this further please do not hesitate to contact me.

Yours faithfully,



C R Taylor
Chief Executive Officer

Ofwat Innovation Consultation September 2019

Response from Portsmouth Water

No	Question
1.	What are the main barriers to innovation in the sector and why?

Risk averse culture

Point 1

Water companies often have a risk averse approach in many areas of their businesses and whilst this is understandably the correct approach in some areas (e.g. drinking water quality), greater levels of risk (and mitigation) could be accommodated in other areas allowing for higher levels of innovation.

Regulators can play a part in working with companies to improve innovation by proposing new regulatory frameworks which allow risks and rewards to be managed whilst trying new approaches or technologies. The subject matter of this consultation is a very good and welcome example of this. With regard to environmental regulation, finding a mechanism which enables responsible trialling of new technology (innovation) over a fixed period without in the worst case, running the risk of suffering a full regulatory compliance failure would be welcomed.

Point 2

Working closely with regulators will be key to understanding and balancing the risks of new and innovative approaches. It would assist greatly if regulators were to set out how they will support companies in this area and assist the industry in developing an innovative culture.

Point 3

The use of standard models to assess innovation culture and readiness should be considered as a way of helping companies identify areas for improvement.

Such a model approach would facilitate the sharing of best practice and continuous improvement.

Innovative culture

Point 4

Innovation takes time to truly be established in the culture and operation of any business and must not be the aspiration of a few individuals but the whole workforce. The challenge is therefore one of leadership and internal communications, requiring a process to seek out new ideas, as much as establishing a culture which encourages innovation. The process should be clear in identifying the future needs of the business and the areas where new and innovative approaches would deliver most benefit to customers.

Point 5

The industry needs to adapt and learn from other industries and sectors in how to promote innovative cultures. Sharing knowledge and experiences between organisations will be key in achieving this change successfully. Some practices which are common place in other sectors would be transformational in water.

Sector wide coordination, collaboration and vision

There are already many examples of collaboration in the industry but often the projects are not of direct relevance to us as a smaller water undertaker. We are considering promoting the idea of a collaborative consortium of the smaller water companies to recognise this issue. Some successful collaboration has already been achieved in this way over the current AMP period but there is much more to be done.

Point 6

Innovation is being delivered in many ways across the industry with individual water companies frequently requiring their own individual trial of innovation, rather than acting collaboratively, and in many instances the same trials are being conducted by multiple companies. The sharing of information around what works and what doesn't along with establishing collaborative cross company projects, will enable a more successful and faster roll out of successful solutions and approaches across multiple companies without duplication and inefficiency. The proposals within this consultation would support this approach.

Point 7

A shared vision would allow the industry and its partners to work together towards a common goal and stimulate collaboration across the sector. This would also give a clear direction to the supply chain in what are the big issues which need to be tackled and how they can contribute.

Establishing a strategic innovation agenda (i.e. a shared vision) across matters of common cause would benefit all stakeholders, leading to innovation being delivered faster and more efficiently.

Point 8

The current 'competition', in terms of company performance, between companies does to some degree represent a blocker to collaboration in innovation. One of the main ways companies can improve their performance and do better in the industry rankings is to innovate but sharing this innovation then removes the competitive advantage they have worked hard to achieve.

Again, we are considering promoting a collaborative consortium of the smaller water companies to recognise this issue.

Regulatory financial model/5 year cycle

Point 9

The short term focus of the 5 year AMP cycle does not lend itself fully to promoting innovation, particularly when payback periods are often longer than 5 years. This also restricts companies from focusing on the larger long term challenges of the industry.

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?

Point 10

In order to achieve a step change in performance, PW agrees that an innovation fund would help promote and stimulate innovation within the industry as a whole, particularly on the longer-term 'big' issues that the industry is facing such as leakage.

Point 11

We believe that if funding is made available through a competition approach, this should be tied to a commitment to collaborate with other companies, both during project development and delivery and afterwards in sharing the results. This however needs to be carefully balanced with companies return on their investment through the normal regulatory mechanisms.

Point 12A

The claw back methodology would need to be carefully thought out, it should be recognised that some projects will not succeed and companies should not be unduly penalised for unsuccessful projects.

Where projects don't succeed the learning provided by the project should be shared as a requirement to prevent claw back. Promoting a 'black box' culture within the water industry where we share failures and lessons learnt, as the aviation industry does, can also drive innovation.

Point 12B

The suggested level of funding could be seen as low given the overall turnover of the sector, the scale of the future challenges and the proportion of revenue the suggested sum represents. In some progressive and innovative sectors (e.g. IT, healthcare) R and D spend is as much as a double digit percentage of revenue. Experience in the energy sector suggests that the large increase in funding over the last 10 years has made a significant impact in tackling the challenges of transitioning to a low carbon economy.

However it is a welcome and positive first step which can be built on.

Point 13

Measuring the impact of innovation is notoriously difficult and thought needs to be given to an innovation measurement framework as has been developed in the Energy sector.

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

Point 14

In principle we agree that this approach will effectively safeguard the interests of customers, however we consider an increase of £2.15 per customer (over five years) to be disproportionate to our industry lowest bill level.

Point 15

As noted above, measuring the impact of innovation is notoriously difficult and thought needs to be given to an innovation measurement framework as has been developed in the Energy sector.

Point 16

In addition whilst this approach would ultimately provide a benefit to customers our customer research, carried out for PR19, clearly shows that our customers do not support an increase in their bills to provide an improved level of service.

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?

Point 17

We believe that if funding is made available through a competition approach that this should be tied to a commitment to collaborate with other companies, both during project development, project delivery and afterwards in sharing the results of the work.

Point 18

This approach however needs to be carefully balanced with companies being allowed to see a benefit from their innovation projects, as they are putting their own resources at risk by matching Ofwat funding to undertake projects.

See comments under point 11.

Point 19

We would also support the creation of a centre of excellence on innovation, this could be an independent body which controlled the competition. The governance structure should include a range of expertise, i.e. regulators, external industry innovation expertise etc., the approach would be guided by the vision which is established by the centre on what challenges are to be met.

Point 20

The consultation suggests that the competition is run on an annual basis and in this case proper consideration needs to be given to larger, strategic projects which will span several years.

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?

Point 21

We recognise the importance of roll out as customers only receive real benefit from roll out. However at this stage we believe the definition of the successful roll-out of an innovative solution will be very difficult to define and judge in practice.

We would propose that a collaboration requirement/ incentive would be more appropriate where additional funding is available for projects which include wider collaborations (including other water companies, supply chains and stakeholders). The principle we believe should be followed is the greater the level of involvement and collaboration, the more likely the approach, if successful, will be widely implemented.

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?

There are other funding support mechanisms which could be promoted:

Point 22

- Innovation revolving fund: this would initially be funded by a one off contribution or built up over time, funds would be made available for innovative projects in an annual competition, such as that proposed by Ofwat. Successful projects would then repay the initial funds provided by the fund along with a proportion of any benefits. These funds would then be used to finance further innovative projects.

Point 23

- Ring fencing innovation budgets separate from base Totex, ensuring that companies provide adequate funding for headroom to be created in organisations for innovation. This could be based on a proportion of Totex.

7. Do you think that 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?

Point 24

There is evidence that moving to an open approach to data could drive innovation in the industry, however this needs to be balanced against the value of this data. Data alone is without value. It is the use of data to create decision making insight which generates value.

An assessment needs to be made on the benefits vs costs of this approach, along with the future impacts of this approach.

Point 25

We would also support the creation of a centre of excellence which should coordinate the industry's approach and be a centre for sharing information and data on innovation. This centre would not conduct R&D activities but be purely innovation focused and coordinate activities from across the sector, including managing the annual competition. This approach could be taken further in developing a central test facility which could be used by both water companies and supply chain, to trial new approaches and technologies in a collaborative environment.

Point 26

We also believe that a shared vision would allow the industry and its partners to work together towards a common goal and stimulate collaboration across the sector. This would also give a clear direction to the supply chain in what are the issues which need to be tackled and how they can contribute.

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?
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Point 27

Yes we agree that this approach would assist in the promotion of innovation within the water industry. We would suggest going further in ensuring that all regulators clearly set out how they intend supporting innovation within the water industry in a joined up way and how they will also develop and promote innovative cultures/approaches within their respective organisations which will support the sector.

Point 28

We think that whatever proposals are developed, they should not give any unfair advantage to larger companies within the sector and smaller companies such as Portsmouth Water will be able to fully contribute by providing inter alia, innovative ideas, suitable test bed opportunities and the ability to respond quickly to new developments.