



**CCW's response to
Ofwat's Innovation funding and
competition: further consultation on
design and implementation**

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1. Introduction

1.1 The Consumer Council for Water (CCW) is the statutory consumer organisation representing household and non-household water and sewerage consumers in England and Wales. We welcome the opportunity to submit our views to Ofwat on Innovation funding and competition.

2. CCW's perspective

2.1 CCW is very interested in the area of innovation because it can lead to improvements in water and sewerage services, and the overall customer experience. We believe it is essential that the industry makes a step change in this area, not just in terms of outputs, but also a change to culture. The industry needs to constantly be looking for new and better ways to think and operate to better meet the expectations of the customers they serve.

2.2 We welcome Ofwat's focus on the area of innovation and we support views expressed in this consultation in areas such as sharing information and collaboration but we want to ensure that this process works for consumers.

2.3 CCW's main priority in the area of innovation is where change makes a material positive impact on customers; for example, in areas such as service, environment improvements, affordability and vulnerability.

2.4 We want water companies to focus efforts on ideas that directly benefit the customer (or reflect their priorities), and to be able to evidence this.

2.5 CCW would also like to see clear and transparent communication with customers and stakeholders on how money from the fund is being used to benefit water consumers.

2.6 We think that Ofwat should not lose sight of the potential interaction between ODI rewards and these initiatives. Where companies use the fund and this results in the implementation of innovative solutions resulting in financial rewards for outperformance, we feel there should be a mechanism in place to share this outperformance with customers.

2.7 CCW doesn't see any rationale for a company's contribution to be set as low as 10%. This does not seem to be an appropriate or fair share of risk.

2.8 As this competition and surrounding activity is customer-funded, CCW believes that it should demonstrate tangible results, and that these should be evident within a few years of receiving funding. We want Ofwat to review the success of these initiatives after three years, to give opportunity to decide a) whether it is worthwhile for customers and b) whether this initiative should continue into AMP8. We would also like to understand what the criteria for 'success' will look like.

3. Consultation questions

3.1 Do you agree with our proposed default arrangements for managing Intellectual Property Rights (IPR) and royalties? Do you think these arrangements work for different types of projects and activities?

3.1.1 CCW considers this proposal to be fair and believes it should be applied consistently. There does not seem to be a case for deviating from this policy position.

3.2 What alternative arrangements should we consider for IPR/ royalties?

3.2.1 This competition is funded by customers so we wouldn't want to see any alternative arrangements that potentially undermine the sharing of all outputs or outcomes. We therefore believe that foreground IPR and royalties should be open, and shared by all.

3.3 Do you agree with the principle that data generated through the innovation competition should be open by default?

3.3.1 Yes. Open data can help build customers' perceptions of trust and fairness, which are two areas where CCW is keen to see industry-wide improvement.

3.3.2 We have seen good examples of open data across the industry, which has helped facilitate / drive innovation in areas such as process change. Some water companies have seen supply chain partners and innovators coming forward to them with ideas, after accessing their open data, for example in leakage reduction.

3.3.3 Data can also be used for prioritising investment, by overlaying different types of data to give a more rounded picture of resilience in terms of the local economy and how quickly it could recover from an incident. CCW would encourage further innovation in this area.

3.4 Do you agree with our proposed approach and that we should consider alternative approaches beyond company contributions?

3.4.1 CCW is very supportive of risk being shared between companies and customers. We therefore think that alternative approaches could be a good addition to the 10% you propose but not instead of.

3.5 Do you agree with a guideline minimum company contribution of 10% is appropriate in this context?

3.5.1 CCW does not see any rationale for the company contribution to be set at 10% as this does not seem to be an appropriate share of risk. If a company contribution of 10% goes ahead, we feel it should be reassessed once the competition is running.

3.6 Do you agree with the overarching approach we set out here?

3.6.1 We are happy with the proposed flexibility, which allows for diversity in the type and nature of projects that water companies can submit to the competition. However, customers are funding the vast majority of this innovation activity, so CCW would like Ofwat to ensure that any project put forward has evidence of customer support. We would like this, as well as explaining customer benefits of the project, to be a clear part of the application process.

3.6.2 Customers would expect implementation to be a priority. We do however, have concerns with the feasibility of expecting a company, applying for funding in the competition, to plan for roll-out across the industry. Roll-out could be stifled due to differences between companies in size, processes and systems. This could dissuade some applications for the competition. It would be appropriate for the proposal to comment on a pathway for implementation without planning how this could be completed.

3.7 What are your views on introducing separate, proportionate, arrangements for small scale projects? How might we define small-scale projects for the purpose of the innovation competition?

3.7.1 We agree that any arrangements should be proportionate but as a minimum, any application must show customer support and customer benefit.

3.7.2 Scale should be measured in terms of monetary value. Any investment needs to be a balance of cost vs impact. However, we wouldn't want to see any project put forward to be low impact as this doesn't suggest 'transformational innovation'.

3.8 Do you agree with our proposal for ensuring roll-out is at the heart of the innovation competition? How might we reward both leaders and fast followers in this space?

3.8.1 As expressed previously, customers would expect roll-out to be a priority. However, it may be difficult for companies to plan for roll-out across the industry due to differences in size, processes and systems.

3.8.2 We don't see the need to further reward leaders and fast followers. They will see benefits first; in either efficiency savings, financial rewards or customer satisfaction. They would also have the prestige of being first to benefit from the innovation across the industry.

3.9 What practical arrangements should we introduce to ensure adequate ring-fencing of the innovation funding?

3.9.1 Funding collected from customers, for the purposes of the collective innovation funding, should be ring-fenced and administered so that it cannot be used for other purposes.

3.9.2 Funding should only be transferred to those water companies who have agreed to all the funding conditions.

3.9.3 CCW also expects to see clear audited figures and transparency in terms of funding; following examples such as Innovate UK.

3.10 Do you think the proposed innovation challenge approach will help better enable partnerships and collaboration between companies and third parties, in particular smaller innovators? Are there alternative approaches we should be considering? How can we make sure this approach works in practice?

- 3.10.1 CCW believes this idea could work in bringing third parties and smaller innovators into the industry. We do however, have some concerns over timing. With the current Covid-19 situation, coupled with the launch of the Innovation Competition and other enabling activities, this feels like a large challenge in the first year of the AMP. CCW would not want customers' money to be wasted, so careful thought is needed on elements such as advertising, to see how this could work to its full capability.
- 3.10.2 Customers are funding this so Ofwat must ensure that their priorities form part of this process, and that the output will truly benefit them.
- 3.10.3 We would expect Ofwat to adopt similar practises to how application and pitching has worked in other funds and challenges, such as the competition run by EIC¹ in partnership with Dementia Friends Utilities.
- 3.10.4 An alternative approach could be to collectively send out competitions and challenges to the community of innovators and/or Universities. The industry needs to be clear about the problems and challenges it faces as a collective, and then set the bar high. An example of where this has proven to be successful is the Shell Eco-marathon². This approach wouldn't necessarily require funding, just administrative costs of running the challenges and collating/ judging the responses.
- 3.11 Do you agree with our proposed approach to returning funds to customers? Are there circumstances, not considered here, under which we might consider returning funding to customers?**
- 3.11.1 We agree with the proposals to return funding to customers. It is right that customers are protected where companies have not used the contribution they have made to the innovation fund, or where they underspend against their accepted bids.
- 3.11.2 It is important that customers are protected against misspending and non-compliance with funding conditions.
- 3.11.3 We also think it is important to be clear that additional funding will not be granted if the project costs exceed those which have been originally sought.
- 3.12 Do you agree with our proposed approach for managing interactions with the price review?**
- 3.12.1 We agree that there should be no derogations from ODIs. As the consultation explains, this could erode the incentive properties of PR19. It would be difficult to see how trialling innovative solutions could have a material impact on ODIs to the extent that companies may underperform.
- 3.12.2 Where we have concerns about the interaction with the price review is with regard to ODI rewards. Where companies use the fund and this results in the roll-out of innovative solutions, for individual companies and potentially the industry as a whole, this could mean significant ODI rewards. This could see customers paying twice both for the fund and the

¹ <https://www.ukeic.com/>

² This is an annual competition to develop a vehicle that can travel the furthest on a litre of fuel. In 2018, Lycee Saint-Joseph La Joliverie School in France built a car which could travel 2,324.2 km per litre of fuel.

ODI rewards. We think that Ofwat should not lose sight of this potential interaction. If this should occur, we feel that there should be a mechanism in place to share this outperformance with customers.

3.13 Do you agree with our proposed amendments to the principles? Are any further amendments to the principles required to reflect our approach to outstanding policy issues outlined in this document?

3.13.1 Principle 2: We would like to understand how Ofwat can be certain that the innovation, which will be funded through the competition, wouldn't already have been attempted by companies due to efficiency challenge and stretching PC targets. The definition of transformational innovation, which we understand will be part of the joint innovation strategy, will be essential for the application process.

3.13.2 Principle 4: It is essential that both benefits to customers and customer approval is a clear part of the application and approval process.

3.13.3 Principle 5: The addition of risk-sharing is important but, as previously stated, CCW doesn't see any rationale for a company's contribution to be set as low as 10%. This does not seem to be an appropriate or fair share of risk.

3.13.4 Principle 6: We feel that an annual review of effectiveness is necessary as a minimum, as these activities are both new and customer-funded. We would also like to see a full review at the end of three years to give opportunity to decide whether it is worthwhile for customers and to decide if this should continue into AMP8. We would also like to understand what the criteria for 'success' will look like.

3.13.5 Principle 7: Ofwat should consider not just the supply chain but also other innovators and other funding organisations. This could lead to projects with multiple benefits gaining funding from other sources as well as this fund.

3.13.6 Principle 8: CCW would like to see transparency and accessibility for customers added to this principle. It is essential that customers are able to see where their money is spent.

3.14 Do you agree with our proposed focus, major strategic themes and overall approach for the competition?

3.14.1 As we stated in our consultation response in September 2019, CCW does not agree that setting aside additional money for innovation is a necessary approach to encourage innovation across the water sector. In a competitive (non-monopoly) environment, companies would invest their profits to gain a competitive edge. However, the proposal is not without merit and has potential for delivering customer benefits.

3.14.2 We would like you to highlight affordability, vulnerability and customer service as themes that should also be considered. There are areas such as engagement with customers, particularly hard to reach customers, or customers temporarily finding themselves in vulnerable circumstances, that are ripe for innovation. This type of innovation should be prioritised and is not highlighted enough within the consultation.

3.14.3 Overall, we feel that the approach needs to be transparent and reflect customer views and priorities.

3.15 What is the appropriate split of available funding between the Innovation in Water Challenge, the main competition and enabling activities?

3.15.1 The funding should be proportionate to the level of impact. This is difficult to judge at this point, as it is unclear what level of interest this activity will generate. We expect this to be an area which Ofwat reviews as soon as possible.

3.16 What are your views on the feasibility of running all three types of activities in the pilot year, and on the proposed timings in Annex 3?

3.16.1 CCW believes that the timing, especially due to the current circumstances, will be extremely challenging. We feel that a better approach may be to concentrate on one area such as the Innovation Competition. At this point the community of innovators may not be fully resourced or available due to Covid-19.

3.16.2 CCW would also like to understand how the enabling activities and Innovation in Water Challenge fit alongside other initiatives that already exist. An example of this is the Catapult Network³; could this be used by the water industry instead of starting a new approach?

3.17 Do you agree with our proposed approach to key implementation considerations outlined here?

3.17.1 As above, we feel that transparency is paramount to the perceived success of this project and its acceptability in the eyes of customers. Customers should be able to clearly and easily access how their money is spent and what the outputs and customer benefits have been.

3.17.2 We would also like to understand who will be on the independent expert panel. It is essential that there are people on the panel that represent the customer. We are keen to engage with Ofwat further on this and the other points raised in this consultation.

Enquiries

Enquiries about this consultation should be addressed to:

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³ <https://catapult.org.uk/>