

# United Utilities’ response to Innovation funding and competition: further consultation on design and implementation



United Utilities welcomes the latest consultation from Ofwat and the further clarity provided around Ofwat’s proposed plans for the innovation competition.

United Utilities broadly supports the direction of travel indicated and supports the position set out through the majority of the document. We are encouraged that there are similarities in ambition for the fund that align closely with the aims we include in our innovation model and specifically as set out when creating our “Innovation Lab” 3 years ago and which, in our view, continues to be a successful vehicle for bringing new innovation to our company and the wider sector.

Outlined below is our response to each question raised in the consultation paper, and **we would welcome the opportunity to discuss these further**, either through the sector strategy group with our colleagues in the other water companies or directly with Ofwat.

Question Number	United Utilities first review
<p>Q1: Do you agree with our proposed default arrangements for managing IPR and royalties? Do you think these arrangements work for different types of projects and activities (e.g. new technology vs. process innovation, roll-out activities etc.)? <b>AND</b> Q2 What alternative arrangements should we be considering for IPR/royalties?</p>	<p>Yes, we agree with the suggested approach and believe the optimal solution is the one suggested. Alternative arrangements may stifle new ideas and confuse this complex area. We note that business processes do not qualify for IP protection such as patents, trademarks and copyrights, so a clear focus on products and services is more appropriate.</p> <p>We have tried alternative arrangements and they have proven to be overly complex (e.g. joint IP ownership and revenue sharing / joint promotion.) Our preference when negotiating with innovators is to secure the best market price through lowest whole life cost for goods and services – in return for the risk of innovating.</p>
<p>Q3 Do you agree with the principle that data generated through the innovation competition should be open by default?</p>	<p>Yes, we agree that an “open by default” approach to data for projects funded through the competition is the right approach and would benefit the whole sector.</p> <p>It is important to understand that not all data is appropriate for sharing, either as a result of GDPR or because it is commercially sensitive and could potentially disadvantage the company sharing it. Therefore there should be acknowledgement at the outset that there should be exceptions for such data in order to protect confidentiality and the approach to data should be one of the checklist items when negotiating contracts with innovators.</p>
<p>Q4 Do you agree with our proposed approach and that we should consider alternative arrangements beyond company contributions?</p>	<p>Yes, we support the approach to bringing alternative sources of funding to the competition. This could encourage investment in the sector and encourage more of a marketplace approach to innovation including private equity and alternative revenue streams. Some organisations may also offer in-kind contributions – access to facilities, IPR and other knowledge; this is commonplace when supporting academic research and should be encouraged to continue.</p>

	<p>We believe that there is more that the sector could do, with further collaboration with Ofwat, to persuade grant bodies to make funding available to water sector issues.</p>
<p>Q5 Do you agree that a guideline minimum company contribution of 10% is appropriate in this context?</p>	<p>Yes, we agree that a guideline minimum company contribution of 10% seems fair and appropriate and that this contribution may be in-kind rather than simply payments to third parties (also see our response to Q4).</p>
<p>Q6 Do you agree with the overarching approach we set out here?</p>	<p>Yes, we agree and support the overarching approach that we shouldn't dictate what types of project get funded through the competition and should leave this open to opportunities as they arrive. All types of project should be encouraged through the fund.</p> <p>The jointly created water sector innovation strategy sets out clear themes to guide innovators on which areas are of common interest to the sector. Within these themes, short, medium and long term opportunities are all embraced.</p>
<p>Q7 What are your views on introducing separate, proportionate, arrangements for small-scale projects? How might we define small-scale projects for the purposes of the innovation competition?</p>	<p>We agree with the idea of supporting many different types of innovation through the competition and acknowledge that what might be a large project for some water companies may not be for others. We also understand that similar schemes that support smaller scale projects exist in other sectors – for example the energy sector.</p> <p>The competition should be designed to attract applications and avoid deterring them through an overly complex and/or bureaucratic process. Our experience of working with small to medium enterprises tells us we should encourage a simple process for applications regardless of scale of innovation being offered.</p> <p>However, we believe a different process for small, medium and large projects does <b>not</b> achieve the desired aims.</p> <p>It would be simpler (and better) to have one process for applying for innovation funding, and one process for determining whether the funds requested represent good value for customers. The same scrutiny should be applied to all projects to ensure we are rigorous in the allocation of the fund to innovation projects, which by their nature are high-risk.</p> <p>In addition, the sector believes the fund should be used for transformational innovation only. As such, ring fencing a separate competition for small-scale opportunities will encourage proposals that provide only incremental benefits, which we consider would be contrary to the aims of the innovation fund.</p> <p>If Ofwat is seeking for the innovation fund to deliver incremental innovation too, then we encourage some updated communications with the sector, the wider market place and any interested stakeholders on the purpose of the fund.</p>

	<p>If the fund will be used to support smaller scale incremental projects then we still suggest a single application process, with the same scrutiny and rigour as a large project is appropriate, to ensure that fund is allocated fairly based on the cost and anticipated benefits.</p>
<p>Q8 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?</p>	<p>Yes, we agree that roll out should be at the heart of the competition, and the <i>intention</i> for all innovations trialled is that they will be used at scale once proven successful.</p> <p>However, innovation is higher risk than traditional practice which offers more predictable solutions. This means that <i>requiring</i> roll out may create a bias towards ‘safer’ innovation solutions, and may not encourage the transformative innovation that is expected to be delivered by the fund.</p> <p>It is also critical that a clear and widely understood definition of ‘roll out’ is provided, for example: is this (a) completion of a scale trial such that it is ready for roll out, (b) that it has been rolled out within the majority of the company’s operations, (c) that more than one water company using it at scale, (d) that the majority of the industry have rolled it out, or (e) some other definition? Truly transformative innovations can take a long time to develop from concept to scale up to full implementation, we would encourage Ofwat to reflect that getting a truly ground breaking idea to scaled roll out may well take longer than the AMP7 time horizon.</p> <p>There are a number of obstacles to roll-out at speed. Our experience tells us that a major hurdle is compliance to EU Procurement Directives and Guidelines which do not permit roll-out without inviting competition (and penalties are severe for non-compliance). This may act in conflict with the expectation that a new innovation has been trialled and being prepared for roll-out. Any expectations of the fund should consider how roll-out will be achieved, and the practicalities which may affect that timescale of any roll out.</p>
<p>Q9 What practical arrangements should we introduce to ensure adequate ring-fencing of the innovation funding?</p>	<p>We agree that it is important that Ofwat has confidence in how companies are spending any amounts awarded under the fund.</p> <p>Whilst we recognise Ofwat’s concern that companies should not benefit from delays in payments into the fund, it should equally be the case that companies should not be harmed by an expectation of earlier payments into the fund than that anticipated at PR19. The natural timing of payments would normally be the middle of each charging year. Ofwat’s proposal that “<i>the beginning of the quarter in which the innovation competition is expected to run</i>” implies (albeit this is not clear) that it would be at the start of Q3, in line with the timing of the “main competition” as set out in the diagram in Appx 3 of Ofwat’s consultation – this timing therefore seems acceptable.</p> <p>We presume that the value of unutilised funds will be allocated back to companies (to pass back to customers) based on the same allocation rule of the original fund values set at PR19. However, we also believe that Ofwat should consider rolling forward any unutilised funds into AMP8 to support any future extension to the innovation fund.</p>

	<p>The specific ring-fencing provisions seem excessive – e.g. for the funds to be kept in a separately identified and fully auditable bank account. It would be more efficient for companies to be able to make use of pre-existing internal cash management and accounting practices which are cost effective approaches to assurance. It should also be sufficient for companies to report on the usage of any allocations to it from the fund using normal regulatory reporting through the APR, or via separate evidence to be provided to Ofwat under its information gathering powers. There are sufficient sanctions available to Ofwat if it has concerns over company misreporting of its use of the innovation fund.</p> <p>It would seem unhelpful if such additional costs and efforts are required, as it would add additional costs and inefficiency to be incurred in pursuing an innovation activity.</p>
<p>Q10 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?</p>	<p>We agree that the proposed approach will better enable partnerships and collaboration and we support Ofwat’s drive for bringing third parties into the sector and innovation.</p> <p>We have already succeeded in bringing external companies on board to drive innovation into our operations through our “innovation lab” programme, which is now in its 3<sup>rd</sup> year. It has led to long term contracts with start-ups, new sector entrants and established companies. For customers, this means many innovations have been adopted and shared across the sector.</p> <p>We agree that encouraging all types of third parties from academics and start-ups (as well as established corporates) to take part in the competition is essential to drive new thinking and innovation into the sector. This is how we envisaged the innovation competition running – encouraging innovators to approach the water companies and collaborate on creating a pitch for the innovation competition or other sources of funding. However, we do not see the need to split out the competition, as the whole competition should also be accessible to those third parties.</p> <p>The emerging thinking around the centre of excellence (water innovation centre, as named in the draft strategy) will play a key part here along with the associated processes and will be an essential first step in making the whole programme a success. In the current design of the water innovation centre, third parties will be able to present their ideas to all water companies at the same time - saving duplication of effort – which means that multiple water companies can partner with the third parties to drive the project forward to a collaborative bid to Ofwat’s fund or other sources of funding such as Innovate UK (or even to fund themselves).</p> <p>Our experience has been that early and frequent feedback from clients is necessary to best enable adoption. Without client input, ideas are developed in isolation – leading to wasted effort and products and services without client demand.</p> <p>Our own experience of running successful innovation competitions has led us towards a level playing field for academics, start-ups, SMEs and corporates</p>

	<p>alike by having a standardised, simple application process (that also satisfies EU Procurement Directives and Guidelines), regardless of the scale of an idea.</p> <p>We believe that splitting the competition funding into different streams will add unnecessary administration and could actually invite solutions that aren't appropriately targeted. It would be more beneficial to third parties to follow the example above and have one open competition and use the water innovation centre to allow collaborative bids against the themes set out in the sector innovation strategy. This would best enable more efficient use of third party's time, remove duplication of effort and promote innovations that are more likely to be rolled out at scale.</p>
<p>Q11 Do you agree with our proposed approach to returning funds to customers? Are there any other circumstances, not considered here, under which we might consider returning funding to customers?</p>	<p>We agree with the default position that unutilised funds should be returned to customers. We also presume that the value of unutilised funds will be allocated back to companies (to pass back to customers) using the same allocation used in the original fund values set at PR19.</p> <p>We also believe that Ofwat should consider rolling forward any unutilised funds into AMP8 to support any future extension to the innovation fund.</p>
<p>Q12 Do you agree with our proposed approach for managing interactions with the price review?</p>	<p>We agree that trialling new innovations funded through the competition should be not be used to distract from, nor to delay agreed performance targets.</p> <p>However, it is essential that the competition also acts to support transformative innovations that are linked to the sector strategy – even in areas that are covered by existing ODIs. That is because these issues are of greatest importance to customers. However, we agree that the fund should not be used to enable companies simply to meet price control performance commitments.</p> <p>For example if we see an innovation that will dramatically reduce leakage, enabling a company to exceed its leakage target (with ancillary benefits of helping others in the sector also to improve performance), then – given the high priority that customers give to leakage reduction - then it would seem a missed opportunity if the fund were effectively barred from supporting such applications of innovation.</p>
<p>Q13 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?</p>	<p>We accept and support the amendments to the principles. As noted in our response to Q8, we would welcome further definition and expectations of the term 'roll out' to avoid any confusion and minimise the risk of driving the process towards only "safer" innovations.</p> <p>It is likely that water companies will have a balanced portfolio of short and long term innovation activity as individual entities as well as through the innovation fund. Water companies will need to select the best innovation strategy for each part of their services to customers. In some cases, a "fast follower" route may be a better strategy than a drive to pioneer new inventions.</p> <p>We are encouraged that Ofwat recognises that water companies will manage a balanced portfolio of innovation investment and that not all of this</p>

	<p>investment is successful. By nature, innovation is risky and includes being resilient and agile to failures – which are only revealed when we have completed thorough reviews and this may mean some innovations cannot be adopted at partial nor full scale.</p> <p>We welcome the recognition in point 6 that some projects may need to run beyond the end of the AMP. We see this potential scope as important in supporting truly transformative and experimental innovations.</p>
<p>Q14: Do you agree with our proposed focus, major strategic themes and overall approach for the competition?</p>	<p>We agree with the focus and major strategic themes and have suggestions on the overall approach.</p> <p>We are pleased to see commonality on the focus and themes with the water sector innovation strategy and that the Fund should be used to drive further innovation in these sector themes.</p> <p>We recommend a simpler approach to the application process. We look forward to the set-up of the Centre of Excellence and the fund administration – and the timing of this is critical. We need to attract large-scale, transformative projects early in the AMP to give time to test them properly with rigour in the trial process and to ensure the maximum value for the sector and for customers can be achieved within AMP7.</p> <p>It is also important that enabling activities (for example the Centre of Excellence and associated processes) aren't overlooked, or regarded as unnecessary to run the first competition - they are essential to the success of the competition and ensuring ease of entry for third parties. This is something where we have extensive experience from running our own innovation competitions. We spent significant effort setting up the process and mechanisms for our competition before we went live, this was critical in its success.</p> <p>As we have highlighted above in response to Q10 we believe that the more simple this activity is the better and are concerned that having layers of competition (or defining scales of project) adds unnecessary complication and bureaucracy. A more open approach to the competition would be more appropriate, and would achieve Ofwat's ambition of engaging third parties in the competition much more effectively. This is a key element for the water innovation centre to play a part in and would help both 1) reduce the chance of less beneficial pitches being approved and 2) avoid the risk of inefficient duplication of effort.</p> <p>As Ofwat is proposing that year 1 is a pilot year then it makes sense to keep the process as simple as possible to identify any gaps, rather than pre-judge what those gaps might be and fill them with additional - and potentially unnecessary - processes.</p> <p>Ideally, the competition should allow applications at any point during AMP7; however, we recognise that this makes fund management difficult to resource. Our view is that an annual "window" is too limited and we welcome</p>

	<p>Ofwat’s shared view on this. A quarterly application process may be practical with closing dates published well in advance.</p> <p>We note Ofwat’s proposal to encourage high technology readiness level (TRL) in the first round. Recognising that transformative projects can take time to deliver results, we propose that the second round follows quickly. This will allow more ambitious (lower TRL) bids to be made and therefore sufficient time to complete trials, adopt and deliver results early enough to make a difference up to 2025.</p> <p>We welcome Ofwat’s approach to considering how innovators can pool facilities for testing solutions. We have a number of test facilities that we regularly use – open to employees and suppliers equally – and we will continue to be made available for innovation activities.</p>
<p>Q15: What is the appropriate split of available funding between the Innovation in Water Challenge, the main competition and enabling activities?</p>	<p>We encourage a low % split on enabling infrastructure. This should allow more investment to be available for the transformative innovation and adoption. This early investment is crucial to the success of the fund. There are also opportunities to maximise the use of digital collaboration to reduce overall costs.</p> <p>We recommend a focus on the Centre of Excellence to “open the door” and create a “one stop shop” for innovators – giving clarity on the sector strategy and best routes to finding partners from academia, supply chain, other sectors and with other water companies.</p> <p>We believe that not all of the transformative ideas will come from water companies in isolation. We are encouraged by the drive from Ofwat to stimulate, encourage and make it easier to work with supply chain partners. This approach will dovetail with our own innovation model and we can see the potential to increase our activity to work with supply chain innovators. This is the model that we have used and have found to be effective.</p> <p>As stated in Q10, we believe there should be one competition only – simplifying the application process and providing greater clarity to innovators. This does not deflect from the need to provide adequate opportunity for supply chain innovators.</p> <p>One option to consider is that the fund administrators could set out a single application process where a key scoring criteria is how suppliers will be involved, included and supported.</p>
<p>Q16: 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?</p>	<p>To deliver transformative innovation within AMP7, we must all move quickly. The water sector innovation strategy has been drafted, and is already available for stakeholder review before market launch in September.</p> <p>The Centre of Excellence must be available to receive enquiries and provide helpful advice to innovators. The lack of definition on the fund administration is a risk to being fully effective in year 1.</p> <p>We are aware of the commercial effort and time to find a competent third party to set up, administer and promote the fund. Ofwat’s proposal for</p>

	<p>setting up different fund types will (unnecessarily) increase the effort and could lead to further delays. Innovators need clarity on how the fund will be run so they can prepare their best bids.</p> <p>There are many unknowns in terms of the bid process, associated success criteria for a project to win funding, and how allocation of funding to a project will work. This needs to be done before the competition is launched to provide reassurance to any potential bidders.</p> <p>We believe that if we keep the process simple it will not only attract likely innovators but also ensure success at the pace set out in the timeline. We believe that one open competition, guided by the themes set out in the sector innovation strategy and benefiting from solid infrastructure and process in place before the launch of the competition is essential to make this successful.</p>
<p>Q17: Do you agree with our proposed approach to key implementation considerations outlined here?</p>	<p>Yes, we broadly support the outline of implementation stated in this section and the appointing of a third party to administer the competition on Ofwat’s behalf.</p> <p>One area we would suggest caution is in the approach to evaluation - one of the lessons we have learned (through our own innovation competitions) is the need to provide the scoring and assessment criteria up-front, and to provide an application form which prompts the applicant to answer the key criteria they will be scored on.</p> <p>This approach eliminates one of the key barriers to entry for smaller companies and start-ups, and helps to create a level playing field within the competition. It ensures all ideas are graded and assessed equally and that (no matter the idea size) rigour is applied to how the fund is awarded, as well as making the process easier to follow for applicants.</p> <p>By setting out clearly how an idea will be scored, providing a simple application form (as well as showing what a good job looks like), small companies don’t need a bid team, or large resources to engage – they can simply fill in a form with pertinent information and evidence thus enabling fair and equitable scoring across all scales of idea or innovation from all types of organisation.</p>

## Conclusion

Whilst United Utilities is in agreement and active support of the majority of Ofwat’s positions highlighted in the consultation document, we believe there are a few important areas that would benefit from an alternative approach (in particular to simplify the process to a single competition).

We have learned first-hand how to run successful innovation competitions in our sector that attracts investment and new entrants, and generates innovations that can be rolled out. We know that keeping the process simple and having a solid infrastructure in place before opening up is essential.

United Utilities welcomes the chance to discuss this further.