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Question 1: 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.)?

Overall, the arrangements proposed by Ofwat in relation to Intellectual Property Rights (IPR) seem sensible and we agree these should apply for different type of projects and activities (however at this stage we can only provide a general response as the type of projects that will receive innovation funding support are not known).

The separation of IPR between 'background' and 'foreground' IPR appears sensible and would guarantee that (a) each participant retains its intellectual property rights in relation to a solution developed prior to the competition or outside its scope ('background' IPR) and (b) all seventeen water companies benefit if the project is funded by the innovation competition ('foreground' IPR).

Regarding 'foreground' IPR, we would however appreciate Ofwat's clarification whether 'new entrants' are restricted to new water and wastewater companies or whether this refers to new business retailers, NAVs, etc. If the latter, it would seem inappropriate for a new entrant to benefit from innovations generated by the innovation competition when the new entrants have not contributed to the innovation competition fund.

Concerning royalties from foreground intellectual property, we would appreciate Ofwat's clarification of the following:

- Would royalty payments be shared with customers after the deduction of IP registration and maintenance of IP registration costs?
- Does Ofwat believe that IP royalties should be charged to those water companies who use that IP but were not involved in its development?
- Does Ofwat believe that IP royalty payments should only be applied to organisations that are outside of the water industry?

Question 2: What alternative arrangements should we be considering for IPR / royalties?

Should there be revenue streams from the 'foreground' intellectual property, we support Ofwat's proposal for the 'revolving fund' model, assuming that this actually means the possibility for royalties to be returned to the innovation fund. If so, this may make the fund over time more self-sustaining and would reduce the proportion of ringfenced revenue from customers to supply the innovation fund in future years.

Instead of the 'revolving fund' as understood above, the 'foreground' IPR could be subject to an open source licence similar to the HMG Open Government Licence. All water or wastewater companies could then use the 'foreground' IPR for no charge to support their core water and wastewater activities. However, if those water companies wanted to develop the foreground IPR outside of those core activities, or any other third parties wanted to commercially exploit the foreground IPR, they could do so subject to a royalty fee, which would be either returned to customers or returned to the innovation fund to further sustain it.

Question 3: Do you agree with the principle that data generated through the innovation competition should be open by default?

Data is a key enabler and we fully support Ofwat's proposal for the data generated through the innovation fund to be 'open by default', except in the case of personal data or data related to assets and infrastructure deemed 'Critical National Infrastructure'.

Data sharing is even more beneficial to water companies due to the sheer volume, depth, and breadth of data. We use complex machine learning algorithms based on both time series data and other data feeds to understand how the network operates, recognise patterns of failure and this is becoming even more powerful in predictive understanding (with the potential to be water industry-wide).

Open data sharing could lead to potential costs savings for the designing, building, and maintaining of those assets and infrastructure. Particularly so when paired with Building Information Modelling (BIM) principles to give detailed operational systems/models for the lifecycle of those assets and infrastructure parts.

As an asset investment business, having the best possible information and insight into the assets is critical to make informed business investment decisions. Simple asset data i.e. pipe material, soil density, failure rates, failure modes, pressure and flow combined from all water companies, would represent a significant improvement in the accuracy of information.

De-personalised usage and leakage data would also be useful. A key component to make this effective is the adoption of data principles such as those used by the Open Data Institute. This has wider benefits in market driven innovation, such as in our work on reverse auctions, where high quality and symmetrical access to information is critical to expanding the liquidity and value of the market.

Along with the data generation from the fund being open, we would also support the sharing of data models. If these models, along with datasets were made open, the pace at which innovation in machine learning and Artificial Intelligence would be increased. As soon as proven models are released, everyone can see the immediate benefit.

Question 4: Do you agree with our proposed approach and that we should consider alternative arrangements beyond company contributions?

Question 5: Do you agree that a guideline minimum company contribution of 10% is appropriate in this context?

Overall, we agree with Ofwat that projects should be truly innovative, and we support the proposal on risk sharing, including the introduction of a minimum 10% company contribution for individual innovation competition bids. We have also noted that the minimum contribution of 10% is in line with similar scheme in other sectors (for example Ofgem's NIC scheme).

We have also noted that alternative solutions based on well justified arrangements will also be considered to demonstrate companies' commitment, for example through partnerships with other organisations or companies. We fully support this, as this could act to increase the number of projects from which to choose and may help smaller water companies to participate.

Question 6: Do you agree with the overarching approach we set out here?

We agree with the overarching approach set out in the consultation document regarding the types of projects that should be funded through the competition and we welcome the flexibility described in the types of projects to avoid bias in the competition.

We also support the focus on innovation in roll-out and implementation, which is a key aspect to the innovation fund and is also often a stumbling block from initial conception through to full benefits realisation. Many technology innovations require a continuous improvement programme to continue to fully realise the value and potential of the technology.

As an example, the introduction of hydrophonic acoustic loggers in identifying issues in plastic pipes or any other acoustic/fibre technology will require significant data engineering and data science applied to continuously improve the understanding of the information coming from the technology. The technology itself only provides a small part of the value, and this is where the collaboration on data sets across the sector would really benefit and reduce duplication.

Question 7: 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?

Overall, we support the proposal to introduce separate, proportionate arrangements for small-scale projects. Small scale projects for a water-only company are however not comparable to a similar project for a large waste-water company and we would suggest this is taken into account in the design of the competition framework (for example allocating specific criteria regarding the cost, resources and the potential benefit a specific project can bring to a water-only company).

Question 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?

We agree with the principle that roll-out is at the heart of the innovation competition. As part of the bidding process, a template to guide participants and potential bidders could include a section focussed on roll-out.

As proposed by Ofwat, a system of 'reward voucher' or 'fast followers' could be introduced to ensure roll-out is at the heart of companies' proposal (definition for "fast-followers" would however need to be clearly understood).

Question 9: What practical arrangements should we introduce to ensure adequate ringfencing of the innovation funding?

Regarding the timing of company contributions to the innovation fund, we would propose contributions to be made 30 days before the confirmation of the successful bidder is published. This seems to strike a fair balance between the need to resource the fund and the time lags for companies to collect their allowed revenues (it should be noted that collection of revenue is likely

to be impacted by the additional payment assistance offered to household customers in view of coronavirus restrictions).

We fully support Ofwat's suggestion that funds received are ring-fenced and administered by the organisation appointed by Ofwat to support delivery of the competition, provided that the innovation funds received are kept separate from any other funds or accounts owned or operated by the supporting organisation and its parent group (if any).

On award of funds to successful bidders, we support the management of within a separately identified and fully auditable bank account. We would expect that this would facilitate monitoring to make sure funds are used as intended and for returning funds to customers as might become necessary.

Question 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?

We agree with the suggestion of running a pilot 'Innovation Challenge' in the first year. Our expectation would be that this would promote partnerships and collaborations between water companies and third parties and anticipate that it may bring innovators into the water sector who have not previously been involved. We note that innovators would require sponsorship by a water company who would retain responsibility for schemes.

The proposed approach seems likely to encourage smaller third-parties, to collaborate on products and potentially partnerships for innovators to develop their products to meet the needs of the industry.

Question 11: 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?

We agree that if innovation money has been mis-spent, the rules have not been followed without reasonable justification or if the money were spent on a something different to what was intended, then funds should be returned to customers.

We agree with the principle that if a project fails to deliver the expected outcomes, that is in itself not a reason for returning funds to customers. Not all innovations will succeed or necessarily produce what was expected at the outset because this is the nature of trying new ways of doing things.

Question 12: Do you agree with our proposed approach for managing interactions with the price review?

Overall, we agree with the principle described in the consultation that implementation of the innovation fund should not result on derogations from companies' performance commitments (i.e. the innovation project itself should not be considered as a valid reason to diverge from the agreed commitments).

Question 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?

Overall, we agree and support the changes made to the principles previously published. As noted above we agree that the roll-out of innovation is a key assessment criterion in the innovation competition, to maximise the scope for scaling up and wider adoption of successful ideas.

We would suggest adding a further principle of efficiency in the scheme administration. The consultation does not specify the process to pay for the competition delivery partner or the costs of regulating the innovation activity. We assume that it would be funded either from innovation fund contributions, or through Ofwat's general licence fee revenue, but ultimately customers' bill payments will be used.

It is in our view important that the largest proportion of funds is used in innovation activity and the smallest proportion possible is used in administration and the innovation scheme's operating costs. We would also suggest the administration should be benchmarked and the administrative burden on applicants should be benchmarked against successful, similar, funds.

Question 14: Do you agree with our proposed focus, major strategic themes, and overall approach for the competition?

We agree with the proposed focus and major strategic themes and would suggest a specific theme for customers in vulnerable circumstances (particularly given the current situation).

Question 15: What is the appropriate split of available funding between the Innovation in Water Challenge, the Main Competition and Enabling Activities?

It is difficult to say at this time what an appropriate split of funding should be because we do not know yet what the likely mix or nature of projects might be. It is not obvious either whether an early commitment to a split of funding is imperative.

However, of the £40m funding earmarked expected in the first pilot year, it would seem more likely that the mix of projects would lean towards 'Enabling Activities' and 'Innovation in Water Challenge' because we expect that preparation of bids for main competition might take longer to prepare. With that in mind, we would suggest that an indicative allocation could be made, say 40% : 25% : 35% between the Innovation in Water Challenge, 'Main Competition' and 'Enabling Activities', but that flexibility to adjust these percentages is retained and can be used when more is known about proposed projects.

Question 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?

Given the current situation with Covid-19 and outstanding finalisation of policy decisions and rules, the timings for the pilot year, with the introduction of all three activities, seems ambitious. We would propose focussing the pilot year on 'Innovation in Water Challenge' and 'Enabling Activities', ensuring the success criteria for both are well defined and reviewed allowing the right foundations are in place before starting the 'Main Innovation Competition'.

The current timeline may also present a bias towards the large companies with the resources available to bid quickly.

Question 17: Do you agree with our proposed approach to key implementation considerations outlined here?

Overall, we support the approach taken to key implementation considerations outlined in the paper.