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Dear Ofwat,

**Innovation funding and competition: further consultation on design and implementation**

Thank you for inviting us to provide input on the above consultation.

We are a local water company with strong local connections and relationships with universities, businesses and suppliers. Our agility to innovate and change in response to our communities' needs is one of our key strengths. We have a strong history of innovation that has had a wider impact on the rest of the sector. But considering our response in July 2019 to 'Ofwat's emerging strategy: Join the conversation' consultation and our response in September 2019 to 'Ofwat's emerging strategy: Driving transformational innovation in the sector' consultation, our overall observation remains the same. Namely that Ofwat's vision continues to be overly focused on narrow matters of how the water sector is regulated, rather than a compelling vision of what the transformation of the water sector might mean from a customer, stakeholder and employee perspective.

Innovation is important in the water sector because we provide essential services to communities that underpin the local economy. We think the innovation fund could play a clear role in improving services to water customers and generate significant public value. However, if the proposals in this consultation were intended to provide clarity about the way the innovation fund will be used, our general conclusion is that these aims have not been achieved. This remains a significant and strategic gap in the development of the water sector innovation fund which we fear may mean that it will not deliver.

We have previously stated that we did not feel that that an industry innovation fund and competition as Ofwat have imposed is appropriate due to the need to consult with customers on alternatives such as local and cross-sector alternatives. We felt this was because of a lack of understanding of the innovation that already takes place in the sector and because Ofwat's specific proposals risked failing due to the resulting complexity and bureaucracy being added to the regulatory regime. We hope we are proved wrong and we remain committed to making these proposals work despite our concerns. However, considering our previous responses, we were disappointed with what is being proposed – we expected far more specific development and clarity on the proposed approach and its governance, with further evidence as to why this is in the best interests of customers and why this will contribute to innovation, as opposed to stifling it.

Whilst we welcome the commitment to flexibility and to allowing water companies to adopt



innovative means of delivering outcomes to customers, we are concerned that the administration and funding arrangements favoured in this consultation will add to the regulatory burden and create more uncertainty, rather than clarity, over who decides 'what is innovative'? We suggest a separate disaggregated route is attempted, to allow for better engagement to develop a roadmap for the innovation competition. We are particularly concerned about the governance arrangements for any central funding pot during 2020/21.

Ultimately we do not think it is the role of regulators to decide what innovations the industry should undertake – it is picking winners and there is no mechanism for challenging and being accountable for that judgement. We also are not at all clear how this will be supported by the experts, who we understand will be formed by those appointed to run the innovation competition and fund.

We have carefully considered the proposals and our responses to the consultation questions can be found in detail overleaf. We also provide some specific examples of why we think an alternative approach that allows companies to develop proposals for using the 2020/21 funding as a company specific water innovation fund, in partnership with other companies and organisations. This is similar to the Innovation in Water challenge, but can work through partnership rather than pitching, as this would be working with companies, rather than the central body. We think this will support the key priority of the water sector contributing to local and national Covid-19 recovery plans. It will also help to provide evidence as to how an innovation competition may emerge for 2021/22 and beyond, as it wasn't clear there was much distinction between the two proposals in the consultation in any case. In the meantime, please do not hesitate to let me know if you have any immediate questions or if we can be of further assistance.

Yours faithfully,

[Redacted signature]

[Redacted contact information]



**Q1 and Q2: 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.)? What alternative arrangements should we be considering for IPR/ royalties?**

We are not convinced that the approach is clear or credible. In particular, in regard to the comments on page 9 of the consultation document:

- On Foreground IPR being made “royalty-free” – that appears to mean that there is no benefit of ownership of the IPR beyond the water companies (so only own for export or cross-sector use). We urge Ofwat to again rethink the cross-sector and local development angles and the benefits that these can bring, given this proposal.
- Similarly on royalties – if foreground IPR is “royalty-free”, what revenues are likely to be shared with customers? An agreed equity share that funds future innovation (indirect back to customers), may be better, based on local use of the innovation funds, with the potential that returns to customers the value of the innovation fund raised in bills (say 50%), but then reduces once the initial investment is refunded (to a project specific level). The customer sharing rate could depend on the degree of collaboration, to encourage this feature of innovation (as risk is being shared across a wider number of customers and contributors).
- More fundamentally, at what point does background IPR become foreground IPR? One innovation should lead on to others. Has Ofwat considered the impact of the IPR/royalty proposals on the roll out of projects that scale up?

**Q3: Do you agree with the principle that data generated through the innovation competition should be open by default?**

We are supportive of an open data approach. It should be defined as part of the proposal and agreed up front. Otherwise it will be specified too widely.

The benefits of open data include greater transparency and opportunities for collaboration, participation and social innovation. Open data can lead to new knowledge generation from combined sources, improved efficiency and effectiveness of services, economic growth and improved social welfare.

**Q4 and Q5: Do you agree with our proposed approach and that we should consider alternative arrangements beyond company contributions? Do you agree that a guideline minimum company contribution of 10% is appropriate in this context?**

We did not find the approach considered in the consultation either clear or likely to be effective. Is this in addition to the “customer levy” added on in the FD? We assume so. Care is needed with such an approach, in particular not to confuse mitigation or risk with additional investment. It would seem better to have a consequence of not delivering on what is agreed on the innovation fund, which could be +/-10%. As Ofwat only included the innovation fund as revenue and not as an operating cost at PR19, there is already a potential company share through the totex sharing rate which Ofwat may not yet have considered, although we think in practice this approach is not advised as the innovation fund should have no relationship to PR19 totex sharing rates.



**Q6, Q7 and Q8: Do you agree with the overarching approach we set out here? 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? 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?**

We agree it is useful to have an innovation strategy and a portfolio of projects with different scale, nature, technology readiness. However, it is not necessarily a pre-requisite to the innovation framework. Our general observation with the consultation is that Ofwat had not considered what innovation frameworks were already in use in the water sector when selecting case studies from outside the sector. We already have a mature innovation framework that is more developed than the examples used in the consultation. We set this out in appendix 2 of our September 2019 response to the 'Ofwat's emerging strategy: Driving transformational innovation in the sector' consultation.

The main barrier to innovation (particularly from the supply chain) is generally the cost of scaling up and roll out, given that many water sector costs are fixed, and sunk. This requires a long-term investment plan, and is something that is recognised by Ofgem in the way that the “outputs” of sector innovation projects are then reflected in specific elements of price control funding for networks. We do not necessarily advocate the same approach in the water sector, but it is a pre-requisite for roll out based on the type of innovation competition framework Ofwat are advocating. The absence of any cost benefit from the proposals to judge this element of regulatory barriers being overcome is a significant weakness in the proposed approach (as opposed to just stating that the water sector is risk averse and this is the innovation barrier that this proposal will resolve).

This is a gap in the water regulation framework that is a barrier to fast technology roll out that the innovation competition will not quickly resolve. It is better to look at the benefits to future business plans given that within the five-year period companies have already relatively set cost and outcome incentives that require a great deal of change and innovation to deliver. The asymmetry of positive and negative incentives and layers of incentive rules that are the baseline regulatory framework for 2020-25 is matched in these consultation proposals. If Ofwat want the innovation framework to deliver, then it needs to avoid layering further rules and incentives ex-ante. Many of the challenges we raise are because this has been considered outside of the regulatory framework, something we encouraged Ofwat to test in the original consultation through the development of company innovation ODIs to reveal proposals.

On the reference to “pooling facilities for the testing of solutions” on page 13 of the consultation, the water sector is a live network of facilities – this pooling of facilities already happens in practice, but does not appear to address the issue of roll-out. We propose simplifying the structure for the innovation and framework competition you are planning to run, that allows partners to propose how the implementation topics will be dealt with. We would suggest a simple application framework should cover:

- Describe the problem the innovation addresses
- Describe the source technology
- Describe the water-sector evidence
- Degree of current water sector adoption
- Existing Barriers to adoption or development
- Collaboration approach and benefits
  - Who has been involved?



- Who has been consulted?
- Degree of support (Passive, active, committed IP & resources, risk/finance provider).
- Benefits to 2025+
  - Water sector
  - Cross sector and export
  - Wider public value
- Background IPR arrangements
- Future IPR and Royalty proposals
- Proposed use of funding
- Customer protection and innovation risk management
- Mapping against the innovation framework
  - Sector strategy
  - Gartner Hype Cycle (please see appendix 2 included in our September 2019 response to the 'Ofwat's emerging strategy: Driving transformational innovation in the sector' consultation)

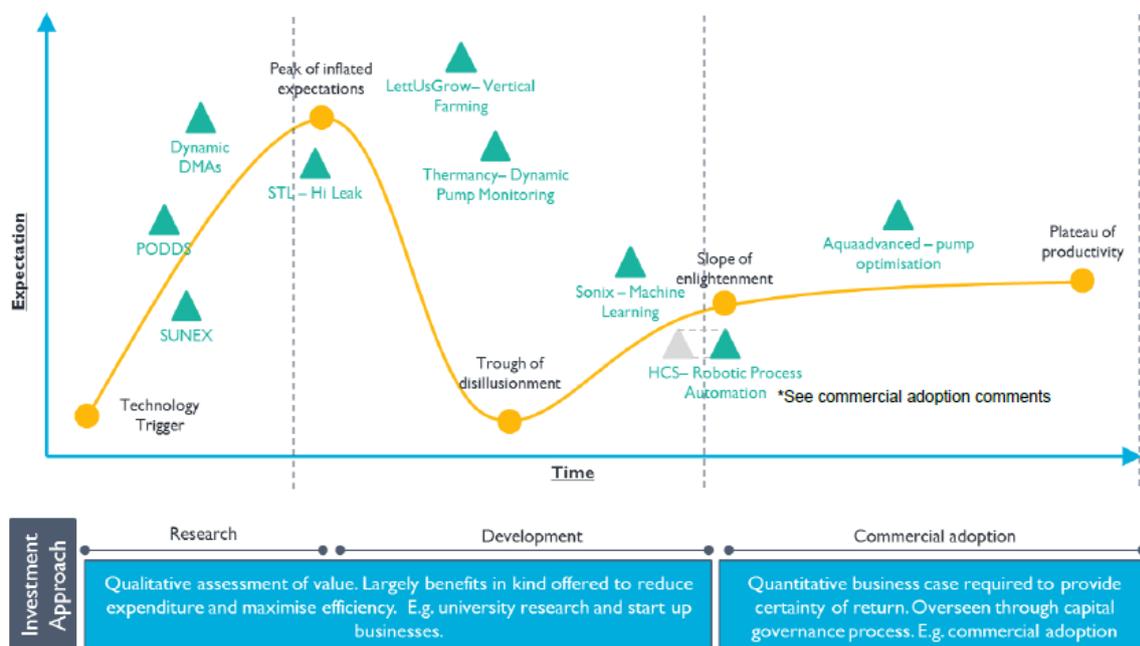


Figure 2: Gartner Hype Cycle - project mapping and our innovation investment approach

- Technology readiness level
- An uncertainty framework to map uncertainty of data versus uncertainty of understanding. We suggest using this Accounting for Sustainability framework (see Appendix 1), whose development was shaped by a number of water company experts with other leading industries.<sup>1</sup>

**Q9: What practical arrangements should we introduce to ensure adequate ring-fencing of the innovation funding?**

<sup>1</sup> [A4S Essential Guide Series: Managing Future Uncertainty](#)



We are concerned that customer funds are being transferred to a central pot. This was not included as an operating cost at PR19 and there has been no guidance given as to the regulatory accounting treatment. We may only postulate that the only possible treatment will be as an operating cost (as the revenue was included in revenue controls). For governance purposes the central pot (and therefore Ofwat in order to obligate this transaction) will need to provide invoices.

We think it an alternative is to run the innovation pot as a net proceeds (on demand basis). This avoids the funds being used for administration costs and should mean that only funds that meet criteria to be allocated will be used. There needs to be extensive governance that there are sufficient useful projects to receive funding – it needs to be objectively justified *ex ante* in our view, given the lack of consultation or criteria set out before imposing this levy on customers.

We are concerned about the basis for which we are being asked to provide funds, and the governance of the fund itself. The easiest route is for Ofwat to require us to pay this money, and a licence change made to specify the governance approach. We are concerned about compulsory requirements that are not in licence or a requirement to make cash payments to a third party over which we have no say.

We cannot agree to separate bank accounts with separate audit requirements. This is imposing a governance and bureaucratic minefield on companies using customers' money which causes us significant corporate governance concerns. What approaches have worked in other sectors? It is clear to us that further reflection is needed, given Ofwat are rightly concerned about the use of customer funds. We raised these concerns originally but it is far from clear to us what progress has been made since we responded in September 2019.

The “Innovation in Water challenge” is an example of where further reflection is needed. This is an existing innovation model in water, but appears in this consultation as a new idea. We already run such innovation competitions (appendix 2 included in our September 2019 response to the ‘Ofwat’s emerging strategy: Driving transformational innovation in the sector’ consultation). It seems to us this should be the initial focus of the innovation fund, not a first-year add-on given the potential bureaucratic regulatory burdens that the main competition could become as currently proposed. Our suggestion is to start with this approach, and then build the case for whether a central competition roll-out would work. If Ofwat do not feel able to support innovation on this basis without a competition, then return the funding to customers – it was not our preference to impose such a levy in the first place. We have “oven-ready” examples suitable for the “Innovation in Water challenge” where funding may make a difference to wider adoption, such as the learning points from the Inflowmatrix and ATI technology we repurposed to protect the new Bristol Nightingale Hospital. This requires early clarity from Ofwat to progress during 2020-21.

Furthermore, the consultation suggests that the circumstances in which funding will be returned to customers was set out in the PR19 reconciliation consultation. We do not agree that this is the case – that consultation covered a mechanism, not the circumstances. That consultation only referred to this one in terms of the approach to the circumstances when any adjustment other than unused funding will apply. The following therefore needs further consideration:

- The proposal to include 10% risk sharing is new and is not consistent with the PR19 Final Determination. Nothing was included in price limits, or in the cost of capital to reflect this additional element at risk which was not described in the regulatory framework. As Ofwat did not include this in the risk balance at PR19, we are not convinced Ofwat should



additionally include such incentives. Ofwat can of course include this within the guidance for the reconciliation adjustment, but this consultation did not include this option.

- We do not consider this to be a minor change, but a fundamental revisiting of the purpose and approach to the competition. Ofwat have already assumed an additional c0.1% per annum efficiency based on innovation, which we calculate to be equivalent to c70% of the value of the innovation fund.
- The 10% sharing rate potentially provides a disincentive to companies to participate, and whilst modest, assumes a return on investment beyond the 1.9% Ofwat assume for a regulated business, particularly as there appears to be little prospect of royalties based on the framework. Or is it that any pass back would be to customers anyway? We could not interpret clearly what was intended behind these proposals in the consultation.
- Customers benefit from companies innovating and reducing costs and improving service levels which reveals information that Ofwat can use to the benefit of all customers. Companies need to make commercial decisions on the innovations from the innovation fund on that basis, and successful companies will be more efficient and perhaps a degree of possibility of outperforming on ODIs (which is already capped and shared, as is cost outperformance and to an increasing degree financing outperformance). Ofwat seem to believe that innovation can happen “risk free” to customers, and our concern is the potential for retrospective judgements that Ofwat reserve the right to take. We do not see how these judgements will receive scrutiny or be challengable.
- Our observation is, that if a company had proposed such rules, Ofwat would dismiss such proposals out of hand for the use of customers’ money, because it would be difficult to justify the risk. Having implemented proposals and required companies to collect money without firm proposals, Ofwat now wish to constrain the inevitable risks that have arisen. We think Ofwat should follow through on the logic rather than trying to control for every risk this has created – otherwise the proposals may fail in practice from their complexity. We have suggested a step by step approach to avoid the risk of subsequent public concern over this framework. Understanding this point will help to build trust in the innovation framework.

**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?**

From a practical perspective, we question whether it is realistic for a third-party body, advised by independent experts, to be set up and to and run the first competition in 2020/21.

It is important to recognise the limitations of the input from a third-party panel. On the “technical expertise and advice” referred to on page 21 of the consultation, we would advise that water companies should have a say on this. Omitting our say in this area could result in potentially contentious panel decisions. Likewise, there are many references to Ofwat’s plans to “appoint an organisation” but if the water sector and stakeholders have a say over this decision, this may increase the legitimacy of the members who are eventually appointed. If water companies are accountable to their customers, the advice on innovation needs to have buy-in from the water companies who are stakeholders in this process. An outstanding omission from the consultation is clarity over the cost of this administrative burden – does this fall on the “enabling activities” that fund this competition?

**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?

Please see our response to question 9.

**Q12: Do you agree with our proposed approach for managing interactions with the price review?**

We were surprised with the statement on page 17 that “the innovation funding and competition is designed to complement our existing PR19 framework”. If this is the case, then the approach should be simple. Please see our response to question 9.

**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?**

We fundamentally disagree with principle 2. Whilst we are in support of Ofwat’s objectives, we disagree that the design of the innovation competition is the right means to deliver transformational innovation that we would not otherwise explore or invest in. There is no prescribed blueprint to developing a successful culture of innovation but this principle is presented as though there is one. We would urge Ofwat to look again at appendix 2 included in our September 2019 response to the ‘Ofwat’s emerging strategy: Driving transformational innovation in the sector’ consultation for evidence of how we are exploring transformational innovation. The principle should be amended to recognise that the competition is an addition to what companies are doing and is not the sole route to achieving transformational innovation. We therefore suggest the following amendment (with changes in bold):

**“Not all innovations have benefits that can easily be monetised in markets. The purpose of the innovation competition is to provide a monetised route for water sector innovation to drive transformational innovation that companies would not otherwise explore or invest in. Collaboration and competition helps to share risk through this monetisation”**

The amendment to principle 3 seems to contradict what is stated in the original sentence. The new sentence focuses on the “roll-out” to the detriment to the “the early incubation of new ideas”. The amendment reflects a desire for a prescriptive approach to reporting, when it is not clear what framework reporting should be made against. We would therefore favour this amendment being removed.

On the amendment to principle 5, please see our responses to the other questions in this consultation regarding the 10% contribution costs.

Whilst principle 7 makes a generic reference to “working together and with others” the principles overlook the importance of working with local and regional partnerships and the importance of cross-sector arrangements.

**Q14: Do you agree with our proposed focus, major strategic themes and overall approach for the competition?**

On the main challenges set out on page 23 of the consultation, the problem is that none of these are just for the water sector to deliver in isolation. It is therefore not necessarily the case that national and top-down solutions (as this consultation assumes) are the right approach. There needs



to be more consideration of these points that reflect that local authorities and regional development will lead on green growth, and the main barrier perceived in the water sector is that it is regulated as a single sector and at a national scale – that is where the main perceived barriers from water regulation arise. These remain our challenges.

We cover a broad spectrum of innovation, from early stage research and solution development, to commercial adoption and supply chain frameworks. In so doing, we maintain a multitude of relationships regionally and across different sectors in order to advance the challenges that the sector faces, as well as those related to our broader social purpose. For example, in the table below is a list of our innovation challenge themes, against which we have highlighted areas that we are in conversation around and that could be mobilised through the innovation fund. Our ability to respond to these themes is directly influenced by the local connections we have forged during the development of our social contract; how we work with other local organisations helps us develop a shared connection with society – an understanding of what the challenges customers and local communities prioritise, so that we can deliver the most innovative and sustainable solutions possible to address these. We show below why we are concerned with the innovation competition, and prefer a company rather than regulator led approach, based on our experience, particularly for the current year.

Innovation Challenge Themes	Potential Project
<b>Pursuit of efficiencies</b>	<b>Streamlined payments for developers</b> By maintaining innovation relationships that are broader than just the water industry, we gain exposure to solutions that are applicable across industries. We are speaking with an innovative start-up who are exploring the recently launched functionality of “Third Party Initiated Payments” from Open Banking. This would allow us to streamline the customer journey for non-Direct-Debit payments and to optimise our back-office processing of these. We believe this could have great benefit in our New Supplies team and for relationships between water companies and developers across England and Wales.
<b>Networks</b>	<b>Next Generation of Assets</b> One of our local connections is to an innovative start-up, which holds IP and expertise on generating movement from the folding of advanced materials. We have been in discussions to explore the potential for the re-design of actuation and valving that would eliminate mechanical parts and the maintenance costs associated with them.  <b>Next Generation of Instrumentation</b> We provide benefits in kind to support a company exploring the next generation of leakage monitoring. They are developing a product that can identify and locate micro-cracks in pipes before they become bursts. This products’ target customer is in Malaysia, however, financial support could be provided for them to tailor their product to be more applicable to UK infrastructure.
<b>Resources and Environment</b>	<b>Food – Energy – Water Nexus</b> As part of our social contract we participate in an international research project to understand sustainability dynamics across the relationship between water, energy and food. We also hold a positive relationship with a local vertical farm manufacturer whose technology uses substantially less water than traditional agriculture. We have begun a project to use relevant parts of the data they have produced through their research to augment our project modelling and accelerate progress. There are many areas like this where we can expand our understanding of the ecosystem in order to promote resource efficiency.



Innovation Challenge Themes	Potential Project
	<p><b>Resource West</b>            We have been working to build cross-sector partnerships of local stakeholders to promote shifts in consumer behaviour to reduce personal consumption and waste. Our commitment to testing this joined-up approach on the impact on consumer behaviour highlights the need to look beyond the water sector (it involves local businesses, regional water companies and energy companies) and it is now an integral part of the Bristol One City plan (which presents further innovation opportunities as explained in the row at the end of this table).<sup>2</sup></p>
<p><b>Water Treatment</b></p>	<p><b>Field Lab</b>            We are operating a field lab in collaboration with Imperial College to understand how DMAs can be run in a dynamic fashion. There is great potential to extend the scope of this study to include physio chemical parameters such as turbidity, temperature, chlorine etc. This gives early detection of bursts, contamination and other unplanned events in the network. In collaboration with ATI and Inflowmatix we were able to deploy site specific support of this kind to one of the Bristol-based Nightingale Hospitals.</p> <p><b>Flow cytometry</b>            The aim of this project is to predict or manage changes at treatment works and reservoirs, for example, by detecting where valves are letting by or there has been a sudden deterioration. We are working with other industry groups to interpret and develop the understanding and results for this activity.</p>
<p><b>Bristol One City Plan</b></p>	<p>Unlike the other five themes listed in this table, the Bristol One City Plan is all-encompassing. It brings together a wide range of public, private, and third sector partners within Bristol. They all share (along with Bristol Water and Wessex Water) an aim to make Bristol a fair, healthy and sustainable city. We have all come together in recognition of the interdependent challenges of growing an inclusive, sustainable city that both resolves our social fractures and inequalities and achieves net zero carbon. The opportunities that arise from this approach are varied and wide ranging but include:</p> <ul style="list-style-type: none"> <li>• <b>Planning for carbon neutrality and carbon diversity</b> by developing the way of working and tools to test sites (as part of new smart monitoring) and to plan infrastructure changes to look at reduced transport, public transport networks, 5G broadband, district heating and the future smart water network.</li> <li>• <b>Landlord accreditation for water efficiency</b> by linking into local authority / housing growth water efficiency.</li> <li>• <b>Developing a cross sector customer vulnerability view</b> by working with Wales &amp; West Utilities and others to go beyond priority service registers, but to look at how to access to information and support can develop cross-sectors.</li> </ul>

As you can see, these do not necessarily align to the strategic themes outlined on page 23 of the consultation but, just as equally as the themes listed in the consultation, offer potential value for our customers and benefits for sectors beyond our own. They all involve a new set of stakeholders, supply chain and academia partnerships and will benefit from roll-out elsewhere. They have the potential to reshape the wider industry and improve future plans. They all involve a wide set of funding routes.

<sup>2</sup> [One City Plan 2020](#)



We innovate by activating ideas and learning from communities in the areas we serve. We have driven external innovation engagement through our open innovation approach, and this has given us good links within the local innovation cluster - The City of Bristol is recognised as a leading technology and innovation cluster in the UK. Bristol Water operates as a pro-active member of this scene in order to access the plethora of innovations available locally that will enable our customer outcomes as well as support the company's social contract and contribution to the One City Plan.

Based on this brief overview of the existing focus of innovation we see emerging in the water sector, we consider that the proposed eligibility and assessment criteria are unlikely to be effective. On the reference on the top of page 24 of the consultation to allowing "sufficient time for participants to prepare their bids accordingly", it is not clear how this can possibly be achieved in 2020/21. Also, innovation should be able to be challenging and divert from the joint sector strategy. Small and disruptive innovators with different ideas need to make their say heard. This is why we disagree with the reference on page 23 to the idea that Ofwat "may choose to focus each annual round on one or two of these [major strategic themes]." This narrows rather than promotes innovation.

We suggest a separate disaggregated route is attempted, to allow for more timing for the innovation fund. Let companies each develop their own proposals, in partnership with others. The appraisal of the "Innovation in Water Challenge" between now and December 2021 would then allow the Innovation challenges and framework to be tested against the innovation benefits that were emerging in practice. Companies would have every potential to explore the IPR, collaboration, risk management (either collectively or separately with other sectors, as we illustrate by mapping our innovation potential against the challenges listed above).

**Q15: What is the appropriate split of available funding between the Innovation in Water Challenge, the main competition and enabling activities?**

There is no evidence provided as to whether £40m of customers money should be used, or not. We note that the consultation states on page 26 that "we envisage that Ofwat may fund a proportion of set up costs, and that remaining costs will be collectively funded from the innovation funding." In other words, this is funded via customers – we doubt it will be acceptable to customers for the innovation funding to be used in this way, based on these proposals, at least not compared to the demand we see for the development and roll out of local innovation plans linked to local and regional strategies.

**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?**

Please see our response to question 9. It is clear to us that the innovation competition proposals are unlikely to be sufficiently developed to run a pilot in 2020/21. We would ask therefore that instead of returning funding to customers for innovation projects that have not had bids accepted, as per the draft proposals in the latest APR consultation, that the remaining amount of allowed revenue either be added to the total for 2021/22 or be applied equally over the four remaining years of AMP7<sup>3</sup>. We are currently unclear as to the consistency of proposals between the different consultations.

**Q17: Do you agree with our proposed approach to key implementation considerations outlined here?**

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<sup>3</sup> [Consultation on regulatory reporting for the 2020-21 reporting year](#)



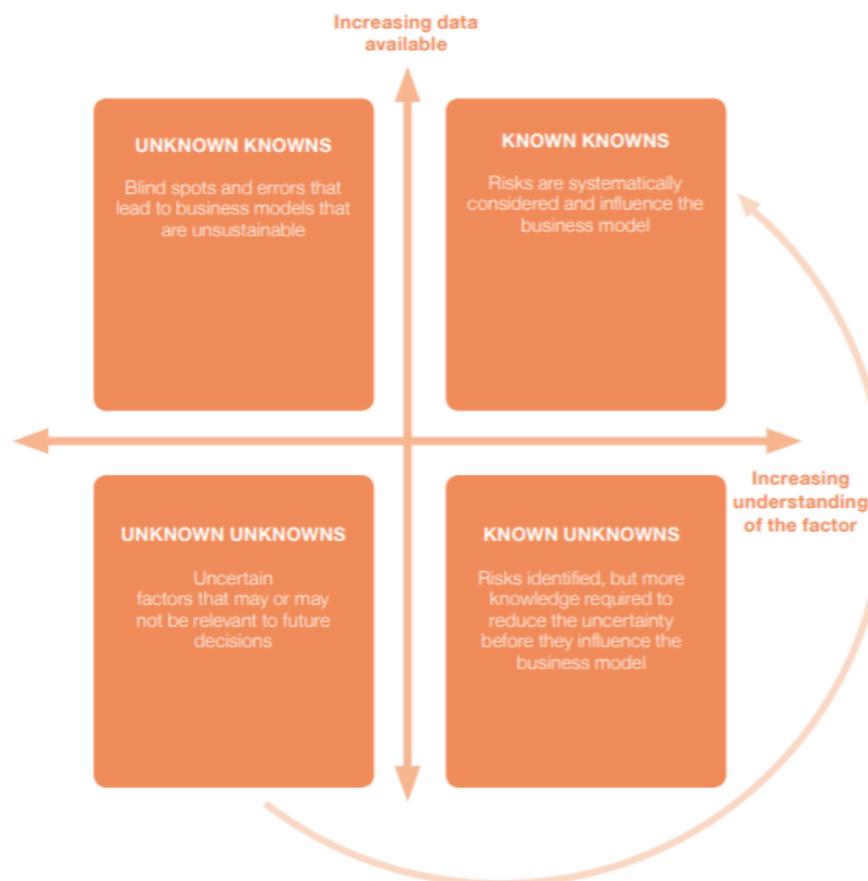
We were concerned with the statement on page 24 of the consultation that “Ofwat may fund a proportion of set up costs, and that remaining costs will be collectively funded from the innovation funding.” These comments are ambiguous and lead to more questions than they answer. How much in terms of the “costs” will be funded? Will this be based on a proportion of each company’s “customer levy”? Is this value for money for our customers?

Stating that this section is about “recovering the costs of administering the innovation funding and competition” is not the same as specifying what this actually entails. We do not consider that this blanket statement is an appropriate means of communicating this position.



## Appendix 1: Using an uncertainty framework to map innovations

The purpose of considering the Accounting for Sustainability framework is to avoid innovations which are based on blind spots – where data is available, but no understanding of the factor concerned. For the water sector the innovation framework helps to focus on uncertainty where increased data and understanding can work together – but focuses on increasing understanding first rather than just data. This lends itself to live test sites.



The Accounting for Sustainability framework would also help to identify regrets and alternatives as part of the appraisal process– many innovations fail because of blind spots (the data is already there but not the understanding – this is common where the technology from an entrepreneur is assumed to be the solution). Taking this approach will help to make sure that the supply chain understand why the water sector sometimes doesn't respond to the innovation. Innovation should help to create data and understanding – this is an important step in a risk management tool.

The innovation framework should therefore follow step 3 in this Accounting for Sustainability guide.<sup>4</sup> In particular Ofwat should ensure that in considering innovation proposals:

<sup>4</sup> [A4S Essential guide to managing future uncertainty](#)



Adapt traditional risk management processes, rather than seeking to develop new, or parallel approaches.

Consider risks arising from macro sustainability trends alongside 'traditional' financial risks as part of a holistic framework.

Bridge the knowledge gap by providing management with insight into key risks associated with macro sustainability trends.

Articulate the business case and commercial rationale by highlighting the value at risk from inaction and associated costs e.g. rising insurance premiums and costs of supply chain disruption.

Adopt a longer term focus and plan for multiple possible outcomes and scenarios to accommodate the uncertainty associated with these impacts.

Source reliable data and contribute to the development of more robust information and commonly agreed approaches for addressing this uncertainty.

Collaborate with key internal and external stakeholders to ensure broad input and more informed decision making.