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BRITISH WATER RESPONSE TO OFWAT CONSULTATION -
INNOVATION FUNDING AND COMPETITION:
FURTHER CONSULTATION ON DESIGN AND IMPLEMENTATION

Consultation questions

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.)?

The default arrangements need to be developed further to incentivise the water companies and supply chain to take part in the competition. There are practical reasons why many innovators will not be in a position to accept the proposed arrangements for the dependencies between background and foreground intellectual property rights (IPR). For example, they will already be tied into existing IPR arrangements and non-disclosure agreements [REDACTED]

Q2: What alternative arrangements should we be considering for IPR/royalties?

A series of models showing how IPR and royalties might be shared needs to be created for different circumstances. These flexible scenarios should recognise that the supply chain will expect compensation for giving up rights and royalties.

As the competition matures, applicants could include proposed models for IPR and royalties in their funding applications and these could become part of the assessment criteria.

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

To answer this question properly, more detail is required on what the conditions of sharing are, explaining the circumstances in which it is considered appropriate to share. The opening up of water company data would better inform innovation providers and thus help achieve better outcomes for customers which is desirable. However, supply chain data can be highly commercially sensitive, and companies should not be expected to open that up by default, otherwise competitive forces may become a blocker to innovation uptake.

As the competition matures, applicants could include proposed models for data sharing in their funding applications and these could become part of the assessment criteria.

Q4: Do you agree with our proposed approach and that we should consider alternative arrangements beyond company contributions?

There is agreement in part with the proposed approach. More consideration is required around calculation of risk during innovation trials. There is a need to address potential failure and assurance that this will not impact on water companies' outcome delivery incentives (ODIs). The culture of the funding and competition needs to provide space for trials to fail, so long as reasonable care has been applied throughout the project.

Q5: Do you agree that a guideline minimum company contribution of 10% is appropriate in this context?

It is necessary for water companies to make a significant investment, both financially and in terms of human resources, to act as an incentive to see projects through to conclusion. To help decide whether 10% is appropriate, it would be helpful to see scenarios showing potential contribution breakdown for different types of innovation – e.g. physical technologies, services, behavioural change. Models for each component of the programme would be required – enabling works, main competition and innovation activities.

As the competition matures, applicants could include their proposed models for company contribution in funding applications and these could become part of the assessment criteria. As such, a higher contribution would demonstrate greater commitment and be assessed accordingly.

Q6: Do you agree with the overarching approach we set out here?

The approach set out is not yet sufficiently defined to determine whether it would work effectively. Roll-out is an important aspect of the competition, however, rewarding 'fast followers' upfront may not be the most effective way of achieving uptake.

Leaders should be rewarded more than 'fast followers'. There is flexibility in the regulatory framework for incentivising fast followers.

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?

Separate, proportionate arrangements for small-scale projects are absolutely necessary and the majority of funding should be used in this way. Harvesting scalable, repeatable entry-level interventions could reap the greatest total benefit if proven in a meaningful way. Pace is necessary for small-scale projects and consideration should be made for multiple competitions each year, together with a proportionate application process.

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?

Yes, roll-out is important, we need quick wins. Particular consideration needs to be given to how the first adopters are rewarded, there would be a case for defining rewards around their role as a catalyst and aligning that with IPR and royalties, in agreement with the supply chain company involved. The rewards for fast-followers should be embedded in the broader benefits of the innovation roll-out, the reduced risk they face may mean additional incentives are not required.

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

Ring-fencing a proportion of funds for the supplier community would help ensure that funding reaches the companies researching, developing and delivering innovative technologies and concepts. Currently there is no clear explanation of how the funding will flow via water companies, consultants, main contractors and SMEs and technology companies. Developing scenarios might help map these paths to ensure there are no blockages preventing funding reaching the innovative heart of the industry.

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?

In its current form, the innovation challenge will not necessarily help enable partnerships and collaboration between companies and third-parties. It needs to be much stronger and clearer on the importance of the supply chain as the focus of innovation and on the ways SMEs and technology companies can expect to be rewarded. In the case of smaller innovators, there needs to be a mechanism to ensure they are actively involved.

Alternative approaches might include partnering with trade bodies such as British Water and consultancies tracking and sourcing innovation to provide a screening service for smaller innovators. Engaging with technology assessment centres, where appropriate, would ensure products are independently verified for industry application.

To ensure collaboration and partnerships works in practice, clear ground rules need to be set up at the enabling stage.

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?

Customers will be the ultimate beneficiaries of innovation as water companies become more efficient and innovations drive cost savings. If funds are unspent, they should be returned to customers, however, it should be noted that supply chain partners will expect to be reimbursed and this should be borne in mind.

A further development would be to link the savings returned to customers to the level of investment applied through the fund. A model could be created where a proportion of the customer saving is returned to the fund, increasing the amount available for subsequent years and simultaneously driving cost efficient innovation.

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

Where transformative change is possible, and there is the potential of huge benefits, it is worth attempting innovations, even if not all work out. Where there is a risk of incurring penalties from possible interruption to service, as long as due diligence was carried out, it would be helpful if utilities weren't penalised for trying something new.

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?

The role of the supply chain needs to be embedded more strongly in the principles. A principle is needed that demonstrates to suppliers the benefits of taking part.

Ideally the programme would have a 'Supplier Community Charter' to ensure fair treatment of supply chain partners. The charter would describe the rules and principles of engagement with water companies, demonstrate the benefit of participation to suppliers and explain how success will be measured.

A mechanism is required that ensures risks are appropriate and that water companies have invested enough financially and through commitment of personnel to see individual projects through to conclusion.

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

We agree with the philosophy underpinning the programme. However, there are practical considerations and adjustments that need to be made. It is not yet clear how the supplier community fits in and how the water companies will bring their partners along with them.

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

Without scoping the programme it is not possible to determine the appropriate split. The amount apportioned to enabling works should be defined and ring-fenced in advance to ensure that the whole fund is not swallowed up before any innovation occurs.

The Enabling process should be a lean process that does not become a barrier - in time and cost - to pursuing innovation funds, particularly for small-scale innovations. While it is not possible to determine the appropriate split, the Enabling works funding should be a maximum in the order of 1%.

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?

The sequencing of activities needs to change – the enabling activities need to be brought to the forefront of the programme to ensure that the subsequent stages are successful. The main competition and innovation activities will be weakened if the enabling is not undertaken first. Curtailing success in the first round would run the risk of stakeholders disengaging from the initiative.

Prior to the enabling activities, the programme needs to be scoped out and defined. Enabling works should include readying any third-party facilitators.

A balance needs to be struck between creating a culture of pace for innovation and ensuring there is the capacity and capability to process applications. In summary the following schedule is proposed:

Year 1 - Scoping, defining, decision-making and enabling activities

- Innovation in Water Challenge

- Small-scale Main Competition

Year 2 – Main Competition

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

We agree with the principle and governance outlined. However, to ensure that the purpose of the programme is achieved, the contractual issues need to be ironed out at the scoping stage, according to agreed principles, or there is a risk that current procurement practices that block innovation will continue.

We thoroughly agree that the application process should be proportionate and agree with the need for it to be monitored. We look forward to further clarity on how the 'expert panel' will be drawn up.

As highlighted, we would request further consideration is given to IPR and royalties, data sharing and the return of value to customers. Careful consideration also needs to be given to how to ensure full engagement of the water companies in close collaboration with the supply chain, throughout the lifecycle of each project, both monetarily and in terms of human resources.
