



Innovation Consultation
Ofwat
21 Bloomsbury Street
London WC1B 3HF

24th June 2020

Via e-mail: innovationconsultation@ofwat.gov.uk

Dear Ofwat,

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

I am writing to you on behalf of independent Water Networks Limited (“IWNL”), part of the BUUK Infrastructure Group of companies, in response to Ofwat’s May 2020 further consultation regarding the Innovation Funding and Competition: further consultation on design and implementation. I can confirm that this response is not confidential.

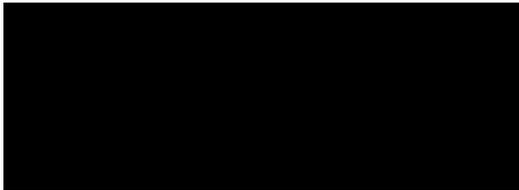
We welcome Ofwat’s further focus on developing the innovation framework to address key barriers such as developing company culture in the sector, collaborative working and creating a regulatory environment to attract innovation and investment, with the ultimate goal of customers benefiting from the initiatives that the funding has supported.

We agree with Ofwat that effective implementation of innovation funding and an innovation competition can deliver transformation change, at an accelerated pace, with industry working together through better co-ordination across the water and wastewater sector, including supply chains. We also welcome the expansion of the scheme to include participation of stakeholders beyond the 17 largest incumbents which should ensure that innovation is given the widest possible focus and driven at a commercial pace of change.

We welcome Ofwat’s recognition that competition and targeted funding alone will not deliver the transformational change required, and support its complimentary initiatives that explore the development of a joint innovation strategy and a One-Stop-Shop to create a regulatory environment that supports delivering outcomes.

We have provided answers to Ofwat's consultation questions in Appendix 1. We look forward to working with Ofwat and incumbent water companies to develop an appropriate innovation regulatory framework that maximises the development of innovative approaches and driving transformational change. Therefore, please do not hesitate to contact us if you have any further questions.

Kind regards



BUUK Infrastructure

Appendix 1

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.)?

We support Ofwat's use of Background and Foreground IPR approach as providing a flexible but considered approach.

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

No further comments.

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

We support this approach as an appropriate mechanism to help the fund framework maximise value that could not only facilitate further rollout of innovation, but also enable all stakeholders of varying sizes to adopt and adapt innovative success to benefits more customers.

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

We support the approach and believe that there should be a balance to ensure that customers interests are protected and that the projects funded have adequate risk mitigations in place.

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

We support the proposed 10% contribution.

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

We agree with the overarching approach and believe that timeliness of rollout and the ability to measure progress is key to ensuring that funding delivers tangible benefits to customers. This will also ensure that as a minimum the achieved success of each initiative can be assessed against its funding criteria.

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?

We welcome a flexible approach that will assist organisations outside of the 17 largest regulated water companies in England and Wales to compete for funding. Small scale projects can often deliver results quickly to the customer.

Smaller scale projects could be defined through the total spend of the project, but we feel it would be more appropriate to target innovative solutions that impact/trial small numbers of customers initially but could be expanded to large scale implementation. It would be possible to trial new innovative solutions more rapidly under this approach. Setting a limit on size of trial and speed of development/implementation would appear to be the simplest and fairest way to ensure the innovation fund is accessible to all.

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?

We agree that effective rollout is essential when seeking to realise customer benefits, and agree that this should be monitored to ensure that funded projects are progressing as agreed, with a funding clawback mechanism available for funded projects that are not delivering against its funded proposals.

Ofwat will need to consider how companies that operate under a price cap are also rewarded for successful innovation programmes. We would propose to allow a specific reward but outside the price cap funding for these companies.

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

No further comment.

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?

Further co-ordination of sector activity could improve the promotion and adoption of innovation. We would support the appointment of an independent body to encourage a joined-up approach and collaboration with stakeholders. We remain concerned that the incumbent water companies, without independent governance, would not move at a pace or address the widest potential scope and interpretation of innovation. The promotion of the scheme and market engagement will also be key to ensure that innovators engage with water companies to participate. Some sector innovation funding schemes have seen the administration process to secure funding too burdensome resulting in funding schemes being under subscribed, small innovators and/or suppliers are likely to see this as a barrier.

We are disappointed with the approach taken so far by the incumbent water companies in developing their innovation landscape within the water industry. This is being delivered through UKWIR, membership of which is currently

restricted to the 19 incumbent companies. Despite approaches to UKWIR to be included in the programme no positive response has been received.

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?

We support the principle, however to execute will require clearly defined measures that can be assessed and project governance reviewed. This will be key in establishing any failing related to poor administration or if the scheme was well executed but failed for other unforeseen reasons.

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

While this approach may work for the largest water companies, it could be challenging to implement on smaller scales projects.

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 support the amendments.

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

Yes, we support Ofwat's approach.

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

No further comment.

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?

We support this approach as it appears to cater for both small and large projects. Smaller projects can often be easier to administer and deliver, which could showcase the effectiveness of the: funding competition, innovation, the one-stop-shop and demonstrate the benefits of the scheme to customers. The approach also appears to facilitate larger projects being developed in parallel, which can often take longer to develop but offer widespread customer benefits.

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

We support the proposed approach.