

Innovation funding and competition: further consultation on design and implementation

South East Water response

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1. Introduction

This is South East Water's response to 'Innovation funding and competition: further consultation on design and implementation'. This document includes responses to the 17 questions outlined in the aforementioned consultation.

For any queries, please contact [REDACTED]

2. SEW Response

2.1 **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.)?**

A1: If the data generated from the projects and activities are always to be open source and publicly available then where would it be anticipated that any royalties or licence fees are to be generated from?

In theory we would agree that the stated arrangements for IPR are suitable, however this may not suit all projects. For example if the innovation project involves AI and it is the AI that generates and changes this data then would it really be fair in all cases for all involved to own the IPR produced?

An alternative may be for the IPR to remain with the creator.

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

A2: As above in A1.

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

A3: There are already a number of regulations which require water companies to be open with their data, for example:

- Environmental Information Regulations
- Re-Use of Public Sector Information Regulations
- Water Industry Act 1991 requirement to display mains connections
- GDPR – Article 20 – Right to Data portability and Article 15 – Right of Access – both of which enable customer's access to their data sets.

Making data open by default can have conflicting impacts with the duties that Water Companies have to keep customer's data safe and secure so it will depend on the type of project.

For example, if there was a default option that had exclusions such as persona data, commercially sensitive information then this could be a concept that we would agree to in principle.

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

A4: We believe that alternative arrangements beyond company contributions should be considered. For example a company may contribute expertise relevant to the project, provide pre-existing tools to enable a project, or bring alternative funding sources that they have secured. Companies that cannot provide financial funding could offer data, carry out trials or lead on projects; money should not be the only 'contribution' considered.

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

A5: Yes—with the caveat that alternative arrangements outside purely financial will also be considered such as those outlined in A4.

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

A6: We appreciate that open data is an enabler for game-changing improvements in the sector. However, interpretation of water companies' data often requires detailed knowledge and experience of that data to draw valid conclusions. For this reason, we support open access to data generated by the competition for participants in the competition, or for relevant utility companies, local authorities or other appropriate organisations.

We support the approach to keep the competition "flexible" as industry challenges and opportunities emerge over time. Aligning the competition to the industry's joint Innovation Strategy will ensure that customer priorities drive investment.

2.7 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?

A7: Whilst it is unclear what these arrangements might entail, we support proportionate governance and other arrangements for smaller-scale projects as it allows flexibility and

allows some projects to fail and often innovation starts on a very small scale. We believe that any project must be co-sponsored by a water or wastewater company. Linking return on investment to customers and the sector could be used in an assessment of small scale.

2.8 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?

A8: We support the emphasis on roll-out of innovations at scale. This is at the heart of what the industry should be trying to achieve—inventing once and rolling out across the seventeen water and wastewater companies. However over emphasis on rollout leads to a concentration on “sure things” thought should be given to “heroic failures” as part of the process as aiming at this type of innovation will likely produce the significant change we are aiming to achieve.

The UKWIR leakage work stream “heat map” concept should be explored as the basis for how companies’ contributions might be valued. For example, one company might play their part by bringing together the partners required to make it happen; another may pilot the innovation; another might test it under different circumstances; each might document their results for publication to the wider industry. Each company would therefore contribute according to their capability and resources, “banking” credits to be used to secure funding for other initiatives.

Leaders and fast followers could get rewards through a point based system bonus for future projects and funding. However, it should also be recognised that not all innovations are a success and roll-out is not always possible or a sensible investment.

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

A9: We support the proposed ring-fencing approach and the administrative suggests proposed.

2.10 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?

A10: We support the concept of collaborative bids between water and wastewater companies and third parties. However, the Innovation in Water Challenge approach doesn't necessarily address the need for water and wastewater companies to collaborate with one another, and may drive the opposite behaviour if companies are pitching for competing projects.

Mechanisms already exist in the industry for third parties to pitch their innovative offerings to water companies—the Technology Approval Group (TAG) run by Isle Utilities, for example. Other organisations like EIC perform horizon scans and provide findings to individual or groups of water and wastewater companies. These “free market” mechanisms are a suitable way for innovators to pitch to the industry. It feels overly cumbersome (and costly) to create a new mechanism to compete with those that already exist. We also believe the main competition provides sufficient incentive to drive this activity. Ofwat could express that bids from new entrants be considered more favourably than existing companies in some way as one approach to promoting the desired activity.

2.11 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?

A11: We agree with the proposed approach.

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

A12: The PR19 framework sets stretching performance commitments and cost efficiency challenges that are impossible to achieve without innovation. These commitments align directly with customers' and stakeholders' priorities. Therefore we are perplexed that the Innovation Competition will have little direct interaction with these commitments.

Publications from Ofwat have stated that ‘innovation can drive a step-change in efficiency, customer service and resilience and for water companies to be ambitious in PR19. The incentive framework for PR19 promotes innovation through enhanced rewards for frontier shifting performance and expected bespoke commitments to reflect customer's preferences’. Whilst we understand the issue of a double count i.e. companies may be rewarded twice for innovation via PR19 ODIs and the fund but this should not result in an immediate exclusion of innovation in these areas.

We believe the projects should focus on the areas that our customers consider to be important such as saving water, reducing interruptions and making the network more resilient for the future.

Principle 2 of the competition states that it is designed to drive transformational innovation that companies would not otherwise explore or invest in. We agree with this sentiment but there are still innovative opportunities that can be something they would not have invested in but still benefit the customer valued areas that form the ODI package. The fund incentives taking bigger risks and attempting trials that otherwise might have been avoided due to the potential for failure. For this reason the principle described should be more flexible and assessed on a case by case basis, with an examination of the question “even given the ODI incentive would a company have innovated like this without the fund?”

2.13 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?

A13: We support the proposed amendments but would include in Principle 5 that companies could demonstrate their commitment to innovation projects by contributing expertise or resources, as an alternative example to funding 10%.

We also recommend an additional principle: the competition aims to ensure that innovations are funded, developed and trialled once within the industry and rolled out at scale across the seventeen water and wastewater companies.

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

A14: As stated in response A10, we believe that mechanisms already exist within the industry to bring together water and wastewater companies and third parties to explore innovation and take forward innovation projects. We do not believe that new processes are needed for these purposes.

The organisation that supports the delivery of the competition must strive for a streamlined funding approval process with clear guidelines for applications and transparent reporting on expenditure and findings. Keeping it simple must be the overriding principle.

UKWIR's framework providing visibility over active Leakage projects, sponsors and status is very effective for achieving the aim of “inventing once and rolling out across the seventeen water and wastewater companies”. We believe there may be opportunities to incorporate a similar framework within the Innovation competition funding mechanism.

For more complex projects, water and wastewater companies and third parties could pitch for a specific element of the project—e.g. design, data collection, testing, trialling, published findings—and be funded for that specific element only. This approach would naturally

stimulate collaboration and enable smaller companies to access funding and expertise, whilst contributing according to their capability.

Incorporating a crowd-sourcing approach would be an innovative way to evaluate funding proposals. Stakeholders would be issued virtual currency to allocate to the innovations they deemed most likely to deliver. This approach would preclude the need for set evaluation criteria when a more dynamic evaluation process responding to emerging challenges is required.

We agree with pursuit of the three types of activities in the pilot year. Enablers must be implemented as early as possible, smaller Innovation in Water challenge projects will deliver momentum quickly and bigger, more complex projects should be started so that benefits can be delivered within the AMP where possible.

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

A15: We believe this split cannot be pre-defined before seeing the proposals coming forward.

2.16 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?

A16: We support the proposed timings and approach.

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

A17: We recommend incorporating some form of crowd-sourcing into the evaluation process, to ensure that carefully crafted proposals are scrutinised by those who would be implementing and operating the new process or technology.

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